Notice:** ***this document is an English translation of a Spanish-language document and is provided for information purposes only. In the event of any discrepancy, the text of the original Spanish-language document shall prevail. The Spanish-language document is available on the following websites: **www.orbia.com/en/investor-relations/** ***and*** **www.bmv.com.mx**

ANNUAL REPORT 2018

SUBMITTED PURSUANT TO THE GENERAL PROVISIONS APPLICABLE TO ISSUERS OF SECURITIES AND OTHER MARKET PARTICIPANTS

FOR THE YEAR ENDING DECEMBER 31, 2018

Mexichem®

MEXICHEM, S.A.B. de C.V.
Figures in millions of U.S. dollars ($)

Río San Javier No. 10
Viveros del Río
54060, Tlalnepantla de Baz, Estado de México
Tel. 5366 4000
Fax 5397 8836

Mexichem S.A.B. de C.V. securities listed on the Bolsa Mexicana de Valores, S.A.B. de C.V. (Mexican Stock Exchange).

I. Mexichem, S.A.B. de C.V. lists Series One, Class "I" and "II" shares representing the fixed part of its capital stock without right of withdrawal and the variable part of its capital stock, respectively. The shares confer the same corporate and patrimonial rights to their holders.

Ticker Symbol: MEXCHEM*

The MEXCHEM "*" Series shares are registered in the National Securities Registry (RNV - acronym in Spanish) and are listed on the Bolsa Mexicana de Valores, S.A.B. de C.V.

The credit risk rating assigned to the MEXCHEM "*" Series shares by Standard & Poor is 'BBB-' on a global scale and 'mxAA/mxA-1+ on a national scale with a stable outlook, by Fitch Ratings is 'BBB' on a global scale and 'AA+' (mex) on a long-term national scale with a stable outlook, and by Moody's is 'Baa3' on a global scale.

Registration in the National Securities Registry does not imply certification of the quality of the securities, the solvency of the Issuer or the accuracy or veracity of the information contained in the Annual Report, nor does it validate any acts that may have been carried out in contravention of the laws.

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Bolsa Mexicana
MEXCHEM

II. Mexichem, S.A.B. de C.V. has the following outstanding shares recorded in the RNV:

Under a Revolving Stock Exchange Certificates Program for an amount of up to 10,000 million Mexican pesos or the equivalent in Investment Units (UDI – acronym in Spanish), and authorized by the National Banking and Securities Commission on March 15, 2012, by means of document number 153/8167/2012 for a period of up to five years as of the latter date, Mexichem, S.A.B. de C.V., placed and listed its third issue of 30,000,000 long-term Stock Exchange Certificates, with ticker symbol MEXCHEM 12, with the following characteristics:

ITEM	DESCRIPTION
Date of Issue:	March 21, 2012
Maturity Date:	March 9, 2022
Issue Term:	3,640 days, approximately 10 years
Par Value:	$100.00 (MXN one hundred pesos and zero cents) each
Gross Annual Interest Rate applicable to the Issue:	8.12% (eight-point twelve percent), which will remain fixed throughout the third issue period. The interest accrued by the Stock Exchange Certificates during each interest period, and the calculations to determine the amount payable, shall include the calendar days that have effectively elapsed up to the corresponding Interest Payment Date. Payments shall be rounded to two decimal places. To determine the amount of interest payable in each Interest Period on the Stock Exchange Certificates, the Joint Representative shall use the formula and follow the terms and conditions set forth in the corresponding security.
Interest Payment Intervals:	The interest accrued on Stock Exchange Certificates shall be paid every 182 (one hundred and eighty-two) days, in accordance with the calendar and on the dates stipulated on the corresponding certificate.
Place and Method of Payment of Interest and Principal:	The principal will be amortized, and the ordinary interest accrued on the Stock Exchange Certificates, will be paid on the date it becomes due and on each of the interest payment dates, respectively, by means of the electronic transfer of funds, through Indeval, whose address is Paseo de la Reforma No. 255, Piso 3, Col. Cuauhtémoc, C.P. 06500, México D.F. or, if applicable, at the issuer's offices located at Río San Javier No. 10, Fracc. Viveros del Río, Tlalnepantla, C.P. 54060, Estado de México. The amount owed for arrears interest must be paid at the Issuer's address, in the same currency as the principal amount.
Amortization:	The Stock Exchange Certificates will be amortized in full upon maturity, i.e. on March 9, 2022, in one installment, by means of electronic transfer and against submission of the corresponding certificate.
Accelerated Amortization:	The issuer may accelerate amortization of all (but not part) of the Stock Exchange Certificates on any date prior to their maturity date at a price equal to the Accelerated Amortization Price (as set forth on the relevant certificate), plus accrued and unpaid interest on the principal of the Stock Exchange Certificates, on the accelerated amortization date. Under no circumstances shall the Accelerated Amortization Price be less than 100% (one hundred percent) of the par value of the Stock Exchange Certificates on the Accelerated Amortization date.
Guarantee	This issuance of Stock Exchange Certificates is guaranteed by the Company's subsidiaries Mexichem Compuestos, S.A. de C.V., Mexichem Amanco Holding, S.A. de C.V., Mexichem Derivados, S.A. de C.V., Mexichem Resinas Vinílicas, S.A. de C.V., Mexichem Flúor, S.A. de C.V., and Mexichem Brasil Industria de Transformação Plástica Ltda. ("Mexichem Brasil"), the latter guarantor for the third issue is a Brazilian corporation with all its assets located outside Mexico. In the event of Mexichem Brasil's insolvency or bankruptcy, the claims of the Holders under the Stock Exchange Certificates will be subject to the preemptive rights set forth by the laws in force in Brazil.
Joint Representative:	The Bank of New York Mellon, S.A.
Depository:	S.D. INDEVAL Institución para el Depósito de Valores, S.A. de C.V.
Tax Regime:	Tax Regime: The withholding rate applicable, on the date of the Supplement, with respect to interest paid pursuant to the Stock Exchange Certificates, is subject to. (i) for individuals or legal entities domiciled in Mexico for tax purposes, the provisions of articles 58, 160 and other applicable articles of the Income Tax Act in force and article 21 of the Federal Revenue Act for the 2012 tax year, as well as complementary provisions, and (ii) for individuals and legal entities domiciled outside of Mexico for tax

purposes, the provisions of articles 179, 195 and other applicable articles of the Income Tax Act in force, and will depend on the beneficiary of the interests.

POTENTIAL PURCHASERS OF STOCK EXCHANGE CERTIFICATES SHOULD CONSULT THEIR ADVISORS ON THE TAX CONSEQUENCES OF THEIR INVESTMENT IN THE STOCK EXCHANGE CERTIFICATES, INCLUDING THE APPLICATION OF SPECIFIC RULES WITH RESPECT TO THEIR PARTICULAR SITUATION. THE CURRENT TAX REGIME MAY BE MODIFIED DURING THE DURATION OF THE PROGRAM AND DURING THE TERM OF THIS ISSUE. THERE IS NO OBLIGATION TO REPORT CHANGES IN THE APPLICABLE TAX PROVISIONS DURING THE TERM OF THE CERTIFICATES.

Ticker Symbol: **MEXCHEM 12**

For the MEXCHEM 12 issue, the credit risk rating assigned by Standard & Poor's is 'mxAA/mxA-1+' on a national scale with a stable outlook and by Fitch Ratings is 'AA+ (mex)' with a stable outlook.

New Stock Exchange Certificates Program

On November 3, 2017, the National Banking and Securities Commission (CNBV) authorized a new program of stock exchange certificates through official document number: 153/10875/2017, for five years (maturity November 3, 2022).

The sole purpose of this program is to ensure there is a party available to the Issuer who can, at any time, issue local debt. The authorization of this new program does not imply any current or future issuance of debt by Mexichem and does not change any of the conditions of the MEXCHEM 12 issue. The program has the following characteristics:

ITEM	DESCRIPTION
Date of Approval:	November 3, 2017
Maturity Date:	November 3, 2022
Total Authorized Amount of the Revolving Program:	$10,000,000,000.00 (ten billion pesos and cero cents MXN) or the equivalent in Investment Units ("UDIS"). The Program shall be revolving, therefore, the Issuer shall be authorized to make subsequent issues during the term of the Program, provided that the total amount of the Issues outstanding does not exceed the total authorized amount of the Program and complies with the requirements set forth in the prospectus with which the new Issue Program was approved.
Par Value of the Stock Exchange Certificates:	The Program shall be revolving, therefore, the Issuer shall be authorized to make subsequent issues during the term of the Program, provided that the total amount of the Issues outstanding does not exceed the total authorized amount of the Program and complies with the requirements set forth in the prospectus with which the new Issue Program was approved.
Name	The Stock Exchange Certificates may be issued in Pesos or in UDIS, as stipulated on the Certificate, the Invitation, the Notice of Public Offering, the Notice of Placement and the corresponding Supplement, as applicable.
Term:	Each Issuance of Stock Exchange Certificates under the Program may have a term starting from 1 (one) year up to 40 (forty) years, as set forth in the Certificate, the Invitation, the Notice of Public Offering, the Notice of Placement and the corresponding Supplement, as applicable.
Issue and Payment Date:	The issue and payment dates of the Stock Exchange Certificates will be determined for each Issue of Stock Exchange Certificates made under the Program, as set forth in the Certificate, the Invitation, the Notice of Public Offer, the Notice of Placement and the corresponding Supplement, as applicable.
Interest Rate:	The Stock Exchange Certificates may accrue interest as of their issue date until they are fully amortized. The rate at which the Stock Exchange Certificates accrue interest may be fixed or variable, and the mechanism for determining and calculating interest (including the first payment of interest) shall be set forth for each Issue and shall be stipulated in the Certificate, the Placement Notice and in the corresponding Supplement.
Arrears Interest Rate:	The Stock Exchange Certificates may accrue arrears interest, which shall be set forth for each Issue and shall be stipulated in the Certificate, the Notice of Placement and the corresponding Supplement.
Interest Payment Intervals:	The interest accrued on the Stock Exchange Certificates will be paid in installments and in the terms set forth for each Issue and will be stipulated in the Certificate, the Invitation,

	the Notice of Public Offer, the Notice of Placement and the corresponding Supplement, as applicable.
Place and Method of Payment of Principal and Interest:	The principal and ordinary interest accrued on the Stock Exchange Certificates will be paid at the address of S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., located at Paseo de la Reforma No. 255, Piso 3, Colonia Cuauhtémoc, C.P. 06500 Mexico City. Payments shall be made by electronic transfer in accordance with the procedure set forth in the relevant Certificate and Supplement. Arrears interest shall be payable at the offices of the Issuer located at Rio San Javier number 10, Fraccionamiento Viveros del Río, Tlalnepantla, C.P. 54060, Estado de México.
Guarantee	This shall be determined for each Issue and shall be set forth in the Certificate, Invitation, Notice of Public Offering, Notice of Placement and the corresponding Supplement, as applicable.
Rating:	This shall be determined for each Issue and shall be set forth in the Title, Invitation, Notice of Public Offering, Notice of Placement and the corresponding Supplement, as applicable.
Depository:	S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V.
Possible Purchasers:	National or foreign individuals or legal entities, when as the case may be, their investment regime expressly permits them.
Tax Regime:	The current tax regime may be modified during the term of this Program. Mexichem recommends that investors independently consult their tax advisors on the legal provisions applicable to the purchase, ownership, and sale of debt instruments such as Stock Exchange Certificates before making any investment therein. The withholding rate applicable on interest paid is subject to: (i) individuals and legal entities domiciled in Mexico for tax purposes, the provisions of Articles 135 and other applicable articles of the Income Tax Act in force, and (ii) individuals and legal entities domiciled outside of Mexico for tax purposes, the provisions of Articles 166 and other applicable articles of the current Income Tax Act, and will depend on the beneficiary of the interest.
Joint Representative of the Holders:	The entity set forth by the Issuer and stipulated in the Supplement corresponding to each Issue.
Amortization of the Principal:	The terms and conditions for the amortization of the principal of the Stock Exchange Certificates shall be set forth in the Certificate, Invitation, Notice of Public Offering, Notice of Placement and in the corresponding Supplement, as applicable.
Accelerated Amortization:	The Stock Exchange Certificates may contain provisions on their accelerated amortization, as set forth in the Certificate, Invitation, Notice of Public Offering, Notice of Placement and in the corresponding Supplement, as applicable.
Acceleration of Maturity:	The Stock Exchange Certificates may contain provisions on their accelerated maturity, as set forth in the Certificate, Invitation, Notice of Public Offer, Notice of Placement and in the corresponding Supplement, as applicable.
Obligations of the Issuer:	The Stock Exchange Certificates may set forth affirmative and negative covenants for the Issuer, as stipulated in the Certificate, Invitation, Notice of Public Offering, Notice of Placement and the corresponding Supplement, as applicable.
Increase in the Number of Stock Exchange Certificates:	The Issuer shall be entitled to issue and publicly offer Stock Exchange Certificates in addition to the Stock Certificates originally issued under an Issue. Such additional Stock Exchange Certificates shall have the same characteristics as the original Stock Exchange Certificates of the corresponding Issue and shall be considered part of the same Issue. The Issuer shall not require authorization from the holders of the originally issued Stock Exchange Certificates to issue the additional Stock Exchange Certificates.
STRIPS:	If so, decided by the Issuer, strips may be issued on Certificates corresponding to any Issue made under the Program, which may be negotiated separately, and their characteristics will be set forth in the respective Certificate and Supplement.
Placement Intermediary:	The persons set forth by the Issuer and stipulated in the Supplement corresponding to each Issue.

Affirmative and negative covenants, as well as grounds for accelerated maturity during the term of the MEXCHEM12 issue:

During the term of the MEXCHEM12 issue, the Company will focus on complying with all of its obligations under the various contracts, financial covenants, instruments and/or securities to which it is a debtor, signatory and/or party, as applicable, in order to avoid any type of breach that could negatively affect the current conditions of the MEXCHEM 12 issue or its holders. Among others, these include affirmative and negative covenants, as well as obligations not to trigger grounds for accelerated maturity.

The affirmative and negative covenants are those typical for this type of financing and include meeting certain financial obligations of indebtedness and interest coverage, certain contractual obligations, and disclosure of information requirements, among others. In addition, the grounds for accelerated maturity are also typical for this type of financing and include failure to pay the principal or interest, default on other debt contracts and declaration of bankruptcy by the issuer. It should be noted that grace periods are also accounted for under these circumstances.

Policies regarding changes in control, corporate restructurings (including mergers, acquisitions and spin-offs), sale and/or constitution of liens on essential assets of the Issuer, during the term of the MEXCHEM 12 issue:

As of December 31, 2018, certain financings and Senior Notes or International Bonds issued in 2009, 2012, 2014 and 2017 set forth certain restrictions, among which are restrictions on the lien or mortgage of properties, the sale and subsequent lease of assets and limitations on the consolidation, merger or transfer of assets of the Issuer.

Among the negative covenants contained in the current financing of Mexichem, S.A.B. de C.V. are the negative covenants typical for this type of corporate financing such as:
The Company will pay special attention to complying with the various restrictions set forth in such documents, which include, but are not limited to, in general terms:

(i) Change of control: As of December 31, 2018, among the negative covenants contained in certain current financing taken out by the Company, as well as in the Senior Notes or International Bonds issued in the years 2009, 2012, 2014 and 2017, there are several negative covenants typical in this type of corporate financing, such as debt acceleration clauses in the event of a change of control, pursuant to applicable legislation.

(ii) Corporate Restructuring: As of December 31, 2018, certain financing taken out by the Company, as well as Senior Notes or International Bonds issued in 2009, 2012, 2014 and 2017 set forth certain restrictions focused on limiting the consolidation, merger and/or transfer of various assets of the Issuer.

(iii) Essential assets: As of December 31, 2018, certain financings and Senior Notes or International Bonds issued in 2009, 2012, 2014 and 2017 set forth various restrictions related to the granting or imcondition of liens on certain properties, as well as the imcondition of liens on the Company's assets.

III. Mexichem, S.A.B. de C.V. has the following outstanding international debt instruments:

On November 6, 2009, Mexichem, S.A.B. de C.V. issued and placed Senior Notes for a total amount of $350 million, of which the Issuer prepaid $267.1 million in September 2012, making the balance at the time of this Annual Report $82.9 million. These Senior Notes accrue interest at a fixed annual rate of 8.75%, payable every six months on May 6 and November 6, as of the issue date, and until they mature on November 6, 2019. The Senior Notes have been listed on the Luxembourg Stock Exchange and for trading on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered under the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors as defined by Rule 144-A or Rule 144-A of the U.S. Securities Act, and outside the U.S., to purchasers who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

The credit rating assigned by Fitch Ratings for this issue was 'BBB-' and by Moody´s was 'Ba1' for the $350 million, maturing in 2019. As of the date of this Annual Report, the rating assigned to Mexichem's credit risk by Fitch Ratings is 'BBB' with a stable outlook, while the rating assigned by Moody´s is 'Baa3' with a stable outlook.

On September 19, 2012, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $1,150 million, in two blocks: one of $750 million, for a 10-year term with a fixed rate coupon of 4.875% and another of $400 million, for a 30-year term with a fixed rate coupon of 6.75%. In both blocks of Senior Notes, interest is paid every six months on March 19 and September 19, as of the issue date, and until they mature on September 19, 2022 and September 19, 2042, respectively. The Senior Notes have been listed on the Luxembourg Stock Exchange and for trading on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered under the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors as defined by Rule 144-A or Rule 144-A of the U.S. Securities Act, and to purchasers outside the U.S., who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

For this issue, Fitch Ratings issued a 'BBB-' rating and Moody's a 'Ba1' rating to the Senior Note for $400 million maturing in 2042 and the Senior Note for $750 million maturing in 2022. As of the date of this Annual Report, the rating assigned to Mexichem's credit risk by Fitch Ratings is 'BBB' with a stable outlook, while the rating assigned by Moody´s is 'Baa3' with a stable outlook.

On September 17, 2014, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $750 million with a term of 30 years, which accrue a fixed annual rate of 5.875%, payable every six months on March 17 and September 17 as of their issue date until they mature on September 17, 2044. The Senior Notes have been listed on the Luxembourg Stock Exchange and for trading on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered under the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors as defined by Rule 144-A of the U.S. Securities Act, and outside the U.S., to purchasers who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

The credit rating assigned for this issue by Standard & Poor's was 'BBB-' on a long-term global scale, Fitch Ratings assigned 'BBB' and Moody's assigned 'Baa3'. As of the date of this Annual Report, the rating assigned to Mexichem's credit risk by Standard & Poors is 'BBB-' on a global scale with a stable outlook, Fitch Ratings assigned 'BBB' with a stable outlook, while the rating assigned by Moody´s is 'Baa3' with a stable outlook.

On October 4, 2017, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $1,000 million in two tranches, $500 million for a 10-year term (maturing on October 4, 2027) and $500 million for a 30-year term (maturing on January 15, 2048), which accrue a fixed annual rate of 4.0% and 5.50%, respectively, payable every six months on April 4 and October 4, for the first tranche, and on January 15 and July 15, for the second tranche. The Senior Notes have been listed on the Luxembourg Stock Exchange and for trading on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered under the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors as defined by Rule 144-A of the U.S. Securities Act, and outside the U.S., to purchasers who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

The credit rating assigned for this issue by Standard & Poor's was 'BBB-' (Outlook: Stable), Fitch Ratings assigned a BBB rating (Outlook: Negative) and Moody's assigned a 'Baa3' rating (Outlook: Stable). As of the date of this Annual Report, the rating assigned to Mexichem's credit risk by Standard & Poors is 'BBB-' on a global scale with a stable outlook, Fitch Ratings assigned a rating of 'BBB' with a stable outlook, while the rating assigned by Moody´s is 'Baa3' with a stable outlook.

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1. GENERAL INFORMATION

a) Glossary of terms and definitions

The following terms used in this Annual Report and listed below shall have the meanings given below. They shall apply equally to the singular and plural forms of such terms, which shall be used throughout this document to refer to this glossary:

Hydrochloric acid: means an aqueous hydrogen chloride solution. It is the most commonly used acid in industry after sulfuric acid. It is used for descaling metals and as a neutralizer, reducer and intermediate in organic and inorganic synthesis in the chemical industry, as well as to make cleaning products.

Hydrofluoric acid or HF: means a chemical compound produced by mixing calcium fluoride (Fluorite) with sulfuric acid. It is mainly used to produce refrigerant gases and fluoropolymers.

Phthalic anhydride: means a chemical product used as a raw material to produce plasticizers for plastics, mainly PVC (polyvinyl chloride). It is also used to manufacture polyester resins, alkyd resins, polyols and pigments. Mexichem produces phthalic anhydride at its Altamira petrochemical complex.

ANIQ: means National Association of the Chemical Industry (Asociación Nacional de la Industria Química) in Mexico.

AMEA stands for Africa, the Middle East and Asia.

AMANCO: means Mexichem Amanco Holding, S.A. de C.V., a holding company of PVC pipe producers and Latin America’s leader in water conduction systems.

ASTM stands for the American Society for Testing Materials.

BEPS stands for Base Erosion and Profit Shifting.

International Bonds, Notes or "*Senior Notes*": means debt instruments issued by the Company in different international markets and not registered in the RNV. Senior Notes have a preferential payment priority over the rest of the Entity's unsecured sovereign debt and are unconditionally secured by certain subsidiaries of the Company**.**

BMV: means Bolsa Mexicana de Valores, S.A.B. de C.V. (the Mexican Stock Exchange)

Camesa: means Grupo Industrial Camesa, S.A. de C.V.

Debt Certificates or CEBURES: means Certificados Bursátiles, credit instruments representing the individual participation of their holders in a collective loan of legal entities or trust property.

CFE: means Federal Electricity Commission (Comisión Federal de Electricidad), which is the agency in charge of generating, transmitting, distributing and marketing electricity in Mexico.

Single Issuer Circular: means Circular Única de Emisoras, the general provisions applicable to issuers of securities and other participants in the CNBV-issued securities market.

Clinker: means an intermediate cement product made by sintering limestone, clay and iron oxide in a kiln at about 1,450 degrees Celsius. One metric ton of clinker is used to make approximately 1.1 metric tons of gray Portland cement.

Chlorine: means a pale-green, gaseous chemical element belonging to the halogen group. Chlorine is used mainly to manufacture PVC, paint, insecticides, paper and dyes, as well as to kill bacteria in water.

CNBV: means the Mexican National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores), a decentralized agency of the Ministry of Finance and Public Credit that supervises and regulates financial institutions in order to ensure their stability and proper functioning in Mexico.

Compounds: means physical mixtures of different materials made to achieve combinations of properties that cannot be obtained from the original materials. In the case of Mexichem, at least one of the components is polymer matrices, mainly PVC, but polyolefins, styrenes, and engineering plastics can also be used.

Acid grade concentrate or acid grade fluorspar: Fluorite mineral (calcium fluoride) from which impurities are removed through a process of selective milling / flotation to comply with a chemical specification of calcium fluoride, 97% minimum content; silica (SiO_2), 1.1% maximum content; calcium carbonate ($CaCO_3$), 1.2% maximum content. It also complies with a physical particle size specification. Acid grade concentrate is used to manufacture HF (base for producing refrigerants), aluminum trifluoride, ceramics, propellants, nonstick coatings, etc.

Copolymer: means the result of a two-monomer polymerization. The most common polymerization in the vinyl industry is the combination of vinyl chloride monomer with vinyl acetate monomer. The products obtained from this polymerization are called copolymers because two different types of monomer are linked. Copolymers impart different properties to homopolymers, the main one being a reduction in the softening point of a product for better processing and greater flexibility. It is used mainly to make floor tiles, packaging sheets and carpet bases.

Control (Control Group): the ability of a person or group of persons to perform any of the following acts:

a) Make, directly or indirectly, decisions at general meetings of shareholders, partners or equivalent bodies, or appoint or remove most of the directors, administrators or equivalent of a legal entity.

b) Maintain ownership of rights, directly or indirectly, to vote in respect of more than 50 percent of a legal entity's share capital.

c) Directing, either directly or indirectly, the administration, strategy or major policies of a legal entity, whether through ownership of securities, by contract or by any other means.

Cracker: system in which different petrochemical products are separated using steam at very high temperatures.

Dura-Line: Dura-Line Corporation, a subsidiary of Mexichem and part of the Fluent business group.

EBITDA: an acronym meaning profit before financing, taxes, depreciation and amortization.

ECU: an electrochemical unit consisting of one unit of chlorine and 1.1 units of caustic soda.

EDC: ethyl dichloroethane.

Enesa: Enesa S.A. de C.V.

U.S., USA or U.S.A. the United States of America.

Ethylene: a gaseous, colorless and flammable hydrocarbon. It is widely used in the petrochemical industry as a raw material for manufacturing polyethylene and PVC resins, as well as ethylene oxide.

Euro or €: the legal tender of the European Union.

Eurostat: the Eurostat Economist Intelligence Unit.

Exploration: work performed in the ground to identify mineral deposits, as well as to quantify and assess any economically exploitable reserves they contain.

Exploitation: work to prepare and develop the area comprising the mineral deposit, as well as to work to separate and extract mineral products in the deposit.

Fluorite: the trade name of the mineral calcium fluoride.

Fluorita de México or FDM: means Fluorita de México, S.A. de C.V.

Fluorocarbons: chemical compounds containing carbon-fluorine bonds.

Aluminum Fluoride or AlF3: aluminum trifluoride, an inorganic compound used in the electrolytic production of aluminum to lower its melting point, and as a flux.

Phosphates: phosphoric acid salts or esters. They are used in various industries, such as soap, soft drinks, food and water treatment.

Geosynthetics: materials composed primarily of polymers such as polypropylene, polyester, polyamide and polyethylene that are transformed into sheets, mantles or three-dimensional structures to be used in contact with soils or other geotechnical materials for different purposes in the areas of construction, such as road works, hydraulic works, erosion control systems and environmental activities, among others. The most common types of geosynthetics used in engineering are geotextiles, geogrids, geomembranes, geonets, geocomposites and mantles for erosion control.

Metallurgical grade: fluorite ore selected for its calcium fluoride content and subjected to reduction in size and classification, defined in accordance with customer requirements, and used to produce steel and cement.

GRI stands for Global Reporting Initiative, an organization created in 1997 by the Coalition of Environmentally Responsible Economies (CERES) and the United Nations Environment Programme (UNEP). The GRI developed the "Sustainability Reporting Standards", the first version of which was published in 2000, the second in 2002 and the third in 2006. Its mission is to improve the quality, rigor and usefulness of sustainability reports so they attain a level equivalent to that of financial reports. It is fundamentally based on the implementation of the triple bottom line: economic, social and environmental.

Sodium hypochlorite: a clear, slightly yellow (amber), aqueous solution with a characteristic penetrating and irritating odor, containing sodium hydroxide and sodium carbonate. It is widely used for cleaning products.

HDPE stands for high density polyethylene.

HIS-PVC stands for suspension PVC resin with high impact suspension-PVC properties.

Homopolymer: the product obtained from the combining or polymerization of several molecules of a single type or monomer and which may have different characteristics in accordance with their chemical nature. In the case of PVC resins, the monomer used for polymerization is vinyl chloride (VCM), whose molecules, when joined together, produce what is called a homopolymer (many molecules of a monomer of the same type chemically linked to each other).

ICIS stands for Independent Chemical Information Service.

IFRS: stands for International Financial Reporting Standards as adopted by the International Accounting Standards Board.

IHS Markit: provider of information and analysis for the chemical and petrochemical sectors, among others. Formerly CMAI and SRI.

Ingleside: means Ingleside Ethylene LLC.

Invenergy: means Invenergy Clean Power LLC.

ISO 9001: a standard developed by the International Standard Organization that applies to quality management systems (QMS) and focuses on every aspect of quality management that a company needs to have in order to have an effective system to manage and improve the quality of its products or services.

ISO 14001: a standard developed by the International Standard Organization specifying the requirements for an environmental management system (EMS), in order to allow an organization to formulate its policies and objectives, taking into account legal requirements and information relating to significant environmental impacts. It applies to environmental aspects that the Organization can control and can expect to influence. It does not establish specific environmental performance criteria.

Kaluz: Kaluz, S.A. de C.V.

LMV: stands for the Securities Market Act.

LIBOR: stands for the London Interbank Offered Rate.

MEXCHEM *: Mexichem's Outstanding Shares listings code in the BMV.

Mexichem, the Issuer, the Company, the Entity, the Business or the Group: Mexichem, S.A.B. de C.V., and its subsidiaries.

Mexico: the Mexican Republic.

NETAFIM: Netafim, Ltd. of which Mexichem acquired 80% of its shareholding on February 7, 2018.

OECD: Organisation for Economic Co-operation and Development (OECD).

OxyChem: Occidental Chemical Corporation.

PEMEX: Petróleos Mexicanos and/or any of its subsidiaries.

Pemex Etileno (formerly Pemex Petroquímica or PPQ): a productive subsidiary company of Petróleos Mexicanos, whose charter was published in the Official Gazette on April 28, 2015. It produces, distributes and markets methane, ethane and propylene derivatives, on its own behalf or on behalf of third parties.

Peso, Pesos or Mexican Pesos: the legal tender in Mexico.

GDP: Gross Domestic Product.

Plastisol: a mixture of an emulsion-type resin (PVC), a plasticizer and other additives in a viscous liquid state (paste) at room temperature that has visco-elastic properties and which, depending on the reference resin used, may behave like a dilatant or pseudoplastic. It is usually whitish in color, but this depends to a large extent on the additives used.

PolyOne: PolyOne Corporation, from which Mexichem acquired its special PVC resins operations in the U.S. in March 2013.

PMV: Petroquímica Mexicana de Vinilo, S.A. de C.V. which was a joint venture between Mexichem and PEMEX until November 16, 2018.

PROFEPA: The Federal Attorney for Environmental Protection.

PROGRAM: a revolving Stock Exchange Certificates program for an amount of up to 10 billion Mexican pesos or its equivalent in UDIs, authorized by the National Banking and Securities Commission on March 15, 2012, through official notice number 153/8167/2012, for a term of up to five years from that date, and then renewed on November 3, 2017, by the National Banking and Securities Commission through official notice number 153/10875/2017, for five years (expiring on November 3, 2022).

PVC or Polyvinyl Chloride: a thermoplastic resin obtained from the polymerization of vinyl chloride. PVC can be produced using four different processes: suspension, emulsion, mass and solution. PVC resins are used mainly in the construction industry for cable and wire insulation, door and window frames, water and sewer ducts and pipes, floors, tiles, etc. It is also used to make, among other things, dolls, balls and inflatable toys. In the automotive industry, it is used in door panels, dashboards, seat upholstery, moldings, electrical cables, air and oil filters, automotive sealants and harnesses. In the textile industry it is used to make synthetic leather and canvases. In the packaging industry, it is used to manufacture cylinders and bottles for purified water and cleaning products, films for food wrappers, and sheeting for medicine packaging. In the medical sector, it is the main material used to make bags for serum and blood, as well as other accessories for healthcare.

Quimir: means Quimir, S.A. de C.V., a subsidiary of Mexichem, part of the Vinyl Business Group, which produces industrial and food phosphates.

Reais, "real" or "R$": means the legal tender of Brazil.

Regulation S: means Regulation S under the U.S. Securities Act.

Rule 144A: means Rule 144A under the U.S. Securities Act.

Refrigerants: gases used for refrigeration and air conditioning. They are compounds or mixtures of organic chemical compounds containing mainly hydrogen, carbon, fluorine and chlorine.
RNV or Registry: means the National Securities Registry of the CNBV.

PVC Resins or Vinyl Resins: plastic resins produced by polymerization of vinyl monochloride (VCM).

Extender Resins: PVC resins used in Plastisols as an additive with two functions: to help lower viscosity and to reduce formulation costs without affecting Plastisol properties.

Roskill Consulting: global metals and minerals research company.

Brine: an aqueous solution saturated with sodium chloride or common salt.

SEC: U.S. Securities and Exchange Commission, the U.S. federal agency in charge of supervising the country's financial markets.

Petrochemical sector: the predominant sector of companies and/or public and/or private entities engaged in the manufacture and marketing of oil products and/or natural gas.

Chemical sector: the predominant sector of companies and/or public and/or private entities manufacturing chemical products in general.

Caustic soda: the trade name of sodium hydroxide, NaOH, which is widely used in the alumina, soap and detergent industry and the chemical industry in general.

Suspension: the system in which small particles of a solid or liquid are suspended within a liquid or gas. In the case of PVC resins, this refers to the production process in which vinyl monochloride (VCM) is suspended in small droplets in water to polymerize and produce PVC resins.

Holder(s): the holders and/or owners of the various securities issued by the Company, including but not limited to Outstanding Shares, Share Certificates and/or Senior Notes, as the case may be.

TIIE: stands for Interbank Interest Rate of Equilibrium, which is published by Banco de México and serves as a reference for credit contracting in Mexico.

TPA: metric tons per year (one metric ton is equal to 1,000 kilograms or 2,204.6 pounds).

UDIS: Investment Units.

European Union: the EU is a unique economic and political grouping which is made up of 28 European countries covering a large part of the continent, namely Austria, Belgium, Bulgaria, Croatia, Cyprus, 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 UK. Following the results of a referendum held on June 23, 2016, the UK is currently in the process of leaving this economic and political partnership.

VCM or MCV: stands for vinyl chloride monomer.

Vestolit: means Vestolit, GmbH, a subsidiary of Mexichem, part of the Vinyl Business Group.

Wavin: means Wavin B.V., a subsidiary of Mexichem, part of the Fluent business group, manufacturer of polyethylene and PVC pipes.

WVA stands for World Vinyl Analysis of IHS Markit Chemical World Analysis - Vinyl

b) Executive Summary

This summary does not purport to contain all the information that may be relevant for making investment decisions regarding the securities mentioned herein. Investors should therefore read the whole Annual Report, including financial information and related notes, before making an investment decision. This summary has been prepared in accordance with, and subject to, the detailed information and financial statements contained in this Annual Report. It is recommended that special attention be paid to the "Risk Factors" section of this Report in order to assess the convenience of investing in the securities issued by MEXCHEM Series "Unique". (*See section 5 "Capital Markets", paragraph b, "Stock Market Performance*" of this Annual Report).

The Company publishes its financial statements in Dollars. Unless otherwise specified, references in this Annual Report to "$", "Dollars" or "dollars" shall be understood as references to U.S. dollars, and references to "Peso" or "Pesos" shall be understood as references to Mexican pesos.

The audited consolidated financial statements as of December 31, 2018, 2017 and 2016, and for the years then ended, have been prepared based on IFRS. The accounting standards comprise various provisions known as IAS (International Accounting Standard), IFRIC (International Financial Reporting Interpretations Committee) and SIC (Standard Interpretation Committee).

The figures included in this Annual Report and in the Company's financial statements that form part of this Annual Report have been rounded to the nearest million (unless otherwise indicated) for convenience of presentation. The percentage figures in this Annual Report have not, in all cases, been calculated based on those rounded figures, but based on the amounts before rounding. For this reason, the percentage figures in this Annual Report may vary from those obtained by making the same calculations using the figures in the financial statements. Certain figures shown as totals in certain tables may not be the arithmetic sum of the figures preceding it as a result of rounding.

This Annual Report includes forward-looking statements. Such statements are subject to certain known and unknown risks, uncertainties and other factors, some of which are beyond the issuer's control, and could cause the results, performance or achievements expressed or implied in such forward-looking statements to differ materially from actual results. Forward-looking statements feature terms such as "considers," "expects," "forecasts," "projects," "plans," "estimates," "anticipates," and other similar expressions that are contained, among others, in the "Executive Summary," "Risk Factors," "Discussion and Analysis of Financial Condition and Operating Results by Management" and "Business Overview" sections.

1. The Company

Mexichem, whose registered address and principal place of business is located at Río San Javier No. 10, Fraccionamiento Viveros de Río, Tlalnepantla, C.P. 54060 Estado de México, is a Mexican company that holds the shares of a group of companies located across the five continents.

Mexichem is a leading provider of products and solutions in multiple sectors, including construction and infrastructure, agriculture, health, transportation, telecommunications, energy, and chemicals, among others. It is one of the world's largest producers of plastic pipes and fittings and one of the leading chemical and petrochemical companies in Latin America.

Mexichem has a global presence, and according to Netafim figures, employs more than 22,000 people in more than 41 countries in which it has 137 production plants. It has concessions for the exploitation of two fluorite mines in Mexico, eight training academies, and 19 research and development laboratories. In 2018, it generated sales of $7,198 million.

With more than a 50-year trajectory and more than 30 years of trading on the Mexican Stock Exchange, the Mexichem business model is based on vertical integration and strategic acquisitions through which it has direct access to raw materials and its own technology, allowing it to compete in a global environment. As a result, Mexichem offers a wide range of value-added materials, finished products, and innovative solutions that contribute to the success of its customers and improves the quality of life of people around the world.

Through its commitment to be a good corporate citizen, Mexichem offers value to its stakeholders, including customers, employees, investors, and suppliers, among others around the world, every day.

Mexichem's operations consist of two value chains and three business groups: The Ethylene Value Chain, which includes the Vinyl and Fluent Business Groups; and the Fluor Value Chain, which includes the Fluor Business Group, as well as the Mexichem Energía business department.

Regarding the Ethylene Value Chain, Mexichem is one of the leading producers of plastic pipes and fittings in the world, and one of the leading producers of PVC resin, as well as one of the largest producers of chlorine and caustic soda in Latin America, according to data published by IHS Markit. Since 2014 and at the end of 2018, Mexichem has been the only European producer of high-impact suspension PVC resins, and a global leader in high-density polyethylene products, pipeline solutions, and pressure pipes for telecommunications and gas pipelines.

In Latin America during 2018, Mexichem had a market share of approximately 28% in PVC resins and 31% in piping, according to IHS Markit reports on foreign trade information provided by ANIQ and on market estimates done by Mexichem. Additionally, according to information from different publications, such as IHS Markit WVA, IHS Markit Chlor-Alkali Market Report SRI, and market studies conducted by Mexichem, the Company has a leading position in sales of PVC Resins in several European countries.

In the Fluor Value Chain, it has one of the largest hydrofluoric acid production capacities and the largest fluorite mine in the world (according to data from the Roskill Consulting report), making Mexichem the only fully integrated producer of refrigerant gases in the entire American continent.

The Company's main products are: chlorine, caustic soda, ethylene, vinyl chloride monomer (VCM), polyvinyl chloride (PVC) resins and compounds, fluorite extraction, fluoro-compounds, hydrofluoric acid, refrigerant and propellant gases, as well as PVC pipes and fittings, polyethylene (PE) and polypropylene (PP), high density polyethylene (HDPE) and geosynthetics, which are widely used in the construction, real estate, infrastructure, agriculture and irrigation, drinking water, drainage, automotive, medical and air conditioning industries.

For more information on market share see *Section 2, "The Issuer", paragraph b, "Business Description" for each business group, of this Annual Report*.

In 2018, the Company's revenues amounted to $7,198 million, showing an annual increase of 24%. At the end of 2017 and 2016, the Company's revenues were $5,828 million and $5,344 million, respectively, representing an annual increase of 9%.

In 2018, the EBITDA amounted to $1,397 million, showing an annual increase of 26%. In 2017, the EBITDA amounted to $1,106 million, representing an increase of 24% on the EBITDA reported in 2016.

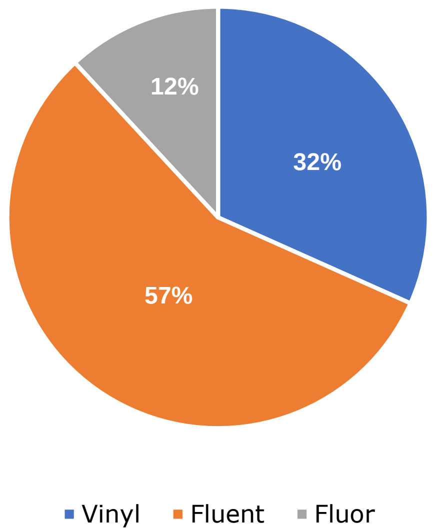
In recent years, the Company has positioned itself in markets throughout Latin America and North America, as well as in European, Asian and African markets; this has been possible owing to organic and inorganic growth and the expansion and vertical integration of its production processes. At the end of 2018, Mexichem was selected as a member of the emerging markets sustainability index, FTSE4Good Emerging Index, in its first edition, after demonstrating good environmental, social and corporate governance practices.

Mexichem's business strategy emphasizes the importance of being a vertically integrated company with the objective of mitigating volatility in the prices of its main raw materials and thus focusing on marketing products with higher profitability and added value. Mexichem's growth strategy is based on the strategic acquisition of companies related to its production chains, as well as technology that could improve and specialize its existing products and processes, which has allowed it to consolidate leadership in its value chains and maintain a geographic presence in the international market in the countries that demand its products. The Company is developing a platform to offer solutions and integral projects, providing clients with direct solutions and creating long-term relationships. Given the integration of the latest acquisitions, Mexichem seeks to promote collaboration and generate the greatest possible synergies, maximizing its capabilities under its current financial structure.

Between 2013 and the present, Mexichem has made eight acquisitions.

The following chart shows the breakdown of total sales by business group at the end of 2018, excluding parent company revenues and intercompany eliminations within Mexichem.

Total revenue 2018



The sales made by each of the business groups in the last three fiscal years are shown below:

	Year ending December 31: Volume Sold (1)			Year ending December 31: Sales		
Business Group	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Vinyl	2.524	2.505	2.454	2,460	2,317	2,026
Fluent (Building & Infrastructure - Wavin and Amanco-, Datacom - Dura-line-, and Irrigation -Netafim-)(2)	1.082	1.049	1.074	4,077	3,023	2,892
Fluor	1.150	1.098	0.903	837	681	583
Energy	-	-	-	2	2	2
Intercompanies and Parent Company	(0.185)	(0.185)	(0.190)	(178)	(195)	(159)
Total Sales Mexichem	**4.571**	**4.467**	**4.241**	**7,198**	**5,828**	**5,344**

(1) Million tons

(2) Does not include Netafim sales volume

Additionally, the following table shows the main products sold in 2018, as well as their condition and market share by country:

Country/Region	Product	Condition
Vinyl Business Group		
Germany	*Resin - PVC*	*4*
Colombia	*Compounds*	*1*
Colombia	*PVC resin*	*1*
United States of America	*Compounds*	*7*
Europe	*Paste - PVC*	*3*
Mexico	*Chlorine*	*1*
Mexico	*Compounds*	*1*
Mexico	*PVC resin*	*1*
Mexico	*Caustic Soda*	*2*
UK	*Compounds*	*1*

Country/Region	Product	Condition
Fluent business group		
Germany	*Pipes*	*5*
Argentina	*Pipes*	*4*
The Baltic[(1)]	*Pipes*	*3*
Belgium	*Pipes*	*2*
Brazil	*Pipes*	*2*
Colombia	*Pipes*	*1*
Canada	*Telecommunications/Datacom*	*1*
Canada	*Pipes*	*5*
Costa Rica	*Pipes*	*1*
Denmark	*Pipes*	*1*
Ecuador	*Pipes*	*1*
El Salvador	*Pipes*	*1*
U.S.	*Telecommunications/Datacom*	*1*
U.S.	*Natural Gas Pipeline*	*2*
Finland	*Pipes*	*5*
France	*Pipes*	*2*
Guatemala	*Pipes*	*1*
Honduras	*Pipes*	*1*
Hungary	*Pipes*	*2*
India/Asia/Middle East/Africa	*Telecommunications*	*1*
India	*High pressure water pipe*	*5*
India	*Gas*	*4*
Ireland	*Pipes*	*1*
Italy	*Pipes*	*3*
Mexico	*Pipes*	*1*
Nicaragua	*Pipes*	*1*
Norway	*Pipes*	*2*
Oman/AMEA	*Telecommunications*	*1*
Netherlands	*Pipes*	*1*
Panama	*Pipes*	*2*
Peru	*Pipes*	*1*
Poland	*Pipes*	*1*
Czech Republic	*Telecommunications/Datacom*	*1*
Czech Republic	*Pipes*	*1*
Slovakia	*Pipes*	*2*
Sweden	*Pipes*	*3*
South Africa	*Telecommunications/Datacom*	*3*
Turkey	*Pipes*	*3*
UK	*Pipes*	*2*
Venezuela	*Pipes*	*2*

(1) Includes Estonia, Latvia and Lithuania.

Country/Region	Product	Condition
Fluor Business Group		
Mexico	*Fluorite*	*1*
Canada	*Fluorite (metallurgical)*	*1*
Canada	*Fluorite (acid)*	*1*

U.S.	*Fluorite (acid)*	*1*
U.S.	*Fluorite (metallurgical)*	*1*
U.S.	*Fluorocarbons (134a)*	*1*
U.S.	*Hydrofluoric Acid*	*1*
U.S.	*Fluorocarbons*	*4*
Europe	*Fluorocarbons (134a)*	*1*
Europe	*Fluorocarbons*	*2*
Japan	*Fluorocarbons (134a)*	*1*
Japan	*Fluorocarbons*	*2*
Japan	*Fluorite (metallurgical)*	*1*
UK	*Fluorocarbons (134a)*	*1*
UK	*Fluorocarbons*	*2*

Sources: IHS Markit, IHS Markit Clor-Alkali Market report and internal analysis by Mexichem.

2. Selected Financial Information

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and on a historical cost basis except for the revaluation of certain long-term assets and financial instruments at fair value. Financial figures are expressed in millions of dollars.

a. *Discontinued operations for the years 2018, 2017 and 2016*

- On April 20, 2016, an explosion occurred at the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located; the VCM and Ethylene plants. The VCM plant (Clorados III) suffered the greatest damage, with the greatest economic impact being the recognition of the loss of assets and the closure of the plant. At a separate site, where PMV has its chlorine and soda production plant, it did not suffer any damage to its facilities, but did suffer a business interruption since it supplied raw material (chlorine) to the VCM plant (Clorados III) within the Pajaritos Petrochemical Complex. The direct economic impact of this devastating incident amounted to $320 million, which is broken down as follows: (i) loss of VCM plant assets in the amount of $276 million (property damage), and (ii) costs related to plant closure (third party damages/civil damages), civil liability, environmental liability, attorneys, consultants, partial dismantling, etc., totaling $44 million.

  In 2016, PMV obtained enough information and resources to decide to recognize the accounts receivable related to insurance policies and their coverage. During 2017 and 2016, following the VCM plant incident, PMV recognized $283 million in revenues and accounts receivable related to property damage, damages to third parties (civil liability) and coverage of directors and officers. Of the $283 million, $260 million is related to the property damage policy which includes the following coverage: (i) damage to the VCM plant, (ii) assembly, (iii) other expenses, and (iv) expenses that are covered by the policy related to damage control. The remaining $23 million relates to damages to third parties (civil liability) and coverage for directors and officers, which as of the date of this report, have been fully recovered. In addition, PMV recognized resources from the business interruption policy for $48 million related to the VCM and ethylene plants (also covered under the property damage policy) and $23 million from the chlorine and caustic soda plant. The Mexichem Resinas, Compuestos y Derivados business department recognized $18 million for the company's PVC plants.

  During Q1 2018, PMV recognized an additional $2 million in its accounts receivable related to the assembly policy, therefore, the account receivable increased to $285 million, and as a result, $262 million is related to the property damage insurance policy mentioned above.

  In the period between December 2016 and November 2017, PMV recovered the $23 million related to the business interruption coverage of the chlorine and soda plant, while between July 2017 and July 2018, the Resins, Compounds and Derivatives business recovered the $18 million recognized for the same coverage in relation to the PVC plants in Altamira and Colombia.

On April 16, 2018, PMV signed an agreement with the insurance company for a total payment of $323 million consisting of: (i) $262 million related to damage to the VCM plant, assembly and other expenses covered by the damage control policy, (ii) $48 million related to the business interruption policy of the VCM and ethylene plants mentioned above, and (iii) $13 million related to other plant expenses; the latter recorded in Q2 2018. During 2017 and 2018, the Company recovered $48 million and $13 million, respectively, related to the abovementioned items. While in May 2018, the Company recovered the last tranche of the agreement signed by the related insurance companies for property damage, and assembly and business interruption, which covered assets of $267.5 million owned by PMV within the Pajaritos Petrochemical Complex. As a result, these accounts receivable ceased to be a Financial Asset and became part of the Issuer's cash and cash equivalents.

As of December 31, 2018, all the above amounts had been covered by insurance companies.

In connection with the aforementioned agreement, the difference between the $320 million economic impact recognized in 2016 and the $285 million of accounts receivable recognized and mentioned above is mainly from assets that were not covered by the insurance policy, as according to the adjustments made by the insurers, the difference is due to assets that were not damaged and are owned by PMV. In view of the foregoing, this difference is no longer part of the contingent asset.

On December 20, 2017, Mexichem announced the decision of PMV's shareholders not to rebuild its VCM production capacity. Consequently, the VCM business and the assets and liabilities associated with the production of ethylene and the ancillary services associated with VCM and ethylene were classified on that date as discontinued operations in their consolidated financial statements of income and other comprehensive income statements, retroactively for the businesses in the years 2017, 2016 and 2015. In addition, PMV's decision not to rebuild the VCM plant resulted in the additional cancellation of $196 million related to the assets of the Ethylene plant, and ancillary services related to the VCM and Ethylene plants, which are also listed as discontinued operations. Thus, all impacts and recognized revenues related to the incident at the VCM plant are listed as discontinued operations. This represents PMV's exit from the VCM and Ethylene businesses in Mexico, but not from the caustic soda business, as it continues to operate this plant.

On July 6, 2018, Mexichem announced that in line with its strategy of consolidating key businesses, it reached an agreement to acquire 44.09% of the shares representing Pemex's share capital in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The amount of the transaction was approximately $159.3 million, which is within the valuation ranges of comparable companies and prior transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, the date PMV exclusively became a subsidiary of Mexichem and its operations continued solely with that of its caustic soda plant.

- During 2016, Mexichem decided to close its Oil & Gas (O&G) and Municipal & Infrastructure (M&I) operations in the U.S. and classified them as discontinued operation. However, it kept open its business of selling pipelines for Natural Gas distribution, which continues to operate normally. In recent years, these O&G and M&I markets have faced major challenges due to falling oil prices and low margins caused mainly by an increase in supply and the number of competitors. As a result of the foregoing, the O&G and M&I operations in the U.S. ceased to be competitive.

b. ***Contingent assets and liabilities***

- *Contingent Assets:*

  As of December 31, 2018, the Company does not have significant Contingent Assets.

- *Contingent liabilities:*

a) As a result of the incident at the VCM plant (Chlorinated III), PMV conducted an environmental assessment to determine whether any type of contaminant had been deposited in the areas surrounding the plant. This assessment was submitted to the environmental authorities with whom the company is working together to determine whether there is environmental damage. PMV may also be liable for paying damages to third parties, should there be any. According to the information available on the date of these consolidated financial statements, there is no evidence that these liabilities are material.

b) On May 16, 2017, the European Commission ("EC") initiated an antitrust investigation into subsidiaries of the Company, Vestolit GmbH and Vesto PVC Holding GmbH (the latter merged with Vestolit GmbH). The investigation alleges antitrust practices, in interaction with other market players, related to ethylene price fixing in Europe. Ethylene is the raw material acquired by Vestolit to produce PVC. As of the date of this Annual Report, and given the stage of this procedure, it is not possible for the Company's management to estimate any possible impact on its results. Mexichem is cooperating fully with the EC in its investigation.

c) On September 25, 2018, Netafim's subsidiary in the United States, Netafim Irrigation Inc., was notified that on September 22, 2018 a suit was filed against it in the Fresno Divisional Office of the U.S. District Court for the Eastern District of California. The lawsuit alleges that Netafim, along with other manufacturers and distributors, participated in a group boycott in violation of state and federal antitrust laws. As of the date of this Annual Report, and given the stage of this procedure, it is not possible for the Company's management to estimate any possible impact on its results. Netafim is disputing the allegation of breach and continues to defend itself vigorously in this matter.

d) The subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified during 2016 by the Administrative Council of Economic Defense of Brazil (CADE – acronym in Portuguese) of alleged violations of the economic competition rules in Brazil, committed by the subsidiary and some of its executives, from 2003 to 2009. Mexichem is fully committed to complying with local regulations in all the countries in which it operates. As of the date of the Company's consolidated financial statements included in this Annual Report, Mexichem has recognized the amount of the liability that it was able to reliably estimate on that date.

   On March 27, 2018, the Issuer announced that its subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) reached a cease and desist agreement with the Administrative Council of Economic Defense of Brazil (CADE). Furthermore, the Issuer announced that on said date, an was approved in the session of the CADE Court pursuant to Article 10, paragraph VII, of Law No. 12529, of November 30, 2011. In compliance with the decision of the Court issued in the 116th Ordinary Judgment Session held on December 13, 2017, CADE imposed a compensatory contribution to the Company in the amount of R$95.1 million (approximately $28 million) to be paid within 240 days from the date of publication of the agreement in Brazil's official newspaper. On November 29, 2018, the Company paid a fine of $25 million (due to variation in the exchange rate) and the matter was resolved. In addition, CADE also imposed compensatory contributions on executives who were part of the Company during the period under investigation by CADE. None of the sanctioned executives are currently employed by the Company. In view of the foregoing, as of the date of publication of this report, the foregoing no longer constitutes a liability for the company.

c. ***Establishment and acquisition of new businesses*** - During the first months of 2019 and during 2018, 2017, and 2016, Mexichem established and acquired the following businesses:

2019

i. As of the date of this Annual Report and during the period, the Company has made no material acquisitions.

2018

i. <u>Acquisition of Netafim</u> - On February 7, 2018, Mexichem acquired 80% of the shares of Netafim LTD (Netafim), Israel's leading precision irrigation solutions company, after obtaining all government authorizations and complying with the prior conditions set forth in the Share Purchase Agreement signed in August 2017. The price paid for the acquisition was $1,424 million. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital. In addition, Mexichem signed a "Put/Call Rights" agreement in which, after the fifth anniversary of the closing of the Netafim acquisition agreement, Kibbutz Hatzerim will have, for a period of 10 years, the right to sell to the Company its participation in Netafim ("Hatzerim Put Option") and Mexichem will have the obligation to acquire it at the price agreed in the respective agreement. On the other hand, the Company, after the eighth anniversary of the closing of the Netafim acquisition contract, will have for a period of 10 years, the right to purchase the Kibbutz Hatzerim participation in Netafim ("Purchaser Call Option") and Kibbutz Hatzerim will have the obligation to sell it in the terms stipulated in the respective agreement. This transaction represents a significant step forward in Mexichem's long-term strategy to position itself as a world leader in specialized products and solutions, serving high-growth markets. Mexichem consolidates the financial statements of Netafim in the Fluent Business Group.

The acquisition was mainly financed as follows: (i) $239 million cash, (ii) new short-term loan of $200 million, and (iii) cash flows from the issuance of a long-term bond of $985 million.

ii. Acquisition of Sylvin Technologies Ltd. - On January 22, 2018, Mexichem announced the acquisition of 100% of the share capital of Sylvin Technologies Inc., a manufacturer specializing in PVC compounds based in Denver, Pennsylvania, for $39 million free of cash and debt. Sylvin recorded total sales of $29 million in 2017. The company has a 30-year history serving a wide range of industries including cable, electrical, industrial, automotive, medical and food products. Mexichem will consolidate Sylvin into the Vinyl Business Group under the Compounds Business Unit.

iii. Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) - On July 6, 2018, Mexichem announced that in line with its strategy of consolidating key businesses, it reached an agreement to acquire 44.09% of the shares representing Pemex's share capital in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of similar companies and prior transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, which means that, as of the latter date, PMV is exclusively a subsidiary of Mexichem and its activity consists, as of the latter date, solely of the operation of the caustic soda plant.

2017

i. Acquisition of Netafim - On August 8, 2017, the Company announced that Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a subsidiary of Mexichem, had reached an agreement to acquire: i) voting shares representing 80% of the subscribed and paid-in share capital, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital, of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, in favor of Netafim. Netafim is a privately-owned Israeli company, which is a leader in micro irrigation solutions. The total value of the company in the transaction was $1.895 billion, of which Mexichem acquired 80% of the share capital. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital.

2016

i. Purchase of Vinyl Compounds Holdings Ltd. - On November 25, 2016, Mexichem announced the acquisition in the UK of 100% of the share capital of Vinyl Compounds Holdings Ltd. (VCHL) at a value of £24 million pounds sterling equivalent to $30 million paid in cash. Vinyl Compounds Holdings, Ltd is a leading supplier of PVC compounds serving a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods. The Derbyshire-based PVC compounds manufacturer generates annual revenues of approximately $40 million Mexichem consolidates the financial statements of VCHL in its Compounds Business Unit, a leading supplier of PVC compounds that serves the global market and is part of the Vinyl Business Group.

ii. Acquisition of Gravenhurst Plastics Ltd. (GPL). - On October 18, 2016 the Company announced the acquisition of 100% of the share capital of Gravenhurst Plastics Ltd. (GPL) in Temiskaming, Ontario, Canada in order to reinforce its global growth model in specialty value-added products. GPL supplies high-density polyethylene (HDPE) pipes and fiber optic inner tubes, as well as construction products in the Canadian market. Mexichem consolidated the GPL financial statements in its Fluent Business Group, which had a value of $13 million paid in cash.

The following table contains select Mexichem financial information for each of the periods mentioned. This information should be read in whole and is subject in its entirety to all the terms of the Mexichem financial statements audited on December 31, 2018, 2017, and 2016, and their notes.

Consolidated income statement	**For the years ending December 31:**		
(Figures in Millions)	**2018**	**2017**	**2016**
Continuing operations:			
Net sales	**$7,198**	**$5,828**	**$5,344**
Cost of sales	5,261	4,375	4,078
Gross profit	**1,937**	**1,453**	**1,266**
Selling and development expenses	526	382	373
Administrative expenses	449	336	327
Other income, net	27	26	(15)
Exchange gain	(84)	(9)	(95)
Foreign Exchange loss	132	56	93
Interest expenses	251	195	192
Interest income	(20)	(18)	(10)
Change in fair value of redeemable non-controlling interest	19		
Monetary condition gain	(14)	(48)	(18)
Share in associates' income	(4)	(2)	(3)
Income before income taxes	655	535	422
Income taxes	195	178	111
Profit on continuing operations	460	357	311
Discontinued operations:			
Profit (loss) on discontinued operations, Net	23	(143)	(64)
Consolidated net income for the year	**$483**	**$214**	**$247**
Consolidated net income for the year:			
Controlling interest	$355	$194	$263
Non-controlling interest	128	20	(16)
	$483	$214	$247
Controlling interest profits per share	$0.17	$0.09	$0.13
Weighted average of shares outstanding	$2,100,000,000	$2,100,000,000	$2,100,000,000

Consolidated Statements of Financial Condition	**For the years ending December 31:**		
(Figures in Millions)	**2018**	**2017**	**2016**
Assets			
Current assets:			
Cash and cash equivalents	$700	$1,900	$714
Accounts Receivable, Net	1,318	1,330	1,181
Accounts receivable from related parties	5	2	3
Inventories, Net	866	675	606
Prepaid expenses	78	36	35
Assets held for sale	10	9	21
Total current assets	**2,977**	**3,952**	**2,560**
Non-current assets:			
Property, plant and equipment, Net	3,507	3,626	3,750
Investment in shares of associated entities	36	31	31
Other assets, net	100	87	64

Deferred taxes	96	153	66
Intangible Assets, Net	1,852	1,212	1,193
Goodwill	1,493	698	690
Total non-current assets	**7,084**	**5,807**	**5,794**
Total Assets	**$10,061**	**$9,759**	**$8,354**
Liabilities and stockholders' equity			
Current liabilities:			
Bank loans and current portion of long term debt	$396	$45	$58
Suppliers	794	665	653
Letters of credit to suppliers	619	697	617
Accounts payable to related parties	117	65	51
Other accounts payable and accrued liabilities	474	470	444
Dividends payable	156	84	56
Provisions	21	9	9
Employee Benefits	90	35	32
Short-term financial leases	18	37	52
Derivative financial instruments	16	15	-
Liabilities associated with assets held for sale	7	9	13
Total current liabilities	**2,708**	**2,131**	**1,985**
Non-current liabilities:			
Bank loans and long-term debt	3,175	3,210	2,241
Employee Benefits	182	186	171
Long-term provisions	18	33	17
Other long-term liabilities	44	34	25
Redeemable non-controlling interest	246	-	-
Derivative financial instruments	113	166	99
Deferred taxes	349	231	151
Long-term financial leases	15	39	70
Long-term income tax	41	49	13
Total non-current liabilities	**4,183**	**3,948**	**2,787**
Total liabilities	**6,891**	**6,079**	**4,772**
Stockholders' equity:			
Contributed capital			
Capital stock	256	256	256
Share Premium	1,475	1,475	1,475
Update of share capital	24	24	24
	1,755	1,755	1,755
Earned Capital			
Retained earnings	1,053	1,075	855
Redeemable non-controlling interest	(227)	-	-
Buy-back shares program reserve	329	380	552
Other comprehensive income	(501)	(408)	(484)
	654	**1,047**	**923**
Total controlling interest	**2,409**	**2,802**	**2,678**
Total non-controlling interest	761	878	904
Total stockholders' equity	**3,170**	**3,680**	**3,582**
Total liabilities and stockholders' equity	**$10,061**	**$9,759**	**$8,354**

Financial Indicators

Indicators	**2018**	**2017**	**2016**

Investments in property, plant and equipment	283	254	488
Depreciation and amortization for the year	462	398	313
EBITDA	1,397	1,106	895
Accounts Receivable turnover (days)	50	50	49
Average term of payment suppliers (days)	118	145	150
Inventory turnover (days)	52	57	57

3.- Information on the behavior of the securities issued by Mexichem in the stock market.

The MEXCHEM * share has been part of BMV's Price and Quotation Index ("IPC") for the last three fiscal years analyzed in this Annual Report. According to the BMV Trading Index, due to its significant number of daily operations in the Mexican stock market, in March 2019, the Share continued to be categorized as HIGHLY TRADE. *(See section 5) "Capital Markets" paragraph b), "Behavior of the Share in the Stock Market" of this Annual Report).*

4.- Recent Events.

- At the Ordinary and Extraordinary General Shareholders' Meeting held on April 23, 2019, among other matters, the following was approved:

  1. It was approved to extend the payment term of the extraordinary dividend declared in the Ordinary Shareholders' Meeting held on August 21, 2018, meaning that the payment may be completed within 12 (twelve) months after the aforementioned meeting was held.

  2. After the explanations offered by the Secretary of the Assembly on the reasons and effects of the respective proposal, the statutory amendment to Articles 2, 3, 6, 7, 9, 13, 15, 28, 32, 34 and 44 of the Corporate Bylaws and the notarized copy thereof was approved.

  3. The ratification of the Honorary Chairman for Life, Chairman, Secretary and Assistant Secretary of the Board of Directors, the Directors, as well as the President of the Audit Committee and of the Corporate Practices Committee of the Company, with the exception of the appointment of the director Maria Teresa Altagracia Arnal Machado, whose appointment was approved at the aforementioned meeting.

- On March 29, 2019, Mexichem signed a short-term loan of U.S. $200 million to refinance the U.S. $200 million credit agreement related to the Netafim´s acquisition.

  The most relevant terms of this short-term agreement loan are:

  - Maturity: 12 months from the borrowing date (March 29, 2019)
  - Annual Interest Rate: 1-month Libor + 49.6 basis points
  - Interest payment period: Monthly
  - No penalty for prepayments on interest payment dates

- Colombia: In April 2019, we were notified that The Superintendency of Industry and Commerce (Superintendencia de Industria y Comercio) in Colombia initiated an investigation against Mexichem Derivados Colombia SA, for alleged violations of the first article of Law 155 of 1959, for supposedly reaching an agreement with its competitors to exit the importing, distributing and selling market for caustic soda in Colombia. As this is an ongoing process, we cannot comment on this issue. Mexichem is in favor of healthy competition, and as a global company, we foster a culture of integrity and compliance with all applicable laws and regulations where we do business, including Colombian laws. We reiterate our willingness to collaborate with the authorities in order to clarify the situation.

c) Risk Factors

In order to decide whether to invest in Outstanding Shares, Long-Term Debt Certificates, Notes, and other securities issued by Mexichem, investors must carefully consider, analyze, and evaluate all the information contained in this Annual Report, and in particular, the risk factors described below, which could have a material adverse effect on Mexichem's performance and profitability, its financial situation, or the results of its operations, as well as its liquidity.

The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties of which we have no knowledge or which we currently consider irrelevant may also affect our business operations. Any of the following risks, should they arise, could adversely and materially affect our business, results of our operations, prospects and financial condition. In such a case, the market price of our Notes may decline, and investors may lose all or part of their investment.

a) Risk Factors Related to Our Business and Industry

The cyclical nature of the industry may diminish our business results and margins.

Some industries in which we operate, including the markets in which we compete, are cyclical. They are sensitive to changes in supply and demand and are affected by the political and economic conditions prevailing in the different countries and regions of the world in which we operate. This cyclical trend can reduce our net sales and margins and lead to the following:

- unfavorable economic changes in business and the general economy may cause demand for our products to fall
- when demand falls, we may face competitive pressures to lower our prices
- low barriers to enter certain markets by competitors, which is likely to affect the prices we set
- if we decide to expand our plants or build new ones, we may do so based on an estimate of future demand that could never materialize or do so at lower levels than we initially predicted and
- the market dynamics of supply and demand for both our products and our raw materials, and the raw materials that affect them, may result in fluctuations in the prices of some or all our products or our raw materials, which could affect our sales or margins

Due to the cyclical nature of the global chemical industry, historically the international chemical market has experienced changing periods of limited supply, which has caused prices to increase and profit margins to increase, followed by the expansion of production capacity, resulting in oversupply and lower prices and profit margins. Mainly in our raw materials business, with chemicals being among them, we set prices for the products we sell based on international market prices. The chemical industries in Europe and Latin America have become increasingly integrated with the global chemical industry for a variety of reasons, including increased demand and consumption of chemicals in these regions, as well as the continued integration of regional and global product markets. Thus, our net sales and gross margins are tied to global industry conditions that we cannot control. We are sensitive to the economic cycles that affect the construction, infrastructure, agriculture and automotive industries.

Historically, demand has been vulnerable to such circumstances. This vulnerability can lead to significant changes in our quarterly operating results or our annual results, limiting our ability to forecast our operating performance, cash flows and financial condition.

The operations of the Fluent Business Group depend on the construction, agriculture and telecommunications industries.

Our Fluent Business Group is primarily dependent on the viability of the construction, infrastructure, agriculture and telecommunications industries. A slowdown in the growth of these industries in the countries in which we operate, or a negative change in the economic and demographic factors that influence these industries, may have a material adverse effect on results of operations, cash flows and financial condition.

Our operations are highly dependent on petrochemical and energy industries.

The petrochemical and energy industries, including the markets in which we operate, are cyclical and have historically undergone periods of recession. The demand for some of our products and services, as well as the supply of some of our raw materials, depend on the level of investment by companies in the energy industry, which in turn depends in part on the overall price levels of oil and other energy sources. Oil and natural gas prices have been very volatile in recent years. A continued decline in our customers' investments in this industry, whether due to a decrease in oil or natural gas prices, could cause delays in our customers' projects, and thus demand for some of our products and services.

Furthermore, a lack of supply of some of our raw materials can cause pressure on the expected prices of our products or costs of our raw materials, which in turn could have a material adverse effect on our operating results, cash flows and financial condition.

Some of our customers and suppliers also depend on oil and natural gas production levels. Interruptions or decreases in the production of such inputs, due to various circumstances beyond our control, including adverse weather conditions, accidents, decreased access to the system, labor contingencies, work stoppages, strikes, or others, may cause delays in our customers' investment projects or increase the production costs of our raw materials, and thereby, increase their prices and, in turn, affect our operations results, cash flows and financial condition.

Changes in investment levels in the data and voice telecommunications industry may affect the production and sales of our Fluent U.S./Canada and Fluent AMEA Business Group.

The different investments required by participants in the telecommunications industry to implement fiber optics and broadband communication systems widely influence this industry, including the markets in which 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 improvements to the existing networks
- Rights of way, and local and state governments access permits in the countries where we operate, required for the construction of new networks
- The evolution and acceptance of new industry standards
- Pressures related to competition in the sector, including prices
- Annual budget cycles
- The impact on industry consolidation
- Access to financing and general economic conditions of the market
- Price Levels
- Existence, creation or improvement of alternative products
- Political stability

Lack of investment in data and voice telecommunications, due to any of these factors, may have a material adverse effect on our sales, operating results and financial condition.

The lack of development of new products, production technologies or access to new technologies, as well as the inability to develop products that satisfy the needs of the market, develop raw materials that substitute those we currently use or produce, or successfully implement productivity and cost reduction initiatives may adversely affect our competitive condition.

The markets for many of our products require continuous improvements in quality and performance. To remain competitive, we need to develop and distribute products that meet market’s needs in a timely manner. In the event that the market changes unexpectedly, new technologies are developed that we do not have access to, we are unable to develop products that meet market´s needs in a timely manner or the life cycles of our products are shorter than anticipated and this hinders the recovery of research and development costs or investments related to those specific products, our results of operations and financial condition may 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 come to replace those we currently produce or use. If we are unable to compete with such new products or raw materials, or to access raw materials newer than those we currently use in our production process, our operation results could be adversely and materially affected.

Failure to stay up to date with current technological advances in the industries in which we operate or seeking commercially unacceptable technologies could affect our business, operations results or financial condition.

Our success in industries in which we operate depends largely on new designs and improvements in the products we develop. Our ability to adapt quickly and develop new products and technologies that can be updated in line with the evolution of those industries, and to offer reasonable customer prices, will determine our competitiveness in the markets in which we operate. Our competitors may develop disruptive products or technologies that are superior to ours, develop more efficient or effective methods to provide related products and services, or adapt faster than we do to new products or related technologies as well as changing customer demands. If our products and technologies are unable to gain market acceptance because we fail to innovate, or because our competitors offer more attractive products, this will adversely affect our business, financial condition and operating results.

Our business is subject to risks generally associated with international business operations and our net earnings and sales in the irrigation segment could be adversely affected by economic conditions and business outlooks in the countries in which we operate.

We market our products in more than 100 countries. Mexichem participates in manufacturing and other business activities throughout Latin America, the U.S., Europe and Asia. Our main manufacturing facilities and/or countries in which we operate are the U.S., Mexico, Brazil, Colombia, Guatemala, Ecuador, Peru, UK, Germany, Czech Republic, Denmark, Poland, Turkey, France, Finland, Israel, India, and China, among other countries. As a result, our business is, and will continue to be, subject to risks generally associated with international manufacturing and distribution, and the adverse economic conditions and outlook in the countries where we conduct business that may impact the demand for our products and, ultimately, our net earnings and sales, including:

- Government regulations applicable to manufacturing and/or foreign investment activities
- Modifications to policies on customs or trade tariffs on importing or exporting from and to countries
- Changes in social, political and economic conditions
- Freight delays
- Shutdowns or shortages of electricity and other public services
- Restrictions on currency conversion and volatility in foreign exchange markets
- Restrictions on skilled labor and changes in local working conditions
- Restrictions related to the sale of products, including trademarks, in connection with third party intellectual property rights
- Difficulties in complying with contractual obligations in jurisdictions outside of Mexico, as well as in collecting accounts abroad
- Environmental regulations
- Tax reforms and other laws and regulations
- Recessionary conditions or negative or slow economic growth rates
- Changes in local or international interest rates that affect the exchange rate
- Austerity measures and reduction or elimination of subsidies and incentives to the industries in which we operate.

Some of the countries in which we operate have experienced political and social instability in the past and interruptions or cessation of operations may occur at any of the production facilities in those countries. The foregoing factors, as well as government regulations applicable to foreign investment and/or the import, export or sale of products and market protectionist measures, could adversely affect our sales and operating results, and in the past, have caused distributors, intermediaries and customers to reduce their spending and to delay or stop purchasing products, which could have an adverse effect on our net sales and results. For example, Colombia and Brazil signed a free trade agreement which, as a result of the acquisition of Mexichem Resinas Colombia, has allowed us to export products from Colombia to Brazil that are exempt from customs duties and countervailing duties. This gives us a competitive edge in the Brazilian market, an advantage shared only with products from Argentina. However, we cannot guarantee that the advantage of the export agreement from or to Colombia or from or to other countries will prevail in the coming years or that the same advantages will be granted to other countries. Therefore, if this Colombia-Brazil trade agreement or any other countries through which Mexichem has competitive advantages are removed or modified, this could have an impact on our sales, operating results and cash flows.

Certain changes in agriculture and other policies of governments and international organizations may be disadvantageous for the irrigation industry.

Changes in government policies may affect the agriculture industry and inhibit market growth for the Company's products. However, it is difficult to accurately predict whether, and if so when, such changes will occur. Reductions in subsidies, restrictions on the policies of governments and international organizations may affect the income available to farmers to purchase products used for agriculture and, consequently, the operating results of agribusinesses, which could adversely affect interest in our products and adversely affect our business, operating results and financial condition.

Conditions in Israel could affect business operations

Netafim is incorporated under the laws of Israel. Its principal offices and three of its production plants, including all its irrigation plants, are in Israel. Netafim operations in Israel depend on imported raw materials and the company also exports a significant amount of their products from Israel. In addition, all its information and data are in Israel. Since the creation of the State of Israel in 1948, there have been multiple military conflicts in Israel and the surrounding countries, including Islamic military operations, as well as incidents of terrorist acts and other attacks (including the Second Lebanon War during the summer of 2006 and Israeli military campaigns in Gaza during December 2008, November 2012 and the summer of 2014).

Political, economic and security conditions in Israel can directly affect Netafim's operations. Netafim could be adversely affected by hostilities involving Israel, including terrorist attacks or any other hostility or threat to Israel, the interruption or reduction of treaties between Israel and its trading allies, a significant increase in inflation or a significant reduction in economic and financial conditions in Israel. Any present or future conflict, terrorist attack or tension within Israel's borders or political instability in the region, may disrupt international business activities, adversely affecting Netafim's business and could damage the Company's financial condition and operating results. In addition, these military conflicts could damage production plants in Israel, which would not be easy to replace.

Although Israeli law obliges the Government of Israel to pay the reinstatement value derived from damages caused by terrorist attacks or acts of war, there can be no assurance that the Government's policy will be maintained, or will be sufficient, to compensate the Company for all expenses it may incur. In addition, indirect damages may not be covered. Any loss or damage in which Netafim has been involved, and which has not been paid by the Israeli government, could have an adverse effect on the Company. Certain countries, as well as certain companies and organizations continue or plan to participate in the boycott of Israeli companies, companies with significant operations in Israel, and others. Current and future boycotts, economic strikes or embargos, restrictive laws, policies or practices involving Israel, or Israeli businesses and citizens, or directly against Israel, could adversely affect our business, financial condition or future operating results.

The organizational restructuring of OxyChem, our partner in Ingleside Ethylene, or the decision-making process of Kibbutz Hatzerim regarding its investment in 20% of Netafim's capital stock, could have a material adverse effect on our financial and business condition.

We have a strategic alliance with OxyChem for the construction, operation and production of ethylene in Texas in a company called Ingleside Ethylene, LLC, which began in October 2013. On August 8, 2017, the Company announced that Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a Mexhichem subsidiary, had reached an agreement for the acquisition of: i) voting shares representing 80% of the subscribed and paid-in capital stock, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings. Kibbutz Hatzerim will retain the remaining 20% of Netafim's capital stock.

We cannot anticipate the extent and consequences that these and other corporate restructurings of OxyChem will have on our joint ventures, or the manner in which Kibbutz Hatzerim will exercise its minority rights contained in the shareholders' agreements, nor the effects this may have on the production and business relationships between the parties, including the Ingleside joint venture or the Netafim partnership.

As a result, Mexichem cannot make any guarantees as to how OxyChem, Kibbutz Hatzerim, or any other related strategic partner, may act in the future, nor the response time of its decision-making process, nor how the new business conditions adopted by such business partners and their subsidiaries will affect us, which could represent a material adverse effect on our business and operating results.

We face intense competition from other suppliers of similar products

The markets for chemical products in Latin America, North America, Asia and Europe and other parts of the world, where essentially all our chemicals are sold, are highly competitive. We generally have no or limited control over the price of the products we sell that are treated with primary products, such as chlorine, caustic soda, resin and PVC compounds and fluorite. This while competition with respect to other products, such as PVC pipes, compounds and refrigerant gases is based on price, performance, product quality, product delivery and customer service. It is difficult to protect our market condition for many of our products because of product differentiation, and we may not be able to pass on the cost increases associated with those products to customers. In many cases, the competitive environments for our various chemicals may vary significantly at any time, and our ability to adjust the product mix based on market conditions may be limited due to inherent restrictions on production processes. Our competitors include larger companies or those best conditioned within international chemical markets, including those in Europe and Latin America, or companies that have greater competitive advantages due to a combination of several factors, such as greater access to financial resources, benefits derived 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 have enabled them to obtain and maintain significant market share. Such situations, as well as increased competition, may have adverse effects on our operation results, cash flow or financial condition.

Our contract model for high-density polyethylene (HDPE) products implies certain risks related to customer retention, which could have a material adverse effect on our financial and business situation.

We sell a substantial amount of high-density polyethylene (HDPE) products under short-term contractual orders. In addition, we have long-term contracts, particularly in contracts for voice and data telecommunications products in the U.S. and India. Most of our contracts contain terms and conditions relating to pricing, including any type of resin transfer provision, and in general, our customers are not required to purchase a minimum volume, and contracts can generally be terminated without cause and at short notice. As a result, customers can discontinue or substantially reduce the acquisition of our products at any time. The loss of customers representing a significant volume of sales as well as a significant decrease in customer orders for any reason, including changes in manufacturing practices, transfer of part of the business to competitors, an economic recession or the inability to adapt services to the needs of our customers, may have a material adverse effect on our financial condition.

Our contracts executed with OxyChem, ethane, ethylene and VCM suppliers may be insufficient to meet all our operational and commercial needs, which may affect our production costs due to increases in the price of our raw materials or lack of production capacity

The supply contracts we enter into with OxyChem, ethane and/or ethylene suppliers or other VCM suppliers may not be sufficient to meet all of our operational and commercial needs, which could have an impact on our production costs due to an increase in the price of raw materials or the services we require, or due to a lack of production capacity at our plants that prevents us from absorbing costs efficiently. Ethane is a raw material used to produce ethylene, which in turn is used in the production of VCM, the raw material necessary for the manufacture of PVC. Also, variations in PVC, caustic soda and/or ethane prices in the future could affect our operating results and hinder or delay the recovery of our investment in Ingleside.

Mexican authorities have initiated investigation procedures after the incident at the Pajaritos Petrochemical Complex and the findings are not conclusive.

On April 20, 2016, an explosion took place at the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located. While several investigations have been favorably concluded, as of the date of this report, one environmental investigation is ongoing. We cannot assure a favorable outcome from the investigation by the environmental authorities, or any other authority. Should we be held liable as a result of this incident, we may be required to pay penalties and fines, which could have an adverse material effect on our operating results and financial condition.

Insurance Companies of certain specific risks could assess the impact of the explosion in the PMV Clorados plant III and the findings could be inconclusive.

As of the date of this report, there are still items pending to be recovered by the insurers in relation to the incident at the Pajaritos Petrochemical Complex, mainly regarding the decision of the environmental authorities. In the event that at the end of the adjustment process the authorities determine that the insured damages resulting from the incident are less than we anticipated, we could decide to file a legal action against our insurers, however, we are not able to predict the final outcome. If we do not receive a favorable outcome at the end of the insurance adjustment process, or any subsequent legal proceedings, this could have an adverse effect on our operating results and financial condition. For more information, see "Legal and Commercial Proceedings – PVM Legal Proceedings following the explosion in April 2016".

Fluctuations in the prices of our key raw materials, including natural gas, electricity, sulfur, ethane, ethylene and others, as well as electric energy, may adversely affect our business and operating results.

In recent years, the prices of electricity, natural gas, sulfur, ethane and ethylene, among other raw materials and inputs, have experienced significant fluctuations in local and international markets. These fluctuations cause variations in our production costs, which in turn is reflected in the margins of the products we manufacture and distribute. In addition, prices of oil and oil products have been volatile, affecting the selling price of products such as ethylene, VCM and PVC, as well as their production costs, which, in some regions of the world, with the exception of North America and Asia, are produced directly from crude oil.

Although we generally transfer any price increase in raw materials to our customers, it is not always possible to do so, so future fluctuations in the prices of electric power, natural gas, ethane, ethylene and sulfur, among others, which we use in manufacturing processes and which have recently experienced significant volatility, could result in variations in the cost of the supplies we use to produce our products. This while variations in the price of oil could impact the prices of some of our products, as they've done in the past, and could negatively affect our operating results and financial condition.

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

Our ability to achieve our strategic objectives continues to depend, in large part, on the successful, timely and cost-effective acquisition of electric power and raw materials such as natural gas, ethane, ethylene, electricity, VCM, PVC and polyethylene (PE). Currently, we rely on a limited number of suppliers for the production and delivery of these inputs. We cannot ensure the stability of the gas supply, nor the availability of inputs at reasonable prices or that suppliers will continue to supply them. Therefore, in the event of any interruption, discontinuance or other disruption in the supply of raw materials or electric power, as well as a substantial increase in the costs thereof, could adversely affect our financial condition and operating results. Similarly, a decrease in the supply of certain raw materials, or in the number of raw material suppliers, may result in an increase in the prices paid for the supply of these raw materials, in which case, our operating results and financial condition could also be adversely affected.

Although the Company generally transfers any increase in the price of raw materials to our customers, we are not always able to do so, which could have an adverse effect on operating results.

Maintenance of increases and improvements related to our production capacity, as well as investments in acquisitions, generally require significant investments and we cannot assure that we will achieve the expected return on these investments.

We have recently made and plan to continue making significant capital investments related to production capacity, environmental protection and security and safety for workers and facilities, and efficiency and modernization of our plants. For example, during 2018, 2017 and 2016, the Company made investments in assets of $283 million, $289 million and $414 million, respectively. In addition, we have plans to expand and upgrade some of our existing facilities.

We have acquired or incorporated, and plan to continue to acquire or incorporate, companies or joint ventures to increase our production capacity.

The Company's total investments in 2018, 2017 and 2016, including investments in assets acquired amounted to $1,707 million, $289 million and $457 million, respectively. For more information on acquisitions see "*Select Financial Information. Establishment and acquisition of new businesses*".

We may not be able to obtain the expected return on our investments if unfavorable conditions arise in our product markets, including our decisions regarding the timing or manner in which such investments are executed. Based on future projections of market demand and other developments that may be inaccurate, we may not obtain sufficient resources to make certain necessary investments, which could have an adverse effect on our operating results, including expenses due to impairment of assets. Furthermore, we may not be able to meet our obligations under the financing we have taken out if we do not obtain the expected return on our investments. In addition, current projects may not be completed on time or in their entirely due to factors such as the inability to obtain financing, regulatory changes, lack of compliance or availability of contractors and subcontractors and logistical problems, in which case, this could have a material adverse effect on our operating results, including as a result of charges for the impairment of assets.

Our mining concessions may be subject to nullification, cancellation, suspension, expropriation or revocation of rights pursuant to applicable legal provisions and/or we may not be able to renew our existing concessions, which could have a material adverse effect on our operations and financial condition.

We hold the rights to several renewable mining concessions, mostly located in Mexico. In the Fluor Business Group, there are several mining concessions that will expire gradually from 2029 to 2061, which are renewable in accordance with Article 15 of the effective Mining Act. The Fluor Business Group will take the necessary steps, pursuant to the deadlines established by law, to ensure the renewal of the concessions that are due to expire soon. However, we cannot guarantee that such renewals will be granted. Additionally, and pursuant to Mexican legislation, the Fluor Business Group is obligated to verify the investments in exploration and exploitation of these concessions, which to date, have been carried out in a timely manner. PMV 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 to explore and exploit mineral reserves. Our mining rights derive from concessions granted by the Ministry of Economy, pursuant to the Mining Act (Ley Minera) regulated by Article 27 of the Mexican Constitution and its regulations.

Our mining operations are located mainly in Mexico and are subject to the regulations and supervision of the appropriate governmental agencies. Mexican law stipulates that the Federal Government has the right to declare the nullification, cancellation, suspension or annulment concessions granted, and such concessions may be subject to additional conditions under the circumstances set forth in article 42 of the Mining Act, or they may not be renewed upon expiration in the event that certain legal grounds are triggered.

Accordingly, the concessions we have in Mexico may be revoked without the right to compensation if the Company is unable to comply with the terms and conditions set forth in the concessions. In addition, the lots of land comprising the mining concessions in Mexico, as well as the related assets of our concessions, could be expropriated in the public interest, with a right to compensation, which could be limited to or less than the market value of the assets. In the event of a dispute regarding the amount of compensation, we may require the judicial authority to determine such amount. The compensation shall be covered by the State in Mexican pesos, even if payment in kind is agreed. Pursuant to the Expropriation Act, the government will pay compensation within a period of 45 working days beginning from the date of declaration of expropriation, either in pesos or through the payment of another asset. The Mining Act and its regulations do not estipulate that, if a competent court decides to cancel a concession, the State must pay compensation to the concession holder. If our concessions are expropriated and we are unable to ensure fair compensation, our operating results and financial condition could be adversely affected.

Likewise, Mexican legislation sets forth that mining concessions will last 50 years, beginning from the date of their registration in the Public Mining Registry and will be extended for the same amount of time if their owners did not incur on the grounds of cancellation set forth by law, and this is requested within the five years prior to the expiration of their term. Although we plan to apply for such renewals and will comply with all conditions necessary to obtain them, we cannot guarantee that the concessions will be renewed because renewal is subject to the government’s discretion. Our inability to renew any of our concessions could have a material adverse effect on our operations, operating results, financial condition and outlook. Under the terms and conditions of the concessions, we are required to comply with certain obligations under the Mining Act. Non-compliance would result in administrative sanctions imposed by the Ministry of Economy, or following the corresponding administrative action, the authority could decree the cancellation of the concessions. This may result in a material adverse effect on our operations, operating results, financial condition and outlook, and would hinder our ability to conduct our operations as we currently do.

Therefore, in the event of a possible expropriation of mining lots or assets used for the exploitation of mining concessions, or if the rights contained in concessions are declared null, cancelled, suspended or revoked, or if we are unable to renew the concessions, in which case it would not be possible to receive adequate or timely compensation, our operating results and financial condition may be adversely affected.

We are exposed to the risk of possible expropriation or nationalization of our assets in some of the countries in which we operate.

We are exposed to a potential risk of expropriation and nationalization of our total assets located in the different countries in which we operate. For example, approximately 0.2% of the value of our assets as of December 31, 2018 are in Venezuela.

As in the case of Venezuela, some of the countries in which we operate have been subject to volatile political conditions in the recent past and we cannot guarantee that local governments will not impose retroactive changes that could affect our business or eventually force us to renegotiate existing contracts with such governments. These events could materially affect our financial condition and operating results.

The volume of fluorspar reserves and our production rate may be different than expected.

The amount of fluorspar reserves in our mines are determined in accordance with established mining industry standards and practices, using geological and engineering data to measure the estimated amounts of fluorspar deposits that can be economically recovered and processed through its extraction.

We have prepared estimates of proven and probable reserves applying the usual methods of evaluation and assumptions generally used by the mining industry. Although we believe the findings of such studies to be reasonable, they are subject to several uncertainties beyond our control that could have a negative impact on future levels of fluorspar production. Fluorspar bodies may not conform to standard geological expectations, and estimates may change as new data becomes available. Because fluorspar bodies do not contain grades of purity and uniform types of minerals, our mineral extraction rates may vary at any time.

We cannot assure that estimates of our fluorspar reserve amounts will not differ substantially from the amounts of minerals that will be definitively recovered. In addition, fluctuations in market prices and changes in operating and capital costs may cause some of our fluorite reserves to be economically unviable for exploitation. Should this occur, we may be unable to obtain enough raw materials to meet our production targets and other commitments, which would have a material adverse effect on our business and operating results.

Netafim sales are highly dependent on the dynamism of the agriculture industry, including government support to this sector.

Our sales are cyclical and depend largely on the need for agriculture production of irrigated crops which, in turn, depends on many factors, including total global crop production, profitability of agriculture production (including return on investment for the end users of our products), agriculture product prices, income from farmers, financing availability for farmers, government subsidies for farmers, government policies and support for agriculture infrastructure, water supply and transport, regular rainfall and regional climate change. The state and trend of government support for farms, financial aid and policies regarding the ability to use water for agriculture irrigation, can affect the demand for our irrigation products and irrigation system solutions. As farm revenues decline, producers can postpone investments, including the purchase of our products, or look for less expensive irrigation alternatives.

In addition, uncertainty or changes in government subsidies, government policies and government support for agriculture may adversely affect our business, financial condition or operating results.

Our customer base depends to a degree on major customers and the loss of all or a portion of business with some major customers may adversely affect our operating results.

In 2018, our top 10 customers combined accounted for 12.1% of our total net sales. Our largest single customer accounted for 2.8% of our total net sales in the same year. Because our profitability depends on maintaining a high capacity utilization rate, the loss of all or a substantial portion of an important customer or end user's sales volume, could have a negative effect on our sales or operating results. In the event that any of our major customers face financial difficulties, this 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. In addition, a consolidation of our customers could reduce our net sales and profitability, particularly if one of our most important customers were to be acquired by a company related to any of our competitors.

Thus, any negative financial impact on some of our major customers could lead to a reduction in the production and sale of our products, affecting our operating results and financial condition.

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

As a result of the acquisition of new companies and our organic growth, between 2016 and 2018 our EBITDA has experienced a compound average annual growth rate of 16%. In addition, our operating income and cash flows have increased substantially, which provides flexibility to continue growing while maintaining our core strengths. This has resulted, and will continue to result, in a significant effort in our administrative, operational and financial infrastructure.

However, the integration of our new businesses and their operations is a complex and demanding process. Prior to each acquisition, the acquired companies operated independently, with their own business plans, corporate culture, locations, employees and systems. Any integration of another business with our own could involve significant difficulties, costs and delays, including: (1) distraction of the management from day-to-day operations; (2) a likely incompatibility of corporate cultures and (3) the inability to achieve planned synergies, in addition to costs and delays in implementing common systems and processes.

Similarly, we believe that additional growth will be required to expand the scope of our operations and the size of our customer base. Our success will depend in part on the ability of our key executives to effectively manage this growth.

To manage our business and grow effectively, we must continue to improve our operational, financial and administrative processes, controls, systems and procedures, as well as our reporting systems and procedures. In addition, hiring new staff will increase costs, which could make it difficult, in the short term, to offset such expenses against revenues. If we are unable to manage our growth effectively, 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 important acquisitions that, if not integrated satisfactorily with our company, could adversely affect our operating results.

We have recently made numerous important acquisitions and may consider making additional important acquisitions to continue our growth. For more information regarding these acquisitions, see "Discussion and Analysis of Financial Condition and Operating Results by Management - Growth Through Acquisitions and Joint Ventures”.

Acquisitions inherently involve risks, including the following:

- Acquired businesses may not achieve the expected results
- Changes in the economic context with a growth expectation within the markets where the acquired companies are present
- Failure to achieve expected savings as a result of synergies
- Increases in costs, inputs and energy
- 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
- Exercising minority rights in transactions that are not 100% acquired and
- Unforeseen economic competition and regulatory considerations

We face, and may face in the future, difficulties in the integration of operations and accounting systems of some of our acquired companies. If we are unable to successfully integrate or manage the acquired operations, we may not achieve the expected cost savings, increased revenues and levels of integration. This could result in lower profitability or losses on transactions arising from asset impairment tests. In addition, we expect to incur significant expenses associated with the integration of the accounts and systems of the acquired companies. Such costs and impacts may have a negative effect on our operating results and financial condition.

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

We may be exposed to risks or damages arising from civil liability to third parties resulting from the use of our products, as well as the resulting court case, regardless of whether such products are used in a manner contrary to instructions. We may also be exposed to damage related to the use of our products in medical grade applications as well as for the food and beverage industry.

We have purchased standard market insurance coverage for this type of risk. However, we cannot assure you that the safety measures taken to prevent product risks are sufficient or that our insurance coverage will be sufficient to cover all the risks we may incur, in which case our operating results or financial condition could be adversely affected.

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

We have carried out different analyses to determine the degree of vulnerability from possible effects of climate change on our operations.

The effects of climate change identified within the different areas where we operate or have a market share are: desertification and drought, rising sea levels, changes in rainfall patterns, decreased water availability, and deforestation and disease, all phenomena that could affect our operating results and financial condition. We may also be affected from the need to make investments in order to adapt our operations, the increase in the price of inputs and energy, the closure of affected operations and relocation of suppliers, protection measures as a result of natural phenomena (for example: construction of dikes at marine installations, flood or fire protection) and the relocation of facilities to sites with more favorable conditions and higher environmental regulatory requirements.

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

Extreme weather events can also have a serious impact on our logistics. Our production facilities could be isolated and be unable to receive or ship products by land or sea. Furthermore, the flow of materials could be interrupted in foreign locations that are strategic for the transport of goods (for example: closed ports in the U.S. due to hurricanes or inaccessible borders owing to floods in Europe). The Intergovernmental Panel on Climate Change (IPCC) estimates that extreme weather events will increase in number and intensity. As a result, our operating sites are exposed to hurricanes, cyclones, tropical storms or other climate change events, and if they are affected by such events, our operating results and financial condition could be affected. In addition, we may be subject to sanctions, third party actions and regulatory authority investigations if we are unable to comply with existing or future approved environmental legislation.

Natural disasters, production hazards 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 facilities. In addition, we are vulnerable 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 some of our contracts and consequently affect our operating results and financial condition.

Our operations are subject to hazards such as fires, explosions and other accidents related to the manufacturing, storage and transportation of chemicals. These hazards can include personal injury, loss of life, property damage and/or destruction of equipment and assets, as well as environmental damage. A material incident at one of our plants or storage facilities could result in the temporary suspension of operations and could result in significant compensatory costs and loss of net sales.

We have insured our plants against damages caused by accidents or other similar incidents, as well as indirect damage resulting therefrom, such as a business interruption. However, if losses are incurred as a result of these events, they may exceed the limits of the insurance policies, or if they do not exceed them, they may not be fully recovered. Damages that significantly exceed the limits of insurance policies, damages that cannot be recovered for any reason, even if they are within the limits of the insurance policies, or were not foreseeable or covered by them, could have a material adverse effect on our operations, operating results, financial condition and outlook. In addition, even if we receive payment for insurance policies as a result of a loss, facilities could suffer production interruptions while repairs are being completed, which could materially and adversely affect our operating results, financial condition and outlook.

A decrease in prices or agriculture activity caused by weather or other conditions, crop diseases and natural disasters could lead to a decrease in demand for our products and adversely affect our business, financial condition or operating results.

We need producers to have funds available to buy our products. Crop prices are a factor in boosting sales of our products. Several factors influence crop prices and profitability, including weather, financial markets and water, as well as other inputs. Weather conditions, especially before the planting season, can significantly affect the purchasing decisions of consumers of irrigation equipment, projects and services in the locations in which we operate. Natural disasters, such as regional floods, hurricanes or other storms, and droughts, along with crop diseases, can have significant effects on the demand for seasonal irrigation. Drought conditions, which generally positively affect the demand for long-term irrigation equipment, can adversely affect demand if water sources are not available, governments impose water restriction policies, or if farms reduce land for cultivation. Extreme weather conditions over an extended period or consecutive seasons, for example, due to climate change could reduce the availability of funds for farmers to purchase our technology and adversely affect our business, financial condition or operating results.

Dependence on, or loss of, key employees and personnel could have a material adverse effect on our operations

We rely heavily 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 conditions in leading global companies and their operations-related expertise. The loss of any of these individuals could have a material adverse effect on our operations, operating results, financial condition and outlook.

The loss of key executives of both the Issuer and companies acquired now or in the future as a result of acquisitions could affect our operations.

The integration of the Company's management and operations with different companies depends largely on the human capital of the different companies involved, who know the details of their management and operations, and have vast experience within the industry.

As a result, the projected results of the acquisitions will depend to some extent on the efforts and integration of the companies' operations with those of the Issuer, and the loss of the services of any key executive of any of these companies in the future, for any reason, could affect our operations and results.

Our operations could be disrupted or affected as a result of the key management team's duty to perform military service.

Some of the employees in the countries in which we operate are required to report for military service, depending on age and rank within the armed forces. In addition, they may be called to the active reserve service at any time, in emergency circumstances for extended periods of time. For example, Netafim's operations could be interrupted by the absence, for a significant period, of one or more of its employees as a result of military service. Thus, any duty of our management team or key personnel to perform military service or to report for active reserve service at any time, could cause disruption in the operation of our business and adversely affect our operating results or financial condition.

Labor disputes could affect our operating results.

At the end of the 2018 fiscal year, approximately 58% of our employees were subject to collective bargaining agreements with labor unions. Over the past three years, we have had no major labor disputes at our plants and have been able to maintain a good relationship with the unions. However, we cannot guarantee that there will be no temporary suspension, nor that a strike will not take place, before, during the term of, or upon expiration of collective bargaining agreements as a result of political or economic conditions, or for any other reason. In addition, we are unable to estimate the adverse effects that, if any, such temporary suspensions or strikes would have on our sales, operating results or financial condition. Any temporary suspension, strike or other labor event could have a material adverse effect on our activities, operating results or financial condition.

We are a holding company and do not have significant assets other than the shares in our subsidiaries; as a result, we may not be able to meet our obligations.

We are a holding company with no independent operations nor substantial assets other than the equity of our operating companies. We are therefore dependent on the operating results of our subsidiaries. Our ability to meet our debt and other obligations depends on the generation of cash flow from our subsidiaries and their ability to make such cash available in the form of interest payments, debt payments, as dividends or otherwise. Each of our subsidiaries is a separate legal entity and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. In addition, under Mexican law, our Mexican subsidiaries may only pay dividends from retained earnings after a legal reserve has been created and all losses from prior tax years have been absorbed. In addition, the distribution of dividends may be taxable unless they are made from a profit and loss account that has already been subject to tax. If we do not receive distributions from our subsidiaries, we may be unable to make the required principal and interest payments on our debt or to pay other obligations. Any adverse change in the financial condition or operating results of our subsidiaries could affect our financial condition.

Inability to raise enough capital to finance acquisitions or expansions could delay or impede the implementation of our business strategy.

We expect that the expansion and continued development of our operations will require significant amounts of capital to finance investments and operating expenses, including working capital requirements, which may not be obtained in full or at least not on acceptable terms.

In addition, our operations may not generate enough cash flow to meet our cash needs as capital requirements may vary significantly from those planned. In such cases, additional funding may be required ahead of schedule, or some of the new development and expansion plans may be delayed, or we may miss market opportunities. Future lending instruments, such as credit lines, may contain restrictive clauses and may require us to pledge assets to secure payments on such credit lines. The inability to obtain additional capital and/or to obtain it on satisfactory terms may delay or prevent our expansion and adversely affect our operating results, cash flow and financial condition.

We are subject to certain restrictive negative and affirmative covenants as a result of the credit agreements we have executed, which could limit our future business activities.

On December 31, 2018, we had financial debt of $3,604 million ($3,571 million corresponding to contractual obligations contained in debt contracts and $33 million in leases) plus $0.3 million corresponding to letters of credit with maturities of more than 180 days pursuant to a series of lines of credit and securities issues in local and international markets. Under the agreements governing our long-term credit facilities, we are required to comply with certain obligations that limit our financial operations and decisions. These obligations may affect our ability to obtain additional financing, finance our expansion or refinance existing debt. Compliance with our obligations under the credit agreements could limit our ability to undertake future acquisitions including future financing or refinancing of our debts, which could have a negative impact on our operations, operating results and financial condition.

Our ability to sell additional shares in order to raise capital for the expansion of our business will depend, in part, on the market price of our shares, and failure to meet market expectations with respect to our business could have a negative effect on the market price of our shares and limit our ability to sell them.

Our ability to self-finance through capital depends, in part, on the market price of our shares, which in turn depends on multiple market conditions and other factors that could change at any time, including:

- Interest from investors;
- Our financial development;
- Analyst reports regarding us and the economic, political and social environment in Mexico, or the countries where we operate;
- General conditions in the capital and debt markets, which depend largely on the cash flows of our operations, which in turn depend on increased revenues as a result of events, acquisitions or rents;
- Other factors such as changes in government regulations or fiscal laws;
- Judicial or administrative proceedings in any jurisdiction in which we operate that could have an adverse effect on our financial condition or results; and

The inability to self-finance through capital, due to any of the above circumstances or any other circumstance, may affect our future and projects and may also have a negative impact on our operating results or financial condition. Furthermore, failure to meet market expectations in terms of our future earnings and cash distributions could adversely affect the market value of our shares and, as a result, our ability to self-finance through capital. Thus, should we be unable to obtain the necessary capital, our operating results could be adversely affected.

Mexichem has opted to hedge a portion of the risk associated with fluctuations in interest rates and/or foreign exchange rates using swaps.

We are exposed to interest rate risk (because we have debt at a variable interest rate) as well as foreign exchange risk (because we have debt and investments in currencies other than the dollar). Our exposure to interest rates is primarily concentrated in the Interbank Equilibrium Interest Rate (TIIE) and LIBOR, which are used for financial liabilities when exchange rate exposure is primarily due to debt and investments in currencies other than the U.S. dollar. A stress test is conducted to determine our exposure to fluctuations in interest rates, based on total financial debt linked to floating rates that are not hedged, and exchange rates, based on the amounts of principal debt and investments in assets made in currencies other than the U.S. dollar, resulting in quarterly reports on exposure to interest rate and exchange rate risks that are submitted to our Board of Directors and the corporate governance bodies delegated by the latter. Corporate Finance and Corporate Treasury monitor and manage financial risks related to different operations through internal risk reports, through which risk exposure is analyzed by degree and magnitude. These risks include market risks (currency, exchange rate, interest rate and market value risks), credit risk, liquidity risk and cash flow interest rates.

Hedging operations are regularly evaluated to ensure that they are aligned with interest rates and related risks thereby guaranteeing the most effective hedging strategy is in place. If the TIIE and LIBOR interest rates increased 100 basis points in each reporting period and all other variables remained constant, pre-tax earnings for the 2018, 2017 and 2016 fiscal years would have decreased by $4 million, $1 million and $2 million, respectively. This is mainly due to the Company's exposure to Libor and TIIE interest rates on long-term loans.

Mexichem performs sensitivity analysis for a 10% increase or decrease in U.S. dollars against relevant foreign currencies. The sensitivity analysis only includes monetary items listed in currencies other than the functional and reporting currencies and adjusts their conversion at the end of the period by a fluctuation of 10%. Thus, by weakening the foreign currency (other than the dollar) by 10% against the main currencies, the greatest effect in terms of results in 2018 would have been in Mexican pesos with $17.9 million, and in 2017 and 2016 in Brazilian reals with $6.7 million and $4.6 million, respectively.

The Company cannot assure that the stress tests and hedges it performs are enough to cover possible contingencies derived from the stress scenarios considered, or from significant fluctuations in interest rates and exchange rates, which would adversely affect its financial condition and operating results.

In addition, transactions with financial derivatives involve certain risks other than currency and interest rate risks, such as counterparty risk (default risk), risks posed by unusual moments in underlying or benchmark assets, and risks arising from the need to increase the collateral provided, among others. If any such risks arise, we may suffer a material adverse effect to our results and financial condition.

Market practices and documentation of derivative financial instruments in Mexico may differ from those in other countries. The execution and enforcement of these types of operations depends on our ability to develop adequate management and control systems and to hire and retain qualified personnel. These factors could further increase the risks associated with such operations and, as a result, could have a material adverse effect on our operating results and financial condition.

The adoption of new accounting pronouncements, as well as changes in the existing pronouncements, could have a material adverse effect on our operating results and financial condition.

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

We regularly monitor possible accounting changes, interpretations and the issuance of new standards, and when these are concluded by the IASB, we determine the possible impact and disclose significant future changes in our financial statements. A number of new accounting standards, applicable to annual periods subsequent to January 1, 2016, have been issued by the International Accounting Standards Board ("IASB") and have not been fully applied to the preparation of our Financial Statements. For further information, see the "Discussion and Analysis of Financial Condition and Operating Results by Management - Recently Issued Accounting Standard Pronouncements" section of this Annual Report.

As a result of the foregoing, our consolidated financial statements may not be comparable against prior periods if we do not adopt a retrospective method of presentation that takes these new standards into consideration. We are currently evaluating the effect that the adoption of these accounting standards may have on our operations and cannot guarantee that the initial application of these new accounting standards will not have a material adverse effect on our operating results and financial condition. For more information, see Note 3 of our audited consolidated financial statements included in the Financial Statements attached to this Annual Report.

We may not be able to protect our intellectual property rights

We may not be able to prevent third parties from using our patents and trademarks without our authorization or from otherwise infringing on our intellectual property rights. The intellectual property laws of the various jurisdictions in which we operate and the enforcement of such laws by the authorities in such jurisdictions may not be efficient, which may affect our ability to protect our rights over our intellectual property. We cannot guarantee that we will be successful if we try to enforce our intellectual property rights. Because we believe that our patents and trademarks are one of our competitive advantages, if we are unable to enforce these intellectual property rights, our business could be adversely and substantially affected. In addition, any legal proceedings to enforce our intellectual property rights could be costly and could adversely affect our operating results.

We employ and develop technologies that may infringe on certain third-party intellectual property rights.

We cannot guarantee that our processes and products do not infringe, or will not infringe in the future, on the intellectual property rights of third parties, or that such third parties will not sue or take legal action in this regard in the future. We cannot guarantee that third parties will not take any legal action for possible infringement on their intellectual property rights by the Company, or that such third parties will not win these legal actions.

Any legal action or proceeding by third parties could:

- Be time consuming;
- Result in a lawsuit or arbitration proceeding, distraction of the attention of the technical and administrative personal of our main business, as well as the diversion of financial resources from our operating businesses in order to use them to protect the Company against such actions;
- Require the development of products and services that do not infringe on third party intellectual property rights, or that adapt to royalty schemes or licensing contracts; and
- Require suspending the use of any product or process that infringes third-party the rights.

As a result, if any or all these events were to occur, our operating results and financial condition could be adversely affected.

A Higher monetary compensation to employees may be required to be paid as result of their invention services.

In some of the countries in which we operate, inventions conceived by any employee during his or her employment by a company will be considered an "invention service" and will belong to the employer, such as, for example, the Israeli Patent Law 5727-1967. Thus, employees who develop an "invention service" may be entitled to receive royalties derived from the profits generated by the employer as a result of the commercialization of said "invention service", unless such employee waives his or her right to receive royalties. Although the Company's employees generally agree to waive such claims, we may face claims for royalties or other compensation relating to "invention service" from employees who do not waive their right. As a result of such claims, we would be required to pay royalties or additional compensation to employees, or be forced to litigate such claims, which could adversely affect our business and operating results.

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 operate in more than 40 countries around the world and distribute in more than 100 nations. In some of these countries we have are the plaintiff or defendant in multiple judicial or administrative proceedings regarding our routine operations. We are fully committed to complying with applicable laws and regulations in the jurisdictions in which we operate.

Although the company has policies and procedures outlining how the Issuer and its employees and agents should act in order to ensure compliance with the standards and laws in force in the jurisdictions in which we operate, these and other procedures may be initiated in such jurisdictions and the Company may be the defendant or plaintiff in such cases, therefore we cannot guarantee that the Company will not be part of or involved in such proceedings or that the outcome of such proceedings will be in Mexichem's interests. If such proceedings are initiated and/or the outcome thereof is not in the Company's interests, and the Company is unable to protect its interests, the Issuer's operations, operating results or financial condition may be adversely affected.

The costs of non-complained with environmental protection, health and safety laws, as well as any contingencies arising in relation to such laws, may increase, adversely affecting our operations, operating results, cash flows or financial condition.

We produce, distribute and transport hazardous materials as part of our operations, which involves risks of leaks and spills that could potentially affect both people and the environment. We also produce, distribute and sell products that are dangerous or have certain levels of global warming potential that may be restricted in the future. As a result, we are subject to various laws and regulations relating to environmental protection, health and safety, among other factors, that govern the generation, storage, handling, use, repair, disposal, transport, emission and discharge of hazardous materials on land, in the air or in water, as well as the health and safety of our employees. In addition, chemical producers are sometimes subject to unfavorable trade perceptions as a result of the environmental impact of their businesses, which could have an adverse effect on our operating results, cash flow and financial condition.

Given our products, we are required to obtain permits from government authorities for certain operations. We cannot guarantee that we have or will always fully comply with such laws, regulations and permits. If we violate or break these laws, regulations or permits, regulators may fine or otherwise sanction us. We could also be responsible for any consequences arising from human exposure to hazardous substances or other environmental damage.

Environmental protection laws are complex, change frequently, and tend to become stricter over time. Although we have budgeted for the capital requirements and operating expenses necessary to continue to comply with environmental, health and safety laws, we cannot guarantee that the latter will not change or become stricter in the future, or that regulations applied in certain countries or regions will also be applied and/or adjusted in other countries or regions due to the adoption of international treaties. Subsequent changes in or additions to existing laws or regulations, or the enforcement or application of such laws or regulations, could cause us to incur significant unforeseen capital expenditures, which could affect our future profitability or financial condition. Therefore, we cannot guarantee that the expense of complying with, or the expenses arising from, stricter or different interpretations of applicable and future safety, health and environmental laws, as well as our responsibilities arising from past or future releases of, or exposure to, hazardous substances, will not adversely affect our business, operating results, cash flow or financial condition. See "Environmental Issues - Commercial".

In the event that the Company does not comply with legal provisions regarding the prevention of corruption, bribery and money laundering, we could be subject to significant fines and our reputation and operations could be adversely affected.

The Company operates in several countries and is subject to complex regulatory frameworks, enforcement of which is becoming increasingly stricter. The Issuer's corporate governance practices and the processes it uses to ensure compliance with the legal provisions to which it is subject may be insufficient to prevent violations of applicable laws, regulations and accounting or corporate governance standards. The company may be affected by violations of its code of ethics, its anti-corruption policies and its business conduct protocols, as well as instances of fraudulent conduct and corrupt or dishonest practices by its employees, contractors or other representatives. Failure to comply with applicable laws and regulatory measures could damage the Company's reputation, lead us to incur significant fines or penalties and adversely affect our operations, our ability to use the financial markets and, therefore, our financial condition.

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

Recently there has been a significant increase in the use of social networking platforms and similar media, including blogs, social networking sites and other forms of communication via the internet, which allow individual access to a wide audience and interested persons. Inappropriate and/or unauthorized use of certain social media platforms may result in trademark damage or leakage of information that could have legal implications, including the improper dissemination and/or disclosure of personal data. In addition, negative or inaccurate comments or information involving the company sent through social networks could damage our reputation, brand image and goodwill.

Consumers value readily available information about retailers, manufacturers and their assets and services, and often act on that information without further research, verification or considering its veracity. Easy access to information on social networking platforms and mobile devices is virtually immediate, as is its impact. Social networking platforms and mobile devices immediately publish the content that their subscribers and participants input, often without filtering or reviewing the veracity of their content.

The opportunity for the dissemination, including false or inaccurate information, are virtually unlimited. Information that concerns us, or that could seriously affect us, may be transmitted through such platforms and devices at any time. This information could be inaccurate and harmful to us and could damage our business. This damage could be immediate, and we may not have the opportunity to alter it or even correct it. These platforms may also be used to disclose trade secrets or put other valuable assets at risk, and in both cases, damage or affect our business, operating results and financial condition.

Changes in information technology could adversely affect our operations.

Our business growth should go hand in hand with the constant evolution and progress of information technologies (IT), as well as the multiple hardware and software upgrades released. If our information systems are unstable or obsolete, this could affect our business by reducing the flexibility of our customer value propositions or increasing operational complexity. Any such consequences could have a material adverse effect on our business and operating results.

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

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

Security breaches in 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 networks and operating systems, or expose us to significant legal, financial, operational and even reputational consequences.

The development of our business requires the use and storage of personally identifiable information (PII) from customers, employees and business partners. This information may include, but is not limited to, data, names, addresses, telephone numbers, e-mail addresses, contact preferences, tax identification numbers, and account payment information. Due to our profile and the amount of PII we handle in our business, and the amount of strategic industrial and technological information stored in our different internal systems, we are vulnerable to cyberattacks and database infiltration.

We require usernames and passwords in order to access our IT systems. We also use authentication and encryption technology designed to secure the transmission and storage of data and to restrict access to our data or accounts. These security measures are exposed to third party failures or human errors, alterations, incorrect password control or other irregularities. For example, outsiders may attempt to fraudulently persuade employees or customers to disclose usernames, passwords or other sensitive information that could be used to gain access to our IT systems, directly affect our Treasury Department, and extract sensitive or confidential information for illegal transactions or extract information that could expose the company to the risk of claims of violation of current General Data Protection Regulations (GDPR). Emails with executable attachments containing malicious software that, due to their complexity, are difficult to block and modify the delivery pattern, could lead to database infiltration.

We spend a significant amount of resources on network security, data encryption and other security measures to protect our systems and data, but these security measures cannot provide absolute protection. If we are victims of infiltration of our internal systems and are unable to protect sensitive or strategic data, such infiltration could cause a material adverse change in our business, operating results and our relationships with business partners and customers, as well as have an adverse effect on the Company's operating results and financial condition.

Cyberattacks or other disruptions to our network or information systems could have an adverse effect on our business.

Cyberattacks and disruptions to networks and systems, including the introduction of computer viruses, malicious code, denial of service, faulty software and other disruptions or unauthorized access to company systems, have increased in frequency, range and impact in recent years. The preventive actions we take to reduce the risk of cyber incidents and protect our network and information may not be enough to stop a massive cyberattack in the future. The costs associated with a potential massive cyberattack on our systems include increased expenses associated with strengthening cyber security measures and decreased losses associated with disruption of our services, lawsuits, and damage to our reputation.

Cyberattacks or other disruptions to our security network or information systems could cause equipment failure or disrupt our operations. Such failures, even when they occur over a short period of time, could cause significant losses or declines in the market price of our shares. In addition, potential losses from cyberattack events and disruptions to our network could exceed our insurance coverage. Furthermore, cyberattacks may lead to the distribution, without our consent, of valuable financial information and confidential data of our customers and business, resulting in failures to protect the privacy of our customers and business, which could have adverse effects on our operating results, reputation or financial condition.

b) Risk Factors Relating to Mexico and other Countries in which the Company has its Main Operations.

The Company's financial condition and operating results are exposed to general economic conditions in the countries in which we operate. Mexichem has a presence in various markets such as construction, refrigerants, agriculture/irrigation, industry, automotive, consumer, telecommunications (voice and data), energy, and urban and rural infrastructure, among others. The Company actively contributes to the development of Mexico and the countries in which it has an industrial and commercial presence through its subsidiaries, by focusing on each of its strategic sectors and channeling its products to intermediate or end consumers. As a result, Mexichem has manufacturing and marketing assets and operations in several countries in the Americas, including Mexico, Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, the United States, Guatemala, Honduras, Nicaragua, Panama, Peru, and Venezuela. In addition, the Company has operations in Europe, Africa and Asia as a result of the acquisitions of AlphaGary (now Mexichem Specialty Compounds), Fluent Europe (Wavin), Vestolit, Fluent US/Canada and Fluent AMEA (formerly Dura-Line) and Netafim. In view of the foregoing, Mexichem has 137 production plants in 41 countries with a commercial presence in more than 100 countries. Consequently, Mexichem's activities, financial condition, and operating results are largely subject to the overall situation of the economies of the countries in which it operates and the purchasing power of their populations.

Changes in governmental policies in Mexico and in other major countries in which the Issuer operates could adversely affect the Company's operations, operating results, financial condition and outlook.

Mexico’s Federal Government, as well as the governments of other major countries where the Issuer operates, including the U.S., Brazil, Germany, the UK, Colombia, Israel, India and others, have exerted and continue to exert significant influence over the economies of their respective countries, or the political community in which they operate. Of net sales to third parties by destination in 2018, classified by geographical area, the Company generated 37% in Europe, with 7% and 5% generated in Germany and the UK respectively, 30% in North America, with 17% generated in the U.S. and 10% in Mexico, 20% in

South America, with 6% generated in Brazil and 5% generated in Colombia, and 13% in other countries, with India generating 4%.

Accordingly, the actions and policies of the governments of the countries in which the Company operates, relative to the economy as a whole and the sectors in which we operate, could have a material impact on the Company, and more generally on the market conditions, prices and returns of the Company's securities currently traded on the local and international markets. For example, during 2014, the Venezuelan government made several modifications to its exchange rate regulation that took the official exchange rate for the conversion of the Venezuelan currency from 6.30 bolivars to the dollar to the rate awarded in the last of the auctions that the Venezuelan government carries out from time to time under the SICAD mechanism. This affected the valuation of Mexichem's assets, liabilities, and income statement by taking the exchange rate from 6.30 bolivars per dollar to 12 bolivars per dollar, affecting the Company's operating results and financial condition in 2014. As of the second quarter of 2015, due to changes in Venezuela's exchange rate regime, Mexichem used the most conservative exchange rate available to convert operating results in its reporting currency to 198.69 bolivars per dollar, while in 2016 and 2017 an exchange rate of 673.76 and 3,345.00, respectively, was used. And in 2018 an exchange rate of 223,090,269 bolivars per dollar was used. In 2018, Mexichem's Venezuelan operations represented less than 0.1% of total sales and EBITDA.

We cannot assure that changes in the policies of the governments of the countries in which the Company operates will not adversely affect our operations, operating results, financial condition and outlook.

The economic, political and social conditions in Mexico, the U.S., Germany, the UK, Colombia, Brazil and India may adversely affect the Company's operations.

The Company's financial performance may be significantly affected by the economic, political and social conditions in the markets in which it operates. In the past, many countries in Latin America, including Mexico, Brazil and Colombia, Asia, including India, and now the UK, have suffered major economic, political and social crises. The Company cannot predict whether changes in government will result in reforms of government policies and, if so, whether such reforms will affect our operations. In particular, the Company's operations may be affected by conditions in Mexico, the U.S., Germany, the UK, Colombia, Brazil and India, its largest markets. For example, in July 2018, presidential elections were held in Mexico and there was a change of leadership and the political party in power has led to changes in the country's economic, political and social situation, which is beyond the Company's control.

The Company is subject to exchange rate controls in some of the countries in which it operates.

The Company is currently subject to exchange rate controls in some of the countries in which it operates, such as Venezuela, Brazil, Argentina, India, South Africa and China, among others. These controls restrict access to foreign currencies and limit the possibility of transferring funds outside such countries, including funds for interests or principal payments on outstanding debt. In addition, these controls affect our capacity to receive dividends and other distributions from subsidiaries in these countries. For example, Pavco de Venezuela, one of the Company's subsidiaries, has encountered difficulties in obtaining the foreign currency required to conduct commercial transactions in its day-to-day operations. Additionally, 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 several modifications to its exchange rate regime. As of the fourth quarter of 2014, Mexichem opted for the Alternative Foreign Exchange System (SICAD) to convert its operating results, meaning the exchange rate used was 12 bolivars per dollar, according to the auction held on September 25, 2014. However, as of the second quarter of 2015, the Company adopted the SICAD II exchange rate regime, in which it opted to convert the results at an exchange rate of 198.69 bolivars per dollar. In 2016, the exchange rate used was 673.76 bolivars per dollar and in 2017, 3,345.00 bolivars per dollar, while in 2018, an exchange rate of 223,090,269 bolivars per dollar was used. For the year ending December 31, 2018, the Company's net sales in Venezuela represented less than 0.1% of Mexichem's total consolidated sales, thus significantly reducing the Company's total contribution.

If the Company is prohibited from transferring funds outside of the countries or is subject to similar restrictions in other countries in which it operates, Mexichem's operating results and financial condition could be adversely affected.

Political, geopolitical and economic events around the world, and particularly in the countries in which the Company operates or to which it sells its products and/or services, could adversely affect the Company's business plans, financial condition and operating results.

According to the International Monetary Fund (IMF) in an April 2019 publication called *"*World Economic Outlook*",* the global economy will grow at rates of 3.3% in 2019 and 3.6% in 2020. The world will thus experience lower growth rates than those of 3.6% recorded in 2018. This outlook reflects the expectation that global financial conditions are less favorable than in 2018 and the tensions generated as a result of the U.S. China trade war, as well as the weakening of financial markets and a deeper-than-expected contraction in Turkey, could result in a negative outlook for the global economy. Advanced economies are expected to present a growth of 1.8% in 2019, led by the U.S. which could record an economic expansion of 2.3%. The growth projections for the economies of Germany, 0.8%, the UK, 1.2%, Japan, 1.0% and Spain, 2.1%, have also been negatively revised. China is expected to report an economic expansion of 6.3% in 2019, while India will grow 7.3% in that year. For Latin America, the recovery is expected to strengthen, and growth will be 1.4% in 2019 and 2.4% in 2020. The revisions are due to lower growth prospects in Mexico in 2019-20, due to a decrease in private investment, and an even more severe contraction than that is expected in Venezuela. These decreases are only partially offset by an upward revision of the 2019 forecast for Brazil, where the gradual recovery from the 2015-16 recession is expected to continue, while Argentina's economy is expected to contract in 2019 as more restrictive policies aimed at reducing imbalances curb domestic demand, with a return to growth expected in 2020. For Mexico, the International Monetary Fund anticipates growth of 1.6% in 2019 and 1.9% by 2020. The survey on Expectations of Specialists in Private Sector published by the Banco de México indicates in its March 2019 edition that the average of 37 forecasters anticipate a growth of 1.5% in GDP by 2019 and 1.9% by 2020. Inflation expectations for 2019 and 2020 were 3.6% in both years.

Overall, the risks to the global outlook stem mainly from the outcome of trade negotiations and the direction of financial conditions in the coming months. If countries resolve their differences without raising more distorting trade barriers and if market attitudes recover, greater confidence and more favorable financial conditions could reinforce each other and raise growth above the baseline forecast. However, the risk balance remains tilted downward, including in the October WEO report. In addition to the possibility of an upsurge in trade tensions and a more general shift in the attitude of financial markets, other factors exacerbating the downward risk to global investment and growth are uncertainty about the political agenda of new governments, and geopolitical tensions in the Middle East and East Asia. Other risks of a somewhat slower nature are the far-reaching effects of climate change and the continuing deterioration of confidence in traditional political parties and institutions.

Therefore, given Mexichem's balance and geographical presence in more than 100 countries, any political, geopolitical, and economic event in the world, and especially in the countries in which the Company operates or to which it sells its products and/or services, could adversely affect the Company's business plans, financial condition, and operating results.

For example, in Latin America, the Company produces PVC resins using raw materials that are not oil derivatives, with the exception of natural gas and electric power; however, in the markets in which Mexichem makes most of its sales, local producers produce PVC using oil derivatives, meaning that the price of PVC has experienced a significant decline in previous years.

Thus, given that the Company produces products using raw materials, that in previous years have not undergone a price reduction at the same rate as the reduction in oil prices, and sells in markets where the price of the end product has reduced at the same rate, operating margins have been affected as has the financial condition of the Issuer. Thus, any political, geopolitical or economic condition, as well as any event that affects the raw materials used in place of those used by the Company that result in changes in the market prices of the Company’s end products, could affect our operating margins and financial condition.

Mexichem may feel an impact from the 2016 presidential elections in the United States.

The 2016 U.S. presidential election and the change in U.S. administration have impacted the global and the Mexican economy. The policies of the current U.S. government toward Mexico have created instability, uncertainty, and could adversely affect the Mexican economy. The global economic slowdown, in addition to the considerable decline since 2014 and in subsequent years in oil prices, has had, and may continue to have, a negative impact on the Mexican economy, as well as on our business, financial condition and operating results.

Events in Mexico or other countries could adversely affect the Mexican and other Latin American economies, the market value of the securities in which Mexichem trades, and its operating results.

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

Furthermore, in recent years, there has been a greater correlation between economic conditions in Mexico and economic conditions in the U.S. and the European Union as a result of the free trade agreements signed by Mexico with the aforementioned regions, which have contributed to increasing economic activity among these countries and regions, akin to what happened during the recent economic crisis that affected both the U.S. and Europe. The Mexican economy continues to be strongly influenced by the U.S. and European economies and, therefore, the termination of free trade agreements or other related developments, further deterioration in economic conditions or delays in the recovery of the U.S. or European economy could affect recovery in Mexico and Latin America. These events could have a material adverse effect on the Company's operating results and revenues, which could affect the Company's liquidity, financial condition and/or the market price of the securities issued by the Company.

Inflation and government measures to restrict inflation and/or reactivate economies may adversely affect the economies of the countries in which the Company operates, as well as the Company's business, its operations and the market prices of its securities.

In the past, Mexico and certain countries in which the Company operates (including Argentina, Brazil, Colombia and Venezuela) have experienced high rates of inflation. Although many of these countries have maintained low inflation rates in the recent past, except for Argentina, there is no guarantee that this trend will continue. Measures taken by the governments of these countries to control inflation have often included maintaining a restrictive monetary policy with high interest rates, which has restricted the availability of credit and reduced economic growth. Inflation, actions to combat it and public speculation of possible additional measures have contributed significantly to a lack of economic certainty in many of these countries, and increased volatility in stock markets.

These countries could experience high levels of inflation in the future. Periods of high inflation could reduce the growth rate of their economies, which could result in a reduction in demand for the Company's products and a reduction in sales. Inflation may increase some of Mexichem's expenses and costs, which it may not be able to pass on to its customers and, as a result, may reduce its margins and net income. In addition, high inflation generally leads to local increases in interest rates and, as a result, the costs of repaying debt contracted at variable rates may increase, resulting in a decrease in net income. Consequently, inflation and its effects on local interest rates may lead to reduced liquidity in the local capital and loan market, which could affect the Issuer’s ability to refinance its debt in such markets. Any reduction in sales or net income, and any deterioration in Mexichem's financial performance, could affect the Company's liquidity and financial condition.

The Company recognizes the effects of inflation in hyperinflationary economies, i.e., where cumulative inflation compounded over the last three years is greater than 100%. In 2018, 2017, and 2016, Mexichem recognized the effects of inflation on its operations in Venezuela and Argentina.

Foreign exchange fluctuations of the currencies of the countries in which the Company operates, compared to the U.S. dollar, and a significant fluctuation in variable interest rates could adversely affect the Company.

In the past, fluctuations in exchange rates in currencies other than the U.S. dollar against the U.S. dollar have affected operating results and could continue to result in decreases in sales and net earnings reported by the Company.

Until January 1, 2013, Mexichem considered that the functional currency applicable to certain subsidiaries was the local currency. In 2013, the Company began a functional currency review process and determined that, in accordance with current operating conditions, including new operations and plant capacity expansion, the functional currency should be modified to the U.S. dollar. Furthermore, the functional currency of most of Netafim's operations is the corresponding local currency; however, the currency used by Netafim for information purposes is the dollar. Therefore, the Company is required to convert assets, liabilities, expenses and revenues from its operations in local currency to the U.S. dollar at the corresponding exchange rates. Thus, Mexichem is exposed to exchange risk in relation to the U.S.

dollar in subsidiaries through transactions whose recording and functional currency is different from the U.S. dollar. The currencies to which the Company is exposed are the Mexican peso, the Brazilian real, the Colombian peso, the euro, the British pound sterling, the Czech crown, the South African rand, the Turkish lira, the Indian rupee and the Polish zloty, among others.

Approximately 92% of the Company's outstanding loans and almost all of its capital expenditures are expressed in U.S. dollars, although the Company has hedges that mean that 70% of its outstanding loans are in U.S. dollars, 28% are in Euros and approximately 2% are in Mexican pesos and other currencies (Turkish lira, rupees, etc.). Of the Company's total revenues, approximately 36% are expressed in local currencies that differ from the U.S. dollar and 64% are expressed either in U.S. dollars or euros. Loans in dollars and other currencies (mainly euros) generate interest based on fixed and variable interest rates. The Company's fixed interest rate U.S. dollar and other currency loans represent 82.3% of Mexichem's total loans and 87.9% of the loans in that currency.

6.4% of Mexichem's loans are denominated in currencies other than the U.S. dollar, of which 66.2% (4.2% of total loans) bear interest at a fixed rate, while 33.8% (2.1% of total loans) bear interest at a variable rate (related to the TIIE). Any devaluation of the U.S. dollar against the various currencies of the countries in which the Company operates and whose functional currency differs from the U.S. dollar, or any increase in interest rates in countries in which the Company has floating rate loans, would have an adverse impact on Mexichem's net income, operating results and financial condition.

Antitrust laws in Mexico and other countries in which Mexichem operates may limit our ability to expand our operations.

In Mexico and in the countries where Mexichem operates, antitrust laws and related regulations could adversely affect our ability to acquire, sell, and execute joint ventures. The approval of the Federal Economic Competition Commission, and of the authorities of each country on this matter, is required for acquisitions, sales or significant joint ventures to be carried out. Failure to obtain antitrust authority approvals could result in fines, mandatory divestiture of assets, termination of key acquisition contracts, or the inability to continue business acquisitions or conclude those already agreed upon. The Company continues to expand its operations and may face stricter audits by the competent competition authorities in the various countries in which we operate or in the countries which we intend to enter.

Mexichem currently has a dominant condition in most of the markets in which we operate in both Latin America and Europe, according to data published by IHS Markit WVA, IHS Markit Chlor-alkali Market Report, Eurostat Economist Intelligence Unit, and market studies conducted by Mexichem. Therefore, as our operations and market condition increase, the effect that antitrust regulations may have on future acquisitions increases, which could have a material adverse effect on the Company's financial and operating results.

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

The Company is subject to various federal, state and municipal laws and regulations in the countries in which it operates, including those related to mining, manufacturing, use and handling of hazardous materials, environmental protection, workplace safety and consumer protection. Concessions, permits, licenses and authorizations from various government authorities must be obtained, conserved and renewed on a regular basis in order to carry out our projects. At all times, we seek to comply with these laws and regulations. Failure to comply with the foregoing would result in fines, plant closures, cancellation of licenses, revocation of authorizations or concessions or other restrictions on our ability to operate, which could have an adverse impact on our financial condition.

Regulations governing the chemical industry have become more restrictive over time. There can be no guarantee that new and stricter standards will be adopted or become applicable, or that more exact interpretations of existing laws and regulations will not take place. Any such event may require incurring additional expenses to meet these new requirements in so far as possible, which would increase the cost of operation.

The Mexican Congress and the authorities of the countries in which Mexichem has a presence may approve legislation that results in increases in tax obligations.

In recent years, the Mexican government and some of the governments of the countries in which the Company operates have implemented various reforms to the tax laws applicable to companies, including

Mexichem. If the Mexican government or any of the governments of the countries in which Mexichem operates carry out tax law reforms that result in significant increases in tax obligations, Mexichem may be required to pay higher amounts pursuant to such changes, which could have a significant negative impact on our operating results.

For example, in December 2013, the Mexican government enacted several tax reforms that came into effect on January 1, 2014. Among other changes, these reforms: (1) upheld an income tax rate of 30% (2) removed flat tax (3) imposed withholding taxes at a rate of 10% on the payment of dividends from after tax earnings accounts (CUFIN) generated after December 31, 2013 and capital gains derived from the sale of shares by Mexican and foreign individuals; (4) limited tax deductions for certain benefits paid to workers; (5) increased value-added tax in certain areas of Mexico; and (6) increased taxes on mining activities.

In 2015, in response to the project initiated by the OECD in 2013 called BEPS, Mexican legislation included the obligation to report transfer pricing information statements to the tax authority based on BEPS action 13 "Transfer Pricing Documentation and Country-by-Country Reporting", which includes minimum standards of requirements on "country by country reporting" which, for the first time, will provide tax authorities with an overall view of the operations of multinational companies. Other BEPS actions include limiting the deduction of interest and other financial payments, tightening the rules on Controlled Foreign Corporations (CFCs), modifying the definition of permanent establishment, including measures to prevent treaty abuse, known as "treaty shopping", in order to eradicate the use of conduit companies; limiting harmful tax practices, mainly in the field of intellectual property and through the automatic exchange of certain determinations or agreements between the authority and the taxpayer (tax rulings*);* establishing effective mutual agreement procedures to ensure that the fight against double non-taxation (or non-taxation) does not give rise to situations of double taxation; among others. The simple modification of the transfer pricing guidelines issued by the OECD and the amendments to local legislation in which Mexichem operates could generate impacts that would result in significant increases in tax obligations and Mexichem could be obligated to pay higher amounts in accordance with such changes.

The Company's business, financial condition and operating results could be adversely affected by the changes and as a result of increased taxes on salaries and increased costs due to additional measures to be complied with, including an increase in taxes and contributions on mining activities.

The Company is not certain of what all the final outcomes of such reforms and potential changes to the tax laws of the countries in which it operates could be on its business, and furthermore, some governments may make significant changes to their tax policies in response to their weakened economies. Adverse or unanticipated taxation of the Company's business may have a material adverse impact on the Company's financial condition and operating results.

In addition, taxation in several of the jurisdictions in which the Company operates or does business is often complex and subject to interpretation. The tax condition of the authorities could differ from the Company's current or historical tax condition, which could result in the payment of higher taxes on items for which the Company was not previously taxed, in addition to the conduction of audits of previous years and tax payments, as well as the condition of additional taxes. Some of these actions and evaluations could be exhaustive and could result in the condition of material sanctions, fines and/or updates. A focused analysis of each of the jurisdictions in which the Company operates is required to evaluate the various fiscal conditions of the authority in turn, and thus be in a condition to take the necessary actions. The various unfavorable resolutions taken by the authorities, the payment of additional taxes, the condition of penalties, the payment of fines, sanctions, expenses or restatements resulting from changes and updates in the tax and fiscal condition of the various authorities in any of the jurisdictions in which the Company does business could materially and adversely affect our operating results, financial condition and cash flow.

IFRS differ in several respects from U.S. financial reporting standards or many of the Financial Reporting Standards that apply in the countries in which Mexichem operates or in which our securities are traded.

In Mexico, the U.S. and other countries, securities laws and regulations have been enacted to promote full and accurate disclosure of corporate information to investors. However, the Company is not required to comply with most of the securities laws in force in the U.S. or other countries and, therefore, the information reported may differ from and be presented in a manner that differs from the information available to companies operating in the U.S. or other countries that are required to report their information or securities listing standards pursuant to such regulations. The Company's financial statements are prepared in accordance with IFRS, which are different from the U.S. Generally Accepted Accounting Principles, in various respects.

c) Risk Factors Related to Securities Issued by the Company.

The market price of Outstanding Shares can fluctuate significantly.

Volatility in the market price of shares could prevent investors from being able to sell their MEXCHEM* shares at the same price or at a higher price than they paid for them. The market price and market liquidity of MEXCHEM* shares could be significantly affected by several factors, some of which are beyond the Company's control and cannot be directly related to the Company's performance. These factors include, but are not limited to:

- Changes in the market valuation of companies offering similar products
- Economic, regulatory, political and market conditions in Mexico, the U.S., Europe and other countries
- Industry conditions or trends
- Emergence of technological innovations that could make products and services less attractive or obsolete
- The introduction of new products and services by the Company or its competitors
- Historical and projected quarterly and annual operating results
- Differences between actual or expected results and analysts' and investors' expectations
- Announcements by the Company or third parties and events affecting operations
- Announcements, results or actions taken by competitors
- Perceptions of the Company investors or of the services it provides
- Changes in financial or economic estimates by securities analysts
- Environmental events, consumer perceptions of environmental issues and compliance with environmental laws
- The announcement of significant operations or capital commitments made by the Company;
- Changes in laws or regulations
- Currency devaluations and condition of capital controls
- Incorporation or departure of key management personnel
- Future sales of shares

In addition, the securities markets and the securities markets of companies in Mexico and Latin America have experienced extreme fluctuations in prices and volumes that have often been unrelated to, or disproportionate to, the operating performance of these companies. Broad market and industry factors could materially and adversely affect the price of Shares, regardless of actual operating performance.

Relatively low liquidity and high volatility of the Mexican stock market could cause share prices and trading volumes to fluctuate significantly.

Mexichem's shares are listed on the Mexican Stock Exchange. Although the Mexican Stock Exchange is one of the largest stock exchanges in Latin America in terms of market capitalization value, it remains relatively small, illiquid and volatile compared to other foreign stock markets, mainly in Europe and the U.S. Although the public participates in securities transactions through the Mexican Stock Exchange, a significant portion of these transactions are carried out on behalf of institutional investors. These market characteristics could limit shareholders’ ability to sell their shares and could adversely affect the market price of the shares. The trading volume of securities issued by companies incorporated or operating in emerging markets tends to be lower than the trading volume of securities issued by companies incorporated or operating in more developed countries.

Under Mexican law, shareholders' rights may be more limited, different or vague than in other jurisdictions.

The corporate affairs of the Company are governed by the provisions of its bylaws and Mexican law, which may differ from the legal principles that would apply if it were incorporated in any jurisdiction in the U.S., such as the states of Delaware or New York, or in any jurisdiction other than Mexico. For example, under Mexican law, the protection afforded to minority shareholders and the fiduciary duties of directors and officers are, in some respects, lesser than or different to those in the U.S. or other jurisdictions. In particular, the legal regime of the fiduciary duties of directors in Mexico is not as comprehensive or developed as it is in the U.S.. In addition, the criteria for determining the independence of directors differ from the criteria applicable under Mexican law.

The rights of holders of the outstanding shares who protect their interests in connection with any act by the Board of Directors, the Company or any of its members or its principal officers due to breach of their duty of loyalty may be limited or more vague than the rights granted in other jurisdictions. In particular, any action against the Company's officers and directors can only be initiated by holders of at least 5% of the outstanding shares, as opposed to a single shareholder or group of shareholders and are derivative actions on behalf of the Company rather than the affected shareholders. In addition, rules and guidelines on related party transactions and conflicts of interest may not be as well defined in Mexico as they are in the U.S., leaving the shareholders at a possible disadvantage. Furthermore, the duties of loyalty and diligence of directors and officers are defined only in the LMV and have not been interpreted or defined by the competent courts to date; consequently, the judicial interpretation of the meaning and scope of such duties is uncertain. Recently several reforms were published in Mexico that allow for the institution of class actions, however, the procedures for instituting such actions have not been defined. To date, there have not been enough claims relating to breach of fiduciary duties, whether through class actions or derivative actions, to give rise to legal claims based on breaches of fiduciary duties or to assist in predicting the outcome of a potential claim. As a result of the foregoing, minority shareholders of the Company have greater difficulty in practice in deciding whether to exercise their rights against the Company or its directors, officers or controlling shareholders than they would have as shareholders of a company incorporated in the U.S.

There can be no guarantee that Mexichem will be able to pay or maintain cash dividends, and its dividend policies are subject to change. Payment and the number of dividends is subject to decision by shareholders.

The Company's Board of Directors must submit its audited consolidated annual financial statements for the previous fiscal year at Mexichem's Annual General Shareholders' Meeting for approval. Once shareholders approve the Company's audited consolidated annual financial statements, shareholders allocate the net income for the previous fiscal year.

The dividend policy is recommended by the Board of Directors and approved by the Company's Shareholders' Meeting. While Mexichem's principal shareholders continue to own most of the shares representing the Company's capital stock, such shareholders may determine whether dividends will be paid and the amount of such dividends. As a result of the foregoing, there may be years in which the Company does not distribute dividends and others in which a substantial portion of Mexichem's earnings is distributed. If the latter occurs, the Company's growth potential could be limited.

Mexichem's dividend payment policy depends on the generation of profits, flow generation, and projected investments in its different production chains. There are several factors that may affect the availability and intervals of cash dividend payments to Mexichem's shareholders. The amount of cash available for dividend payments may be affected by various factors, including operating results, financial condition, future capital requirements, contractual or legal restrictions stipulated in Mexichem's current or future financings, those of its subsidiaries, and the ability to obtain resources from its subsidiaries, as well as many other variables. Cash available for dividend payments can vary significantly from estimates. Even when the Company intends to pay such dividends, there can be no guarantee that the Company will be able to pay or maintain cash dividends or that dividends will increase in the future. The results could differ significantly from the estimates informing the Board of Directors' recommendation to the Shareholders' Meeting to pay dividends or adjust the dividend policy.

There is no dividend payment policy. Until 2017, Mexichem applied a criterion of paying up to 10% of the EBITDA for the corresponding fiscal year as a dividend, but this is not a formally adopted policy since there is no document setting it forth in writing; rather, it was adopted at the request of the controlling shareholder. The distribution of dividends will be recommended by the Board of Directors depending on a number of factors, including operating results, financial conditions, cash flow requirements, business outlook, tax implications, financial terms and conditions that could limit the payment of dividends and other factors that the Board of Directors and the Company's shareholders may consider. Thus, there can be no guarantee that the Board of Directors will recommend the payment of dividends to the General Shareholders' Meeting or that, if it does make such a recommendation, the General Shareholders' Meeting will approve the dividends.

In any event, under Mexican law, the Company can only pay dividends on the Company's annual net income that has been paid or absorbed by shareholders if losses from previous years have been recovered and the respective payment has been expressly approved by the shareholders. In addition, and pursuant to Mexican law, prior to a dividend distribution, at least 5% of the Company's net income must be allocated to the legal reserve fund until such reserve fund equals 20% of Mexichem's capital stock. Additional amounts may be allocated to other reserve funds as determined by the shareholders, including the amount to be allocated to the share repurchase fund. The remaining balance of retained earnings, if any, may be distributed as dividends.

In the last three years (2016-2018), the Company has declared dividends totaling $570 million of which it has paid $302 million through December 31, 2018, for a spread of $268 million to be paid during 2019 and 2020. However, any distribution and payment of dividends does not guarantee future distributions.

In 2016, a dividend of $0.50 (fifty cents of the Mexican peso) was paid to each of the outstanding shares excluding the shares that on each payment date were in the Company's repurchase fund, decreed by resolution of the General Ordinary Shareholders' Meeting held on November 30, 2015, payable in four installments during 2016.

On December 7, 2016, a dividend of $105 million was declared payable in four installments throughout 2017 to the outstanding shares, excluding shares in the Company's repurchase fund on each payment date, and an additional dividend was declared for forced reinvestment in the Company's shares at the rate of 0.025 shares for each outstanding share excluding the shares that were in the Company's repurchase fund on the payment date, i.e. one new share for each 40 outstanding shares. For this dividend that was paid during December 2016, the CUFIN balance was not diminished by such distribution. In 2017, the payment of the ordinary dividend of $147 million was decreed, payable in four installments during 2018. In 2018, an extraordinary dividend of $150 million was declared, payable during the second half of 2018 and the first half of 2019, and an ordinary dividend of $168 million was declared, payable in four installments during 2019.

If additional shares are issued in the future, shares may be diluted, and the trading prices for MEXCHEM* shares may decrease.

As part of our business strategy, future acquisitions or corporate requirements and other expenses may be financed by issuing additional capital stock. Any issuance of Mexichem's capital stock would result in the dilution of our investors' equity. In addition, future issues of shares or sales by controlling shareholders, or the announcement of such an issue or sale, could result in a decrease in the market price of the shares. Thus, Mexichem cannot guarantee that in the event that the Company needs to finance future acquisitions or other corporate expenses that requiree financing through the issuance of additional shares, the price of the company's securities will not fluctuate, and therefore investors may find it difficult to sell their MEXCHEM* shares, or may need to sell them at the same price or at a price higher than the price paid for them. The market price and market liquidity of MEXCHEM* shares could be affected by the issuance of additional shares in the future.

The principal and related shareholders, who control Mexichem, may have interests that differ from the rest of the shareholders and the holders of the Stock Exchange Certificates and/or Notes.

At the time of this Annual Report, the Company's principal shareholder is Kaluz, which is controlled by the Valle family and which owns approximately 42.91% of the voting capital stock. Other shareholders related to the Valle family own approximately 8.84% of the voting capital stock. These shareholders together, if they voted in the same manner, would have the capacity to influence the outcome of practically all matters submitted to a vote at a shareholders' meeting, including the election of the majority of the directors and, as a result, any decisions taken by the Board of Directors. Therefore, the principal and related shareholders will continue to have significant influence over the creation of strategic policies, and essentially all aspects of the execution and management of the operations. Therefore, their interests may not coincide with the interests of the remaining shareholders and the holders of the Stock Exchange Certificates and/or Notes.

Possible breach of the requirements to maintain a list of securities in the Mexican Stock Exchange or to register them in the National Securities Registry could affect the price of securities.

Mexichem, as a result of the registration of its Shares and its Stock Exchange Certificates in the RNV and their listing in the BMV, is subject to compliance with various disclosure requirements, among others, in order to maintain such registration and listing. If Mexichem is unable to comply with such requirements, the listing of Shares and Stock Exchange Certificates on the BMV could be suspended or even cancelled. In such an event, the market price of the Shares would be adversely affected.

Lack of a market for outstanding shares or a decrease in the marketability of shares could affect share prices.

Mexichem's Outstanding Shares are part of the sample of shares listed on the BMV whose averages are included in the IPC, according to the information on the behavior of MEXCHEM* shares in the BMV.

In accordance with the Marketability Index of the BMV, as of March 2019, the Share was ranked among those that are grouped in the High Marketability category which includes the shares with the most stock exchange activity in the last six months. Since December 2008 MEXCHEM* has been included in the High Marketability category.

The Company cannot guarantee that the quotation, the volume, the amount traded and the number of transactions executed in the BMV will enable it to maintain the current condition of MEXCHEM* as a High Marketability security, nor that in the face of decrease in the marketability of the share, MEXCHEM* will remain as part of the sample of the shares that make up the IPC. A lack of volume, amount traded and the number of shares traded could affect the marketability of the Issuer's share and this could cause the Issuer to be removed from the sample of shares that make up the IPC, which could negatively impact the Company's share price.

The Company records significant levels of debt

On December 31, 2018, the Company's total active debt was $3,604 million ($3,571 million for the purposes of covenants contained in debt contracts and $33 million in leases), and its stockholders' equity was $3,169 million. The Company's level of debt may have significant consequences for the investor. Among other consequences, debt may:

- Limit our ability to generate enough cash flows, or obtain additional financing, for working capital, capital expenditures, acquisitions or other future general corporate purposes;
- Limit the collaterals and guarantees that we can offer to obtain additional financing.
- Restrict our ability to pay dividends;
- Require a substantial portion of cash flow from operations to make debt service payments;
- Limit flexibility to plan for or react to changes in operations and industry conditions;
- Limit our ability to carry out additional acquisitions;
- Place the Company at a competitive disadvantage compared to our less leveraged competitors; and
- Increase the Company’s vulnerability to the effects of the adverse economic conditions of the industry and the outstanding debt of our floating rate lines of credit, as well as to the impact of increases in interest rates.

There can be no guarantee that the Company will continue to generate cash flows in enough amounts to service its debt, meet its working capital and capital expenditure requirements or carry out its expansion plans. If sufficient operating cash flow cannot be generated, or in the event that additional loans or financing cannot be requested, it will probably be necessary to sell assets, reduce capital expenditures, refinance all or a portion of existing debt, or obtain additional financing through equity or debt issuances. If this happens, there can be no guarantee that the debt will be refinanced, that assets will be sold or that additional financing will be obtained on terms that are acceptable to the Company. In addition, the capacity to incur additional debt will be limited as stipulated in the credit line agreements. *(See section 3, "Financial Information," paragraph d, "Discussion and Analysis of the Issuer’s Financial Condition and Operating Results by Management - Financial Condition, Liquidity and Capital Resources," of this Annual Report*). Additionally, the Company may incur additional debt in the future. The Modalities under which the Notes and Stock Exchange Certificates were issued allow Mexichem and its existing and future Subsidiaries to incur additional debt, as do the vehicles that govern the Company's existing debt. If the Company incurs additional debt, the above risks could be exacerbated.

Lack of market for notes and stock exchange certificates.

The secondary market for Notes and Certificates is limited and there is a possibility that such a market will not develop. There are several factors to which the price at which Notes, and Certificates are traded is subject, such as the level of general interest rates and market conditions for similar instruments. The liquidity of the Notes and Certificates may be adversely affected if such a secondary market does not develop and the Holders thereof may not be able to dispose of their Notes and Certificates in the market. There can be no guarantee that a secondary market will develop for Notes and/or Certificates or that, if one does develop, that it will provide liquidity to Holders. For this reason, Holders should be prepared to hold on to the Notes and/or the Certificates until their maturity and assume all risks arising therefrom. Neither Mexichem nor the corresponding placement intermediaries are obligated to generate a secondary market for the Notes and/or the Stock Exchange Certificates, nor do they guarantee that such a market will develop, therefore the Holders assume the risk that in the future there may not be buyers for such securities.

The contractual documents that govern the Notes, the Stock Exchange Certificates, and the instruments that regulate the existing debt impose significant operating and financial restrictions, which could prevent capitalization on business opportunities presented to Mexichem.

The contractual documents that constitute and regulate the Notes, as well as the Stock Exchange Certificates and the instruments that govern Mexichem's existing debt, contain restrictions that limit the Company's ability to take certain actions in the future and to participate in certain transactions, either directly or through its subsidiary companies. Furthermore, under some of the current debt agreements we have entered, the Company is required to maintain specific financial ratios and confirm our compliance at any time. Events beyond the control of the Company may affect our ability to comply with these obligations and mean that we may not be able to adhere to these limitations and verify compliance. Failure to perform any of these obligations could result in an event of breach, which could, in turn, cause the immediate and accelerated maturity of all amounts due under such contracts or securities. The restrictions set forth in the contracts and securities that constitute their debt could limit the Company's ability to take advantage of attractive growth opportunities for currently unforeseen business, particularly if they were limited to increasing debt or making investments in order to take advantage of such opportunities.

The contracts and securities governing the debt, including the Notes and Exchange Certificates, contain cross default provisions that may cause all debt issued under such instruments to become due and payable immediately as a result of a default event set forth in another unrelated debt instrument.

The instruments governing the Notes and the Stock Exchange Certificates contain certain obligations and the contracts or securities governing other loans also contain obligations and, in some cases, require Mexichem and its subsidiaries to comply with and demonstrate compliance with certain financial ratios. Any breach of these obligations could result in an event of default on the corresponding contract or security, which in turn could result in the related debt or other credits established under different instruments becoming immediately due and payable. In such an event, Mexichem would need to obtain financial resources from alternative sources, which it may do under favorable or unfavorable conditions, at the necessary time, or it may not obtain any resources at all. Alternatively, any default event could require Mexichem to sell assets or reduce its operations to satisfy its obligations to its creditors. Past events could affect the Company's ability to grow, its financial condition or operating results.

Mexichem may not be able to obtain the financial resources necessary to finance the consequences of a change of control offer set forth in the terms of the instruments governing the Notes or the Stock Exchange Certificates.

Pursuant to the provisions of the contractual documents of the Notes or the Stock Exchange Certificates, if an event occurs that triggers a change of control (as defined in such documents), Mexichem will be obligated to offer to purchase each series of Notes or the Stock Exchange Certificates at a price equivalent to 101% of the principal value of each series of Notes or Stock Exchange Certificates, plus accrued and unpaid interest at the time of purchase. Such events could affect the company's ability to grow and its financial condition or operating results. In the event of a change of control, Mexichem will need to refinance a very significant amount of its debt, including the Notes, as well as other loans under other contracts or lines of credit. Mexichem may not have sufficient financial resources available to make the obligatory purchase of the Notes under such circumstances, and the Company would therefore be in breach of this obligation, which in turn would trigger a cross default provision as set forth by any other debt instrument. Any debt that Mexichem owes in the future may also place restrictions on the repurchase of the Notes due to the change of control.

The debt payment guarantees by Mexichem's subsidiaries may not be immediately enforceable.

Each series of Notes and/or the Stock Exchange Certificates are fully and unconditionally guaranteed jointly and severally by certain subsidiaries of Mexichem. These guarantees provide creditors with the basis for filing a direct payment claim against such subsidiaries that guarantee the Notes and the Stock Exchange Certificates; however, such guarantees may not be immediately enforceable under applicable law.

Pursuant to applicable law, in the event that any of these subsidiaries is subject to a bankruptcy or insolvency proceeding, any payment of the guarantee granted to Mexichem could be considered a fraudulent payment and declared null and void because the other creditors of said subsidiary would not be given equal treatment. If any of these events should occur, the likelihood of payment of the Notes and/or the Stock Exchange Certificates and their respective market value would be materially adversely affected. In addition, pursuant to the Bankruptcy Act and other applicable legislation in Mexico, if Mexichem or any of its subsidiaries guaranteeing the Notes and/or Stock Exchange Certificates are declared bankrupt, the payment obligations for Mexichem loans or loans its guaranteeing subsidiaries (i) would be converted into Mexican pesos and from pesos to Investment Units or UDIs (units adjusted to the official inflation rate recognized by Banco de México), and would no longer be adjusted to the exchange rate of the Mexican peso to the U.S. dollar, after the first conversion (ii) payment would be made at the same time as all other creditors' claims; (iii) would be subject to the result of recognition of priority or preferential obligations; and (iv) payment of the Notes and/or Stock Exchange Certificates would be subject to preferential payment of certain obligations including tax, labor and social security debts and credits with specific collateral, which would take precedence over any other claims, including claims of any investor with respect to the Stock Exchange Certificates and/or the Notes or such collateral. Furthermore, the validity of each guarantee is subject to the existence and validity of the principal obligation being guaranteed. Due to the foregoing, its performance is not separate from the guaranteed principal obligation.

A federal court, or in the absence thereof, any other court, may rule in favor of such a determination if it finds, among other factors, that a guarantor subsidiary exercises its guarantee or grants a lien (or, in some jurisdictions, where such guarantor is obligated to make payments under the pledged assets):

- and such guarantor subsidiary would have received compensation less than the reasonable equivalent or a reasonable value compared to that which it would have received for granting its guarantee or for the granting of a lien;

- and/or such guarantor subsidiary:

1. was (or was declared) insolvent due to the granting of the guarantee;

2. was or was about to conduct a deal or transaction in which its assets constituted unreasonably small capital for conducting its business;

3. intended to incur, or considered that it would incur, obligations that were beyond its capacity to pay at the time of maturity;

4. was a defendant in a damage proceeding, or already had a judgment issued against it for damages and, in any event, after the judgment became final, the judgment was not complied with.

If an attempt was made to legally enforce the guarantees, enforcement could be subject to a court ruling, and because the guarantee had been granted for the direct benefit of the Company, and only indirectly for the benefit of the guarantor, the obligations of the guarantor in turn could be incurred for less than their fair value or fair compensation. A court could therefore invalidate the obligations under the guarantees and related agreements and subordinate them to the other debts of the guarantor in turn or take other actions harmful to the holders of the Notes and Stock Exchange Certificates.

Although courts in different jurisdictions measure insolvency differently, in general, a company would be considered insolvent if the sum of its debts, including contingent and unpaid debts, exceeds the fair value of its assets, or if the current value of its assets is less than the amount that would be required to pay the liabilities of its debts, including contingent and unpaid debts, as they become payable.

If the guarantees cannot be exercised under the above conditions, the Notes and the Stock Exchange Certificates would be subordinated to all the liabilities, including the accounts payable, of the guarantor subsidiaries. As of December 31, 2018, the Company's guarantor subsidiaries had total liabilities of $4,704 million. A court may also issue a judgment against the holders of the Stock Exchange Certificates and/or Notes ordering them to reimburse any amounts paid to them under such guarantees or to exercise the proceeds of the guarantees. If any guarantee or lien were invalidated, the holders of the notes would no longer have a direct claim against the guarantor subsidiary, but would retain their rights against the Company and any other guarantor subsidiary, even though there was no guarantee that the assets of the respective subsidiaries would be sufficient to pay the Notes and/or the Stock Exchange Certificates in full.

The provisions of Mexican law may make it difficult for holders of Notes and/or Stock Exchange Certificates to convert the amounts paid by the Company to the holders in Mexican pesos into U.S. dollars or to achieve recognition of the full value of such payments.

Mexichem is obligated to pay the Notes and other credits in U.S. dollars. However, under Mexico's Monetary Act, payment obligations in Mexico in foreign currencies, either by agreement or by order of a judge, may be made in Mexican pesos at the exchange rate at the time and place of payment or of the corresponding court. Pursuant to the foregoing, Mexichem will be obligated to pay loans taken out in currencies other than Mexican pesos, as set forth by Mexico's Monetary Act, and the Company cannot guarantee that the amounts paid will be converted by the beneficiary into U.S. dollars or that, if converted, such amount paid will be sufficient to acquire dollars in the same amount of the principal, interest, or additional payments derived from such instruments or loans in currencies other than Mexican pesos.

Holders of the Notes and the Stock Exchange Certificates may be limited in their ability to institute proceedings or lawsuits against the Company in Mexican courts.

Mexichem and some of its guarantor subsidiaries are companies incorporated under the laws of Mexico. Almost all of its directors and key executives, as well as the directors and key executives of many of its guarantor subsidiaries, are Mexican citizens and residents. A significant percentage of the Company's assets and those of some of its guarantor subsidiaries are in Mexico, and a very significant percentage of the Company's sales and those of some of the guarantor subsidiaries originate from sources in Mexico. Therefore, it could eventually be difficult for holders of Notes and other debt instruments taken out by Mexichem in currencies other than the Mexican peso to serve process and bring legal proceedings or lawsuits against the Company or its guarantor subsidiaries outside of Mexico or against its directors or key executives, or to enforce judicial rulings issued by courts or tribunals outside of Mexico's jurisdiction, in all matters relating to civil obligations under laws of jurisdiction outside of Mexico, including proceedings instituted pursuant to the civil provisions of U.S. securities laws or other U.S. laws.

Charging interest on interest may not be enforceable in Mexico.

Mexican law does not permit charging interest on interest and, as a result, the accrual of interest in the event of default on ordinary interest payments on the Notes, the Stock Exchange Certificates and other loans taken out by Mexichem may not be enforceable in Mexico.

The payment of the Notes and the Stock Exchange Certificates, as well as the related guarantees, may be structurally subordinated with respect to the debt obligations of the guarantor subsidiaries as well as subsidiaries who are not guarantors of Mexichem, in the same way other debt that does not have the same guarantee structure would be structurally subordinated to that which does.

The Notes constitute part of Mexichem's guaranteed debt, and their payment preference is equal to that of other debts, but they could be structurally subordinated with respect to the payment of other guaranteed credit obligations and also structurally subordinated to debts contracted by the guarantor and non-guarantor subsidiaries. Although the holders of the Notes and the Stock Exchange Certificates have a direct right to claim payment, this right is not guaranteed over the assets and properties of Mexichem or of the guarantor subsidiaries; therefore, the payment of the Notes or Stock Exchange Certificates is subordinated with respect to the debt of Mexichem and its subsidiaries that have a specific applicable guarantee for payment up to the value of such assets. In addition, under Mexican law, the payment obligations of the Notes and/or the Stock Exchange Certificates are subordinated to certain preferences established by law, including wage and salary claims, guaranteed obligations, social security, workers' housing funds, taxes, fees for and expenses of lawsuits. Similar legal preferences may apply in other jurisdictions where subsidiary guarantors have been incorporated. In the event of Mexichem's liquidation, such legal payment preferences will prevail over any other claim, including those of any holder of the Notes or the Stock Exchange Certificates.

Mexichem faces risks related to fluctuations in interest rates.

The Company is exposed to variations in interest rates. As of December 31, 2018, approximately $488 million, representing 13.5% of the debt payable, bears interest at variable rates. Consequently, changes in interest rates could affect the cost of financing these loans. If interest rates increase, its debt servicing obligations would increase even if the principal amount of such loans remains unchanged and net income, as well as cash available for servicing Mexichem's debt, including Notes and Stock Exchange Certificates, would decrease. Therefore, Mexichem's financial condition, operating results, and liquidity could be significantly adversely affected. In addition, any attempt to mitigate interest rate risks by taking out fixed rate loans and using derivative financial instruments, such as fixed-for-floating swaps related to some of the loans taken out by the Company to manage this risk, may not succeed in obtaining the savings if interest rates fall.

A decrease in Mexichem's credit risk rating and/or its loans could adversely affect our ability to access credit markets.

If any of the credit ratings are downgraded by the rating institutions, or if the current ratings are subject to negative reviews by the rating agencies, the Company’s ability to access the credit markets could be seriously affected and the associated costs of financing could increase. Changes in credit ratings could also affect the price of the Company's securities, including the Notes and the Stock Exchange Certificates.

d) Other Securities

The securities that Mexichem has registered in the RNV and trades in the BMV are:

a) Ordinary, common, freely subscribed shares representing the capital stock of Mexichem, S.A.B. de C.V., and which grant full corporate and patrimonial rights to all holders of such shares, traded under the ticker symbol MEXCHEM*, and;

   Long-term Stock Exchange Certificates issued under a Program of Stock Exchange Certificates for up to $10,000 million (10 billion Mexican pesos and zero cents), which can be placed among the investing public. The original authorization of this Program was granted by the CNBV on December 19, 2008 for an amount of up to $4,000 million (4 billion Mexican pesos and zero cents), to be issued within a period of five years, and the CNBV itself authorized increasing the amount to up to $10,000 million (10 billion Mexican pesos and zero cents) maintaining the term of issues within a period of five years, as of March 15, 2012. On November 3, 2017, the CNBV authorized a new program valid for five years, for an amount of up to $10 billion (10 billion Mexican pesos and zero cents).

b) As of the date of this Annual Report, the following issues have been placed and traded under the Stock Exchange Certificates Program:

   MEXCHEM 12 issue (third of the Program) for 30 million long-term Stock Exchange Certificates, with a par value of 100.00 (one hundred Mexican pesos and zero cents) each, issued on March 21, 2012, maturing on March 9, 2022 through a single payment on the latter date, for a term of 3,640 days, approximately 10 years, paying an annual gross interest rate of 8.12% (eight points twelve percent), which will remain fixed during the term of this third issuance. This issuance of Stock Exchange Certificates is guaranteed by the Company's subsidiaries Mexichem Compuestos, S.A. de C.V., Mexichem Amanco Holding, S.A., Mexichem Derivados, S.A. de C.V., Mexichem Resinas Vinílicas, S.A. de C.V., Mexichem Flúor, S.A. de C.V., and Mexichem Brasil Indústria de Transformação Plástica Ltda. ("Mexichem Brasil"), the latter is a Brazilian corporation and most of its assets are located outside Mexico. In the event of Mexichem Brasil's insolvency or bankruptcy, the claims of the Holders under the Stock Exchange Certificates will be subject to the preference set forth by the laws applicable in the Federal Republic of Brazil.

   The Bank of New York Mellon, S.A. acts as joint representative, and S.D. INDEVAL Institución para el Depósito de Valores, S.A. de C.V. acts as depository.

Mexichem is up to date on the submittal, during the last three fiscal years of all the legal, operational, administrative and financial information that it is required to submit, by virtue of the fact that the Outstanding Shares and their Stock Market Certificates are registered in the RNV and listed on the BMV. Similarly, the Issuer is up to date on the submittal during the last three fiscal years of all the legal, operational, administrative and financial information that it is obliged to submit pursuant to the contracts for the issuance of international agent debt (Deutsche Bank National Trust Co and The Bank of New York Mellon), as well as the revolving credit to the agent bank (J.P. Morgan Chase N A).

The Issuer provides information to the investing public on an annual basis, which includes the reports presented to the Ordinary General Shareholders' Meeting approving the results of the previous year, the resolutions of the shareholders' meetings, quarterly information, information on repurchase fund operations and notices of relevant events.

e) Significant Changes to the Rights of the Securities Registered in the Registry

In the last three fiscal years, the securities held by the Issuer registered in the Registry have not undergone significant changes to the rights they confer on their holders. The only change that has been made to any of the Issuer's securities was the modification of certain negative and affirmative covenants contained in the instruments representing the Stock Exchange Certificates, which was authorized by the holders of such securities at a shareholders' meeting held on October 24, 2016. This change refers to the clarification made to the definition of the term "EBITDA" in said instruments, in order to exclude from said concept (i) any "Non Recurring" expenses, reserves, charges or costs that do not represent cash outflow, as well as non-recurring expenses, reserves, charges or costs that do represent cash outflow that are related to an income referred to in paragraph (i); and (ii) any cash payment or income received by the issuer and/or any of its subsidiaries under insurance policies such as civil liability, property or damage without considering income received from business continuity.

On April 26, 2013, the Ordinary and Extraordinary General Shareholders' Meeting approved a complete reform of the corporate bylaws, among the most relevant changes is article nine, which sets forth that any transfer of shares to any person or group of persons acting together, who accumulate in one or several transactions (without time limit) more than 10% (ten percent) of the total shares in circulation, will be subject to the authorization of the Board of Directors. Failure to comply with this prohibition will result in the payment of a contractual penalty to the Company of an amount equivalent to the price of all the shares involved or their market price.

On April 23, 2019, the Ordinary and Extraordinary General Shareholders' Meeting approved a further reform of the Company's bylaws. Among the most important changes are: (i) certain clarifications to the aforementioned article nine in order to indicate that the requirements and considerations applicable to the acquisition of shareholdings will apply to 10% or more of the capital stock; and (ii) changes to other articles of the by-laws related to the requirements for the appointment by minorities of members of the Board of Directors. (See Section 4, "Management", paragraph d, "Corporate Bylaws and Other Agreements", of this Annual Report).

f) Destination of Funds

During the 2018, 2017 and 2016 tax years, the Company did not register securities in the RNV. Nor are there resources pending application as a result of securities issuances carried out in previous years. (*See Section 1, "General Information", paragraph d, "Other Securities", of this Annual Report*).

On October 4, 2017, Mexichem, S.A.B. de C.V., issued and placed "Senior Notes" that had not been registered in the RNV, nor had they been authorized by the CNBV, nor had they been registered pursuant to the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S.. These notes were only offered to purchasers within the U.S. deemed to be qualified investors pursuant to Rule 144-A of the U.S. Securities Act, and outside the U.S., to non-U.S. residents, under "Regulation S" of the U.S. Securities Act. This issue was for a total amount of $1 billion, in two tranches. The first 10-year tranche accrues a fixed annual rate of 4.0% and is payable every six months on April 4 and October 4 as of the date of issue and until maturity on October 4, 2027. The second 30-year tranche accrues a fixed annual rate of 5.50% and is payable every six months on 15 January and 15 July as of the date of issue and until maturity on January 15, 2048. The funds were destined toward the acquisition of 80% of Netafim's capital stock.

g) Public Documents

The documentation submitted by the Issuer to the CNBV and the BMV, in order to obtain the shelf registration of the Stock Exchange Certificates in the RNV, under the modality of the Program and the public offer authorization in Mexico, as well as the documentation related to the global primary public offer of MEXCHEM* shares made on October 9, 2012, may be consulted through the BMV, at its offices located at 255 Paseo de la Reforma Avenue, Colonia Cuauhtémoc, C.P. 06500, Mexico City, or on its website: www.bmv.com.mx, or on the CNBV website at the following address: www.cnbv.gob.mx

Mexichem has provided the CNBV and the BMV with the information required by the LMV, the Sole Issuer Circular (CUE), the internal regulations of the BMV, and other applicable provisions, therefore such information is available to investors.

Copies of the above documentation, this Annual Report, Prospectus, and the corresponding Program Supplements may be obtained upon request from any investor by contacting the Issuer's person responsible for investor relations, Mr. Gerardo Lozoya Latapi, gerardo.lozoya@mexichem.com, telephones (52 55) 5366 4084, Address: Rio San Javier 10, Fracc. Viveros del Rio, CP 54060, Tlalnepantla de Baz, Estado de México, México, or on Mexichem's website: www.mexichem.com.

2. THE ISSUER

a) History and Development of Mexichem

i. Company Name

The Company, or Mexichem as it is commercially known, was originally incorporated under the name of Grupo Industrial Camesa, S.A. and in 1984 adopted the variable capital corporation regime. On April 27, 2005, the Company changed its name to Mexichem, S.A. de C.V. and on December 6, 2006, it adopted the regime of publicly traded variable capital corporation.

ii. Incorporation and Duration of the Issuer

The Company was incorporated by means of public deed number 34,080, dated June 30, 1978, issued by Notary Public number 112 in and for the Federal District, the first official transcript of which was recorded in the third book of the Commerce Section of the Public Registry of Property and Commerce for the Federal District, in volume 1066, on page 190 and under number 212. The duration of the Company is indefinite.

iii. Address and telephone numbers of main office

San Javier River 10
Viveros del Río
Tlalnepantla de Baz, C.P. 54060
Estado de México
Telephone: + 5255 5366 4000
Fax No: + 5255 5397 8836
Web address: www.mexichem.com

iv. Historical Events

History

Year

1953 Mexichem's origins date back to 1953, when the company Cables Mexicanos, S.A., a manufacturer of steel cables, was incorporated, which later changed its name to Aceros Camesa, S.A. de C.V.

1978 A holding company called Grupo Industrial Camesa, S.A. de C.V. (GICSA) was incorporated, which controlled Aceros Camesa, S.A. de C.V. and its subsidiaries. GICSA began trading its shares in the BMV in the same year it was incorporated.

1986 GICSA acquired Compañía Minera las Cuevas, S.A. de C.V., whose main activity consisted of the exploitation of fluorite mines in the state of San Luis Potosí.

1997 Grupo Empresarial Privado Mexicano (GEPM), owned by the Valle family, acquired GICSA, which in turn acquired 50.4% of Química Pennwalt, S.A. de C.V., a company that produces chlorine, caustic soda, hydrochloric acid, resins, PVC compounds and other derivatives. The French chemical group named Elf Atochem held 49.3% of the shares in Química Pennwalt, S.A. de C.V.

2003 GICSA acquired 100% of the shares of Mexichem, S.A. de C.V.

2004 In May 2004, Química Flúor, S.A. de C.V., a company that produces hydrofluoric acid, was acquired, and the operation of this company was integrated with that of Compañía Minera Las Cuevas, S.A. de C.V. Through this acquisition, the Company became the largest integrated producer of hydrofluoric acid in the Americas.

In December 2004, the Company acquired Grupo Primex, S.A. de C.V., the market leader in Mexico and Latin America in the production of PVC resins and compounds, as well as of phthalic anhydride. Through this acquisition, the Company conditioned itself as the leading producer of PVC resins in Mexico and the third-ranking producer in Latin America.

2005 In order to focus on the chemical business, the Company sold its steel wire and cable business in June 2005.

That same year, the Company changed its corporate name from Grupo Industrial Camesa, S.A. de C.V. to Mexichem, S.A. de C.V. in order to strengthen the strategic conditioning achieved by the Group in the chemical sector. The Group's strategic vision was focused on this sector and sought consolidation and vertical integration of its production chains, for which reason it only acquired companies related to its value chains.

2006 Quimica Fluor, S.A. de C.V. and Mexichem Flúor, S.A. de C.V. merged, with Mexichem Flúor, S.A. de C.V. surviving.
Mexichem began its international expansion in February 2006 with the acquisition of Bayshore Group, a business that produces PVC compounds in the United States.

2007 In order to consolidate its PVC business, in February 2007 the Company acquired Amanco Holding, Inc., a PVC pipe producer and leader in Latin America in water conduction systems. Through this acquisition, Mexichem formed the Fluent business group.

In March of the same year, the Company acquired the PVC resin manufacturer Petroquímica Colombiana, S.A. (PETCO).
In June 2007, the Company acquired 50% of the shares in C.I. Geon Andina, S.A., a company producing PVC compounds, located in Colombia.

2008 In January 2008, the Company acquired 70% of the capital of DVG Industria e Comercio de Plásticos Ltda. (Plastubos), a Brazilian company specializing in the production of rigid PVC pipes for drinking water and drainage, for the housing, infrastructure, irrigation and electricity markets. Subsequently, the Company exercised the call option on the remaining 30%.

In April 2008, the Company acquired 100% of the shares representing the capital stock of Fluorita de Río Verde, S.A. de C.V., along with the production plants located in the municipalities of Río Verde, San Luis Potosí and Álamos de Martínez, Guanajuato, as well as the mining concessions to exploit the Fluorita "Lilia II" and "La Esperanza" mines. This company produces Fluorite concentrates, which are basically used for consumption by Mexichem Flúor in its plant located in Matamoros, Tamaulipas.

In June 2008, the Company acquired 100% of the shares representing the capital stock of Quimir, S.A. de C.V., a Mexican company that produces and markets industrial and food phosphates.

Also, in June 2008, the Company acquired Geotextiles del Perú, S.A., securing Mexichem's condition as a leader in the geotextiles market and at the same time widening its offer of other geosynthetics solutions in the Peruvian market.

In the same month, the Company acquired the Brazilian company Fiberweb Bidim Industria e Comercio de Nao-Tecidos Ltda., which manufactures and sells nonwoven products for Geotextiles.

In November 2008, the company acquired Colpozos, S.A., located in Cali, Colombia, which alongside its activities of drilling, construction, maintenance and well repairs for water extraction, designs, builds and installs all things related to water management in applications such as pumping and irrigation systems.

2009 On March 31, 2009, the Company acquired 100% of the share capital of Tubos Flexibles, S.A. de C.V., a Mexican company that produces PVC pipes and fittings.

In August 2009, the Issuer's share capital was increased by 153,600,000 new shares, representing a capital increase of $2,258 Mexican pesos.

In September 2009, a 60,000 MT per year capacity aluminum fluoride plant was inaugurated at the Mexichem Flúor, S.A. de C.V. facilities located in Matamoros, Tamaulipas. The investment made in this plant was $60 million.

In September 2009, the first placement of Stock Exchange Certificates issued by Mexichem was made in the Mexican debt market for 2.5 million Mexican pesos, for a five-year term with a TIIE rate of 28 days plus 2.44 basis points ("*bullet*"), under the ticker symbol MEXCHEM 09. The resources obtained were used to refinance debt and change the profile of maturities, with only 15% of its total debt remaining in the short term. On July 20, 2011, Mexichem decided to exercise its right to accelerate all of the Stock Exchange Certificates of this first placement by paying the holders the amount set forth in the corresponding instrument plus the premium for accelerated amortization stipulated therein.

In October 2009, the Company acquired the remaining 50% of the shares in C.I. Geon Andina, S.A., a company that produces PVC compounds, located in Colombia.

During the month of November 2009, the first placement of Senior Notes in the amount of $350 million over 10 years at an annual rate of 8.75% ("bullet bonds") was made. The resources obtained were used for general corporate purposes, including working capital and possible future acquisitions. An amount of $267.1 million was prepaid in September 2012.

2010 In January 2010 Amanco del Perú, S.A. (now Mexichem Perú, S.A.) increased its participation in the share capital of Plastisur, S.A., a PVC pipe manufacturer, from 25% to 98.45%. Plastisur merged with Tuberías y Geosistemas del Perú, S.A., a subsidiary of the Company, immediately after Mexichem increased its equity interest.

In March 2010, the Company acquired the Refrigerants division of Ineos Group with a presence in the UK, U.S., Canada, Japan and Taiwan. Through this acquisition, Mexichem strengthened its global presence in the refrigerant gases market for the automotive, medical and construction sectors.

In June 2010, the Fluor Business Group (formerly the Fluor Chain), inaugurated the Hydrofluoric Acid plant II in the city of Matamoros, Tamaulipas, which has a capacity of 30,000 MT per year and an investment of $40 million. This investment was financed with the Company’s own resources and bank loans.

In October 2010, Mexichem acquired 100% of the shares of Policyd, S.A. de C.V. (a manufacturer of PVC resins) and 100% of the shares of Plásticos Rex, S.A. de C.V. (a manufacturer of PVC pipes). Included in the payment to the seller for this transaction were all the assets, rights and property necessary for the operation of the Santa Clara Plant, owned by the Company, located in the municipality of Santa Clara, Estado de México. Policyd, S.A. de C.V. merged in October 2010 with Mexichem Resinas Vinílicas, S.A. de C.V. and Plásticos Rex, S.A. de C.V. merged with Mexichem Soluciones Integrales, S.A. de C.V. in June 2011.

2011 On January 7, 2011, Mexichem acquired 100% of the shares representing the companies AlphaGary Corporation and AlphaGary Limited, PVC compound producers located in the U.S. and the UK, respectively. This acquisition, which brought new technologies, afforded Mexichem the potential to research and develop new products.

On August 31, 2011, the Issuer signed a revolving credit line for $1,000 million with a term of three years, under a Club Deal format, at a rate of LIBOR plus 90 basis points, which allowed the Company to increase its financial flexibility and take advantage of opportunities that arose in its markets to consolidate its strategic growth plans while improving its debt repayment profile.

On September 2, 2011, Mexichem offered and placed the second issue of Stock Exchange Certificates under the Program with the ticker symbol MEXCHEM 11, for an amount of 2.5 million Mexican pesos. The principal was due in a single payment on September 2, 2016, with a gross interest rate equivalent to TIIE plus 0.60 percentage points. The resources were used to pay the bridge loan used to accelerate the payment of the issue of MEXCHEM 09 Stock Exchange Certificates, therefore, the issue did not increase the total amount of active debt, but it did strengthen the financial structure, reduce the financial cost and modify the profile of long-term maturities.

In December 2011, Plastubos, which was acquired in 2018 and merged with Mexichem Brasil Industria de Transformação Plástica Ltda.

2012 In January 2012, the Company acquired 100% of the shares of Fluorita de México, S.A. de C.V., a company located in the municipality of Múzquiz, Coahuila. Through this acquisition, Mexichem gained access to Fluorita's high-purity mining concessions.

On March 15, 2012, the CNBV authorized the expansion of the Stock Exchange Certificates Program for an amount of up to 10,000 million Mexican pesos or its equivalent in UDIS and for a term of up to five years as of the date of such expansion. Mexichem therefore publicly offered and placed on September 9, 2011 25,000,000 Stock Exchange Certificates, and on March 21, 2012, 20,000,000 Stock Exchange Certificates of the MEXCHEM 11 issue, so that this issue would reach a new total of 45,000,000,000 Stock Exchange Certificates with a par value of 100.00 Mexican pesos each. The principal was accelerated in a single payment on 23 September 2014.

On March 21, 2012, Mexichem made the third issue of Stock Exchange Certificates (MEXCHEM 12) under the Program, for 30,000,000 Stock Exchange Certificates, with a par value of 100.00 Mexican pesos each, maturing on March 9, 2022 through a single payment, for a term of approximately 10 years, paying a gross annual interest rate of 8.12%, which will remain fixed during the term of this third issue.

In May 2012, Mexichem acquired, through a public offering, 95.7% of the shares of Wavin, B.V., a company located in the Netherlands. This company produces plastic pipe systems. It has operations in 18 European countries. In March 2013 the Company acquired 4.3% of the remaining shares of Wavin, B.V.

At Mexichem's Ordinary and Extraordinary General Shareholders' Meetings held on April 30 and May 18, 2012, respectively, shareholders approved the payment of a dividend of $136 million (1.8 billion Mexican pesos), payable from the Company's CUFIN account. This dividend was paid, according to each shareholder’s choice, either (i) in kind through the delivery of one Issuer Share for every 45 Shares of the corresponding shareholder, or (ii) in cash at the rate of 1.00 Mexican peso per Share. In order to facilitate the payment of this dividend, the shareholders authorized a capital increase of up to 40,000,000 Shares. As a result, at the May 18, 2012 Shareholders' Meeting, shareholders approved the issuance of 28,029,771 Shares at a subscription price of 45.00 Mexican pesos for each new Share. The corresponding resources were used to pay the dividend to the shareholders who elected to receive the cash payment. The remaining 11,970,229 Shares were issued as payment of the dividend in kind to the shareholders who elected to receive payment in Shares.

On September 14, 2012, Mexichem announced the results of its cash redemption offer for a total of $350 million of debt instruments at an 8.75% rate due in 2019 (the "**Redemption Offer**"). In addition, consent was requested from the holders of debt instruments in order to make modifications to the terms and conditions of such securities. The Redemption Offer and consent expired on September 13, 2012, and on the expiration date, $267.1 million of the outstanding amount of the debt instruments (or 76.32% of those securities) accepted the offer and gave their consent. The Redemption Offer was settled on September 19, 2012, paying a consideration of 1,245 Mexican pesos for each Mexican peso of par value plus unpaid accrued interest on the settlement date.

On September 19, 2012, Mexichem successfully finalized the transaction for the issuance of long-term debt instruments, and due to the excess demand for this issue (over 17 times more than expected), it was decided to increase the initial amount of the debt instruments to be issued, with a resulting value of $1,150 million. The issuance was made in two blocks; one of $750 million for a 10-year term with a fixed rate coupon of 4.875% and another of $400 million for a 30-year term with a fixed rate coupon of 6.75%.

The Company used the proceeds from the issuance of $1,150 million for corporate purposes and, in general, primarily to prepay debt as follows: (i) up to $600 million for the prepayment of its revolving credit dated August 26, 2011, and (ii) up to $436 million to repay long-term debt, of which $333 million (principal of $267 million and premium of $65 million) has been used to repurchase debt instruments maturing in 2019, through a redemption offer that expired on September 13, 2012, $38.0 million (484 million Mexican pesos) to repay the loan taken out with BBVA Bancomer and $65 million to pay a loan with Bancolombia, S.A., and (iii) fees and prepaid interest of $16 million. The remaining balance of $97.8 million was left in the Company's cash.

On October 9, 2012, Mexichem concluded its primary public offering of shares; through which it increased its authorized variable capital stock by issuing 260,000,000 Single Series, Class "II" shares with a price of 60.00 Mexican pesos per share (par value of 1.3192 Mexican pesos per share and the differential generated a premium on share subscription); the amount of resources obtained was $1,211 million (15,600 million Mexican pesos), which are presented net of placement expenses and their income tax effect of $1,185 million.

2013 In March 2013, Mexichem reached an agreement with PolyOne Corporation to acquire 100% of its specialty PVC resin operations in the U.S. and assets consisting of two production plants and a research and development center. Through this acquisition, Mexichem entered the specialized resin products market with higher margins. The approximate value of this acquisition was $250 million.

During 2013 Mexichem signed the JV agreement with Oxy to build an Ethylene Cracker in Texas, U.S. This is part of the vertical integration strategy to capture the competitive advantage of shale gas in North America.

During 2013 PMV, the strategic alliance between Mexichem and Pemex began operations in the last quarter of 2013, in line with the plan to increase the capacity of VCM from around 120 thousand tons/year to more than 400 thousand tons/year.

2014 On June 30, 2014, the Issuer took out a $1.5 billion five-year revolving credit facility with a LIBOR rate plus 95 basis points at 1.35 basis points; this range depends on the utilization level and the rating assigned by S&P and Fitch. With this revolving credit, Mexichem increased its financial flexibility and will be able to take advantage of the opportunities that arise in its markets to consolidate its strategic growth plans.

On July 15, 2014, a consortium comprising Mexichem, Enesa, and Invenergy was selected by MGC Cactus, S.A.P.I. de C.V., a subsidiary of Pemex Transformación Industrial, to develop a cogeneration plant. This project sought to take advantage of the potential of the Cactus Gas Processing Complex to generate electricity and steam efficiently and reliably, therefore, a cogeneration plant will be built with its associated transmission system.

On September 17, 2014, the issuance of a $750 million 30-year Senior Note under Rule 144-A / Reg S with a spread of 270 basis points on U.S. Treasury bonds was completed. The Senior Note is payable on maturity. The proceeds were mainly used to refinance the "MEXICHEM 11" issue maturing in 2016 and to fund the acquisitions.

On September 19, 2014, Mexichem acquired 100% of the shares of Dura-Line Holding Inc. from CHS Capital. Dura-Line, based in Knoxville, Tennessee, U.S., has a strong presence in the telecommunications market in several countries and regions around the world. This includes the U.S., India, Europe, South Africa and others. This acquisition was valued at $630 million.

On September 23, 2014, Mexichem accelerated all of the "MEXCHEM 11" stock certificates, for which it paid the holders a price per security equal to the greater of the par value of the Stock Certificates or the clean price calculated by means of the arithmetic average of the last 30 (thirty) days prior to the accelerated amortization date provided by Proveedor Integral de Precios, S.A. de C.V. (PIP) and Valuación Operativa y Referencias de Mercados, S.A. de C.V. (VALMER).

In December 2014, Mexichem acquired 100% of the shares of Vesto PVC Holding GmbH (Vestolit). Vestolit is the only European producer of high-impact suspension PVC resin (HIS-PVC) and the second largest producer, also in Europe, of PVC paste and the sixth largest European producer of PVC resins. Vestolit is in Marl, Germany. Its total installed PVC capacity is 415 thousand tons per year. This acquisition strengthens the Company's condition in the European market. Additionally, this acquisition gives Mexichem access to new technologies and best practices that have improved the operations of its Vinyl Business Group. Vestolit was acquired for a total of $219 million euros in cash and assumed liabilities. As of December 1, 2014, Vestolit was consolidated into the Vinyl Business Group for accounting purposes.

On December 31, 2014, Mexichem UK Ltd. acquired from E.I. Du Pont de Nemours and Company the exclusive worldwide rights for the distribution and sale of pharmaceutical grade HFC-227ea/P, for the regulated medical and pharmaceutical market of medical propellants. This transaction supports the Company's strategy with a focus on global growth through participation in specialty products. The product is used to safely release various medicines in aerosol form, including fixed-dose inhalers for the treatment of asthma. The product will be sold under the ZEPHEX® brand, owned by Mexichem, the world's leading brand of medical propellants with approximately 75% of the market for medical inhalers produced worldwide. The acquisition price was $4.1 million.

2015 On May 12, 2015, Mexichem inaugurated a new manufacturing plant in Hyderabad, India. The new plant will produce high pressure ducts and pipes for the water, telecommunications (voice and data) and gas markets. The new plant is Mexichem's fourth plant in India, along with two others located in Goa and one in Neemrana, near Delhi. The location of the Hyderabad plant in southern India will provide Mexichem with a strategic location to export to Southeast Asia, serve customers in southern India, and capture new business opportunities in the region. The opening of the plant is part of Mexichem's ongoing strategy to become a global, vertically integrated chemical company with a focus on specialty products and solutions. An investment of $3.4 million was made in the plant.

2016 On October 26, 2016, the Company announced the acquisition of Gravenhurst Plastics Ltd. (GPL) in Temiskaming, Ontario, Canada in order to reinforce its global growth model in value-added specialty products. GPL supplies high-density polyethylene (HDPE) piping and ducts for fiber optics as well as construction products in the Canadian market. The transaction was consolidated into Fluent's business and had a value of $13 million paid in cash.

On November 28, 2016, Mexichem announced the acquisition in the UK of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds serving a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods. The Derbyshire-based PVC composite manufacturer, VCHL, generated annual revenues of approximately $40 million at the time of acquisition. Mexichem consolidated VCHL's operations under its Compounds Business Unit, a leading supplier of PVC compounds that serves the global market and is part of the Vinyl Business Group. This acquisition had a value of £24 million, equivalent to £30 million paid in cash.

2017 In February 2017, the equal joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem), called Ingleside Ethylene LLC, began operations on time and on budget of the ethylene cracker in the OxyChem complex located in Ingleside, Texas. During the second quarter of 2017, the Cracker began commercial operations. The Cracker has a production capacity of 1.2 billion pounds (550,000 metric tons) of ethylene per year and provides OxyChem with a continuous source of ethylene to produce vinyl monochloride (VCM), which Mexichem uses to produce polyvinyl chloride (PVC resins) as well as PVC pipes. The total amount invested during 2017 and 2016 alone was $62 million and $350 million, respectively (based on credit journal entries and not cash flow). The joint venture also includes the pipeline and storage plant in Markham, Texas. The plant has 150 permanent employees.

On March 23, 2017, Mexichem announced that the U.S. International Trade Commission (ITC) found that imports of refrigerant gases R-134a are causing material damage to the R-134a production industry in the U.S. The decision was the result of a year-long investigation by the U.S. Department of Commerce, which found that imports of R-134a from China were being introduced into the U.S. at prices below fair value. On February 22, 2017, the Department of Commerce announced that imports from China of R-134a engaged in dumping practices and imposed anti-dumping duties of between 148.79% and 167.02%.

In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a Mexichem subsidiary, reached an agreement to acquire: i) voting shares representing 80% of the subscribed and paid-in capital stock of Netafim, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, in favor of Netafim.

On September 27, 2017, Mexichem successfully completed the $1.0 billion 144A / Reg S bond offering. The offering consists of two tranches: $500 million 4.00% fixed rate bonds due in October 2027 and $500 million 5.50% fixed rate bonds due in January 2048. The proceeds of the offering were used primarily to finance the acquisition of Netafim, L.T.D. (Netafim).

On December 20, 2017, Mexichem announced the decision of the PVM shareholders not to rebuild its VCM production capacity. As a result, the joint venture for the production of VCM, the assets and liabilities associated with the production of ethylene and the ancillary services associated with VCM and ethylene were classified on the latter date as discontinued operations in Mexichem's Financial Statements for the years 2015, 2016 and 2017. In addition, PMV's decision not to rebuild the VCM plant resulted in the additional cancellation of $196 million related to the assets of the Ethylene plant and ancillary services related to the VCM and Ethylene plants, which were also listed as discontinued operations. Thus, all impacts and recognized revenues related to the incident at the VCM plant are reported as discontinued operations. This represents PMV's exit from the VCM and Ethylene businesses in Mexico, but not from the caustic soda business, the plant for which will continue to be operated by PMV.

2018 On January 22, 2018, Mexichem announced that it acquired Sylvin Technologies Inc. (Sylvin), which is a manufacturer specializing in PVC compounds based in Denver, Pennsylvania, for $39 million free of cash and debt. Sylvin is expected to have total sales of $29 million in 2017. Sylvin has a 30-year history serving a wide range of industries including: the cable, electricity, industry, automotive, medical and food products industries. Mexichem will consolidate Sylvin into the Vinyl Business Group within the Compounds Business Unit. By combining Sylvin's customer-oriented business model, strong work force, and application development capabilities with Mexichem's global compound business, they will be able to offer greater added value to their U.S. customers. Sylvin's key raw materials are PVC resins, plasticizers, and stabilizers, which should result in synergies with the operations of Mexichem's Vinyl Business Unit.

On February 7, 2018, Mexichem completed the acquisition of 80% of the shares of Netafim LTD (Netafim), a leading Israeli company in micro irrigation solutions, after obtaining all government authorizations and fulfilling the prerequisites required in the Share Purchase Agreement signed in August 2017. The price paid for the acquisition was $1,424 million. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital. This transaction represents a significant step forward in Mexichem's long-term strategy to condition itself as a world leader in specialized products and solutions, serving high-growth markets. Mexichem has consolidated Netafim into the Fluent Business Group.

The acquisition was mainly financed as follows: (i) cash of $239 million, (ii) new short-term loan of $200 million, and (iii) cash flows from the issuance of a long-term bond of $985 million.

On July 6, 2018, Mexichem announced that in line with its strategy of consolidation in key businesses, it reached an agreement for the acquisition of 44.09% of the shares representing the capital stock held by Pemex in Petroquímica Mexicana de Vinilo, SA de CV. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of comparable companies and precedent transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, meaning that, as of the foregoing date, PMV is exclusively a subsidiary of Mexichem and its activity consists, as of the latter date and at the time of this Annual Report, of the operation of the caustic soda plant only.

To further strengthen our leadership in the industry in which we operate, Mexichem continually seeks opportunities through acquisitions with the potential to integrate and create synergies in the links of its Vinyl, Fluor and Fluent Business Groups *(see Section 1, "General Information," subsection c, "Risk Factors," subsection a, "Risk Factors Related to Our Business and Industry," of this Annual Report).* Significant acquisitions have recently been made which, if not effectively integrated into the Company, could adversely affect operating results and risk factors related to operations and our industry. Our inability to effectively manage our growth could adversely affect our business and operating results.

Investments Made in the Last Three Fiscal Years

The Issuer's strategy has been to grow through acquiring companies with whom they are able to create synergies, and in recent years, has increasingly focused on ensuring that through constant capital expenditures on modern technology, the Company can maintain high levels of efficiency and low production costs while improving its leadership condition in the markets in which it operates. The following table shows our capital expenditures for the periods indicated.

	Year ending December 31:		
ITEMS INVESTED IN	**2018**	**2017**	**2016**
Investment on a permanent basis	1,427	-	42
Investments in property, plant and equipment (CAPEX)	283	254	488
Proceeds from the sale of machinery and equipment	(4)	(6)	(22)
Sum	1,706	248	508

Furthermore, the Company is constantly making investments in technology in order to penetrate and grow downstream businesses and become closer to consumers to offer them high value-added products, as well as differentiated solutions and services.

Acquisitions and new businesses established during the years ending December 31, 2018, 2017 and 2016 included:

1. On July 6, 2018, Mexichem announced that in line with its strategy of consolidating key businesses, it reached an agreement for the acquisition of 44.09% of the shares representing the capital stock held by Pemex in Petroquímica Mexicana de Vinilo, SA de CV. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of comparable companies and precedent transactions in the petrochemical sector.

2. On February 7, 2018, Mexichem completed the acquisition of 80% of the shares of Netafim LTD (Netafim), a leading Israeli company in precision irrigation solutions, after obtaining all government authorizations and meeting the prerequisites required in the Share Purchase Agreement signed in August 2017. The price paid for the acquisition was $1,424 million. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital. This transaction represents a significant step forward in Mexichem's long-term strategy of conditioning itself as a world leader in specialized products and solutions, serving high-growth markets. Mexichem has consolidated the financial statements of Netafim in the Fluent Business Group.

   The financial statements of Netafim will be consolidated in the financial statements of Mexichem, as of this date. The acquisition was primarily financed as follows: (i) cash in the amount of $239 million, (ii) new short-term loan in the amount of $200 million, and (iii) cash flows from the issuance of a long-term bond in the amount of $985 million.

3. On January 22, 2018, Mexichem announced that it acquired Sylvin Technologies Inc. (Sylvin), which is a manufacturer specializing in PVC compounds based in Denver, Pennsylvania, for $39 million free of cash and debt. Sylvin is expected to have total sales of $29 million in 2017. Sylvin has a 30-year history serving a wide range of industries including: the cable, electricity, industry, automotive, medical and food products industries. Mexichem will consolidate Sylvin into the Vinyl Business Group under the Compounds Business Unit. By combining Sylvin's customer-focused business model, strong work force, and application development capabilities with Mexichem's global compound business, they will be able to offer greater added value to their U.S. customers. Sylvin's key raw materials are PVC resins, plasticizers, and stabilizers, which should result in synergies with the operations of Mexichem's Vinyl Business Unit.

4. In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a Mexichem subsidiary, reached an agreement to acquire: i) voting shares representing 80% of the subscribed and paid-in capital stock of Netafim, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, in favor of Netafim. Netafim is a privately-owned Israeli company and a leader in micro irrigation solutions. The total value of the company in the transaction was $1.895 billion, of which Mexichem acquired 80% of the share capital. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital.

5. As of December 31, 2016, the equal joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem), called Ingleside Ethylene LLC, for the construction of an Ethylene Cracker with an annual capacity of 1,200 million pounds (550 thousand tons), represented a total investment of $1,376 million of which $688 million corresponded to the investment made by Mexichem and $160 million was invested during 2016. The total amount invested during 2017 and 2016 alone was $62 million and $350 million respectively (based on credit journal entries and not cash flow). This investment is located at OxyChem's facilities in Ingleside, Texas, and will utilize the pipeline and storage system located in Markham, Texas. The joint venture has been consolidated in the Company's financial statements and is reported as part of the Vinyl Business Group within the Ethylene Chain.

6. On November 25, 2016, Mexichem announced the acquisition in the UK of 100% of the shares of Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds serving a wide range of industries including: building and construction, pipe and profile manufacturing, footwear and consumer goods. The Derbyshire-based PVC composite manufacturer, VCHL, generated annual revenues of approximately $40 million at the time of acquisition. Mexichem consolidated VCHL's operations under its Compounds Business Unit, a leading supplier of PVC compounds that serves the global market and is part of the Vinyl Business Group within the Ethylene Value Chain. This acquisition had a value of £24 million, equivalent to £30 million paid in cash.

7. On October 18, 2016, the Company announced the acquisition of Gravenhurst Plastics Ltd. (GPL) in Temiskaming, Ontario, Canada to reinforce its global growth model in value-added specialty products. GPL supplies high-density polyethylene (HDPE) and fiber optic piping and construction products in the Canadian market. The transaction was consolidated in the Fluent group within the Ethylene Value Chain and had a value of $13 million paid in cash.

The following table shows the acquisitions made from 2016 to 2018, together with their installed capacity and sales (in millions of dollars) by each company as of December 31, 2018.

Acquisition date	**Company**	**Product**	**Business Group**	**Installed Annual Production Capacity (tons)** [1]	**Sales 2018 (millions)**	**Sales 2017 (millions)**	**Sales 2016 (millions)**
January 22, 2018	Sylvin Technologies	Compounds	Vinyl	13,500	29	ND	ND
August 7, 2017**	Netafim	Micro irrigation solutions	Fluent	ND	997**	950**	855**

November 28, 2016	Vinyl Compounds***	PVC	Vinyl	80,000	59	48	3.2*
October 18, 2016	Gravenhurst Plastics	HDPE Pipe	Fluent	4,900	34	25	18

*The *transaction was announced on August 7, 2017; however, it was finalized on February 7, 2018 after obtaining all government authorizations and the prior conditions required by the Share Purchase Agreement*
*** Netafim's sales in 2018 are included considering the full year of 2018*
****Sales of Vinyl Compounds as of the Mexichem acquisition are included.*
Includes all products, installed capacity in 2017. NA- Not applicable.

Public Offers

Public Offerings of Capital in Mexico

During the past three fiscal years, the Company has not been the subject of any public offering for control of the Company, nor has it made any offer to assume control of other companies whose shares are listed on the Mexican Stock Exchange or on any other foreign stock exchange.

Mexichem has not made public offerings of capital since 2005.

Public Offerings of Debt in Mexico

On March 21, 2012, Mexichem, S.A.B. de C.V. made the third issue under the Program, "MEXCHEM 12" for 30 million Stock Exchange Certificates, with a par value of $100.00 Mexican pesos each, maturing on March 9, 2022 through a single payment, for a term of approximately 10 years, at an annual gross interest rate of 8.12%, which will remain fixed during the term of this third issue. This issuance of Stock Exchange Certificates is guaranteed by the Company's subsidiaries Mexichem Compuestos, S.A. de C.V., Mexichem Amanco Holding, S.A. de C.V., Mexichem Derivados, S.A. de C.V., Mexichem Resinas Vinílicas, S.A. de C.V., Mexichem Flúor, S.A. de C.V., and Mexichem Brasil Indústria de Transformação Plástica Ltda. ("Mexichem Brasil").

The joint representative for the issue of MEXCHEM 12 Stock Exchange Certificates is The Bank of New York Mellon, S.A., and the depository is Indeval, and the issue's credit risk rating, assigned by Standard & Poor's is 'mxAA/mxA-1+' on a national scale and with a stable outlook and by Fitch Ratings is 'AA+' (mex)' with a stable outlook.

Public Offers of Debt Abroad

On November 6, 2009, Mexichem made its first placement of debt instruments, offered to institutional investors in the United States under Rule 144-A of the Securities Act, and in other countries to non-U.S. residents under Regulation *S* of the Securities Act of 1933, for $350 million for a 10-year term at an annual rate of 8.75% ("*bullet*"). The proceeds from the placement of the debt instruments were used for general corporate purposes, including working capital and possible future acquisitions. The debt instruments are listed on the Luxembourg stock exchange and quoted on the Euro MTF Market. These debt instruments have not been registered in the RNV kept by the CNBV, nor have they been authorized by the CNBV, nor have they been registered in terms of the regulations of the Securities Act of 1933, which governs securities transactions in the United States, they were only offered to buyers deemed to be qualified investors according to the definition in Rule 144A of the U.S. Securities Act of 1933, and outside the United States, to non U.S. residents, pursuant to Regulation *S* of the Securities Act of 1933.

On September 19, 2012, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $1,150 million in two blocks: one of $750 million for a 10-year term with a fixed rate coupon of 4.875% and another of $400 million, for a 30-year term with a fixed rate coupon of 6.75%. In both blocks of Senior Notes, interest is paid every six months on March 19 and September 19 as of the issue date and until they mature on September 19, 2022 and September 19, 2042, respectively. The Senior Notes have been listed on the Luxembourg Stock Exchange and for trading on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered pursuant to the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S., they were only offered to purchasers in the U.S. deemed to be qualified investors according to the definition in Rule 144-A of the U.S. Securities Act, and to purchasers outside the U.S., who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

On September 17, 2014, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $750 million, for a term of 30 years, that bear interest at a fixed annual rate of 5.875%, payable every six months on March 17 and September 17 as of their issue date and until their maturity on September 17, 2044. The Senior Notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered pursuant to the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors according to the definition in Rule 144-A of the U.S. Securities Act, and to purchasers outside the U.S., who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

On October 4, 2017, Mexichem, S.A.B. de C.V., issued and placed Senior Notes for a total amount of $1,000 million, in two tranches. The first tranche is over 10 years and accrues a fixed annual rate of 4.0%, payable every six months on April 4 and October 4 as of the issue date and until maturity on October 4, 2027. The second tranche is over 30 years and accrues a fixed annual rate of 5.50%, payable every six months on January 15 and July 15 as of the issue date and until maturity on January 15, 2048. Senior Notes may be redeemed at 100% of the book value of the principal three months before maturity for the first tranche and six months before maturity for the second tranche. The Senior Notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market. These Senior Notes have not been registered in the National Securities Registry, nor have they been authorized by the National Banking and Securities Commission, nor have they been registered pursuant to the regulations of the U.S. Securities Act of 1933, which governs securities transactions in the U.S. They were only offered to purchasers in the U.S. deemed to be qualified investors according to the definition in Rule 144-A of the U.S. Securities Act, and to purchasers outside the U.S., who do not reside in the U.S., under "Regulation S" of the U.S. Securities Act.

Redemption offer for debt instruments at a rate of 8.75% maturing in 2019

On September 14, 2012, Mexichem announced the results of its cash redemption offer for a total of $350 million worth of debt instruments at a rate of 8.75% maturing 2019 (the "**Redemption Offer**"). In addition, consent was requested from the holders of debt instruments in order to make modifications to the terms and conditions of these securities. The Redemption Offer and consent expired on September 13, 2012, and on the expiration date, $267.1 million of the value of the outstanding debt instruments (or 76.32% of these securities) accepted the offer and gave their consent. The Redemption Offer was settled on September 19, 2012, paying a consideration of 1.245 Mexican pesos for each Mexican peso of par value plus unpaid accrued interest on the settlement date.

b) General Business Description

Business Strategy

Mexichem's business strategy emphasizes the importance of being a vertically integrated company with high safety standards for both its employees and its assets around the world, with a broad sense of social and environmental responsibility, and a focus on specialty products with the aim of reducing the volatility of its raw materials and thus focusing on the production and marketing of products, services, and solutions with increased profitability and added value. Mexichem has grown through acquisitions of companies related to its production chains, which has allowed it to consolidate and expand its leadership in its value chains and maintain a geographical presence in the international market in the countries where there is demand for its products. The Company is developing a global growth model in which the focus is on maintaining and consolidating the global competitiveness of its Fluor and Vinyl Business Groups and strengthening its Fluent Business Group by focusing on and specializing in its end markets such as Building & Infrastructure (Wavin and Amanco), Datacom (Dura-Line) and Precision Agriculture (Netafim), maximizing the current capacities of these groups and thus improving margins and boosting organic growth, as well as the introduction to new markets. Mexichem seeks to create a customer-centric platform to offer customers solutions and proposals according to their needs, creating long-term bonds. Through the integration of its latest acquisitions, Mexichem seeks to promote collaboration and generate the greatest possible synergies, maximizing its resources under the current financial structure.

In order to achieve these objectives, the Company has implemented the following strategies:

Commitment to safety, social and environmental responsibility

The Issuer will continue to focus not only on economic development, but also on its commitment to society and environmental sustainability. As part of this commitment, it carries out sustainability reporting under the Global Reporting Initiative (GRI) methodology, as a means of evaluating and establishing goals and work programs in order to fulfil its promises. In 2011, it received an "A" rating from GRI, the highest rating received by a company under this initiative, which was verified by an audit by an independent third party, for which it received the "+" rating. The Company maintained its "A+" rating until 2013. As of 2014 GRI introduced changes in the reporting and evaluation structure and, with the G-4 Guide, the "A+" evaluation disappeared and the focus is established on Materiality Disclosure. In 2018, the Issuer joined the UN Global Compact and began reporting greenhouse gas emissions in the Carbon Disclosure Project (CDP). The sustainability report information is audited by a third party that meets the ISAE 3000 assurance standard. The Issuer complies with the new criteria of the GRI Guidelines regarding Materiality Disclosure and verification by an independent third party of the relevant indicators. In addition, the Issuer has set long-term goals that it monitors year after year.

The Issuer is in the process of implementing worldwide the International Safety Rating System (ISRS), which is focused primarily on the safety of its more than 22,000 employees worldwide, within the company's facilities. Since 2016m it has also been implementing PSM (Process Safety Management) in its production processes. Thus, Mexichem works in all its businesses worldwide to ensure that every day its more than 22,000 employees return home safe and sound.

A model of global growth

In the second half of 2018, Mexichem announced that it was beginning to embark on a journey of transformation into a purpose-driven and future fit organization. This means that our organization is identifying infrastructure problems and challenges in communities and cities around the world and developing innovative solutions to solve them. This approach to our business is another concern about identifying the challenges of today, as well as analyzing growth trajectories and predicting the challenges of tomorrow. Thus, the company has decided to place greater emphasis on its end markets, placing the customer and its needs at the center of its strategy, in order to develop increasingly specialized, technological, and innovative products and solutions known as "human-centered," in which Mexichem has identified and can continue to identify pressing challenges. Mexichem has adopted greater discipline in deciding to invest in all projects, both organic and inorganic, through a capital allocation model that includes, risks, mitigations and alignment to Mexichem's strategy, global and local growth potential, profitability and operational capacity.

A continuous focus on highly efficient operations, reducing volatility through vertical integration and improving profitability through resource optimization

The Company's vertical integration strategy has reduced exposure to any price volatility of our main raw materials: the Fluor business group is 100% integrated from the exploitation of fluorite to the production of refrigerant gases; while since February 2017, the Vinyl business group is approximately 70% integrated with the Ethylene group and has thus achieved significant integration from salt extraction to PVC production, which has allowed and will allow Mexichem to improve profitability through better cost management. In addition, Mexichem focuses on improving the return on invested capital in order to achieve and maintain it above its weighted average cost of capital, through the assets and operations it has at present.

A continuous focus on specialty and value-added products

Mexichem is focused on the development of a portfolio of value-added products, seeking to create a customer-centric platform to offer solutions and proposals according to the customer's needs, creating long-term bonds. The Company has developed a state-of-the-art process to purify the fluorite it extracts from its mine at a significantly reduced cost, in order to manufacture HF to be sold at a value 10 times the market price of Fluorite. In addition, the acquisition of Wavin, PolyOne's U.S. PVC Specialty Resin assets, as well as the recent acquisitions of Dura-Line, Vestolit, Vinyl Compounds, Gravenhurst, Netafim and Sylvin Technologies, are part of our strategy to continue integrating the Company into higher value-added products and services and to develop increasingly specialized, technological and innovative products and solutions known as "human-centered," in which Mexichem has identified and can continue to identify pressing challenges.

The Issuer will continue to use its competitive advantage in the development of new and advanced production processes through its 19 research and development centers. These centers also develop new products focused on customer needs, making products available to customers through an extensive distribution network in the markets in which they participate. The Issuer will also continue to develop and implement its own technologies and processes that will generate significant benefits for Mexichem and for the entire industry in general. For example, the Company has its own technology to produce PVC resins, PVC pipes, compounds, plasticizers and HF purification. These technologies allow it to produce unique tubes that meet the requirements of most infrastructure projects and other competitive advantages. In addition, Mexichem has developed solutions based on flour compounds for the cement industry that allow for the optimization of Clinker production, which not only has economic benefits but also benefits the Company's environmental impact by reducing its carbon footprint.

A continued focus on customer relationships

Mexichem seeks to be the leader in its markets by manufacturing high-quality products at competitive prices. The Company seeks to increase both its scale and the efficiency of its production and innovations through research, placing the customer at the center of its strategy, in order to provide them with value-added solutions that meet their needs. Mexichem will continue to develop relationships with its new and existing customers through long-term contracts in order to encourage their loyalty by seeking to expand the partnership with them, helping them to develop new products. For example, the Issuer designs custom products such as cable and wire insulation with special applications, three-gallon bottles, and other construction materials including window frames, laminate floor bases, and blinds, many designed to meet the needs of their strategic markets. In addition, Mexichem's customer service department offers technical assistance. Mexichem seeks to create new businesses and cultivate customer loyalty by offering new products and services, which will help generate sales during periods of low demand.

Maintaining an agile and solid financial structure

Mexichem seeks to maintain a solid and flexible financial base that will allow it to achieve its growth objectives. The Company operates at a net debt/EBITDA ratio of no more than 2.0, which is how it ensures liquidity through a revolving credit line of up to $1.5 billion. When a project requires exceeding 2.0 net debt/EBITDA, the project must generate value, make perfect sense with the company's business, meet the profitability conditions required by its corporate governance bodies, and present a plan to return to no more than 2.0 debt/EBITDA in a period of less than 18 months. Mexichem will maintain and continue to implement financial strategies, including a conservative debt profile, a conservative hedging structure, as well as strategies to hedge exposure to foreign exchange rates, and thus be able to continue executing its growth strategy.

Implementing a business culture

Mexichem's current operations are the result of 30 business acquisitions that have conditioned the Company as a leader in different countries, regions, and markets, through the integration of diverse companies and work cultures. In this sense, the Issuer considers that a consolidated business culture is important for meeting the objectives set by the Company itself and the market. Mexichem is proud to establish and spread among its companies its mission, vision, unique values and strict adherence to its Code of Ethics as part of this organizational culture so that its employees are not only aware of them, but also apply them to their daily lives.

i. Main activity.

- **Main Activity of the Issuer**

Mexichem is a leading provider of products and solutions in multiple sectors, from the petrochemical to the construction, infrastructure, agriculture and irrigation, health, transportation, telecommunications and energy sectors, among others. It is one of the world's largest producers of plastic pipes and fittings.

With a global presence, including Netafim figures, Mexichem employs more than 22,000 people in more than 41 countries in which it has 137 production plants, concessions for the exploitation of two fluorite mines in Mexico, eight training academies, and 19 research and development laboratories. It generated sales in 2018 of $7,198 million.

With a more than 50-year trajectory and more than 40 years of trading on the Mexican Stock Exchange, Mexichem has a business model based on vertical integration and strategic acquisitions through which it has direct access to raw materials and its own technology, allowing it to compete in a global environment.

As a result, Mexichem offers a wide range of materials, products, solutions and finished products that contribute to the success of its customers and improve people's quality of life.

Through its commitment to be a good corporate citizen, Mexichem offers total value to all its stakeholders, such as customers, employees, investors and others around the world, every day.

Mexichem's operations consist of two value chains and three business groups: the Ethylene Value Chain, which includes the Vinyl and Fluent Business Groups (Building & Infrastructure - Wavin and Amanco-, Datacom - Dura-Line-, and Precision Agriculture - Netafim); and the Fluor Chain, which includes the Fluor business group, as well as the Mexichem Energía business unit.

Competitive Advantages

Mexichem focuses on creating value for its stakeholders, including its shareholders, customers, and suppliers, through the development and continuous improvement of its products and services, starting from its basic raw materials. Through vertical integration of the market of products with higher added value, we seek to obtain better results. Our main competitive advantages are as follows:

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

Mexichem, a leader in the markets in which it participates, is characterized by its strategy focused on low-cost production through constant investments in its own state-of-the-art technology; integration of its basic raw materials in its two main production chains; creation of synergies in logistics, purchasing, systems, treasury, human resources, etc.; and constant development and implementation of cost-efficiency projects.

The Ethylene Value Chain within Mexichem’s Vinyl Business Group is partially integrated (approximately 70%) with its main raw material, ethylene, and thus the production chain is integrated from the extraction of salt to the production of plastic compounds. It has facilities to produce salt for industrial consumption, ethylene, chlorine, soda, VCM chlorine derivatives, PVC and specialty resins, as well as compounds, in addition to being integrated to one of the main raw materials for the manufacture of plasticizers, which is phthalic anhydride.

In the Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim), the main raw materials are PVC resin, polyethylene and to a lesser extent, propylene. These are supplied at the best price available on the market, either through purchases from third parties or through the Vinyl Business Group in the case of PVC, when it is efficient and at competitive prices.

The Fluor Business Group has its own fluorite mine, which is the largest in the world, making it the only fully integrated global producer of this raw material. This integration gives Mexichem an unparalleled competitive advantage, not only in Mexico but also worldwide. Mexichem is the only company in the world with a vertically integrated value chain, from the extraction of fluorite, through hydrofluoric acid, to the production and sale of refrigerant gases in the Americas, Europe and Asia.

Over the past 15 years, Mexichem has acquired companies or formed joint ventures to vertically integrate its operations and increase access to the raw materials needed for its operations.

Our leading condition in the PVC and plastic pipe markets in Latin America and Europe and considerable growth projections as well as being an undisputed global leader in the Fluorite market.

Mexichem is one of the largest pipe producers in Europe and Latin America, a leader in the production of PVC resin in Latin America, according to IHS Markit, and maintains a leading position worldwide. The Company believes that the primary markets for such products in the infrastructure and construction industries should experience sustained growth over the next few years.

Net sales to third parties by destination in 2018 were primarily concentrated in the U.S., Mexico, Germany, Brazil, the UK, Colombia and India, representing 17%, 10%, 7%, 6%, 5%, 5% and 4%, respectively. It should be noted that, although Mexico represents 10% of total sales, approximately 6% of sales are made in dollars, and the remaining 4% in pesos. Over the past four years, the Company has expanded its operations throughout the Western Hemisphere, the Middle East and Africa and now has production facilities in 10 Latin American countries, as well as facilities in the U.S., Canada, Japan, China, the UK, Oman, South Africa and Israel. There are attractive growth projections in infrastructure and construction in the emerging markets in which Mexichem sells its main Ethylene Value Chain products due to a significant housing deficit, insufficient infrastructure, lack of access to water and sanitation and electricity, etc. Meanwhile, in developed countries, the greatest challenge is large-scale maintenance and improvement of transport, water, electricity and telecommunication networks.

Thus, the we expect a sustained demand for PVC in the coming years in line with reports by IHS Markit (2019 World Analysis - Vinyl Supply Demand Graphics) and estimate an annual growth of between 3.3% and 3.8% in the period from 2018 to 2022.

Mexichem has a strong presence in the American, European, and Asian markets due to its unique condition within the Fluor Value Chain. Furthermore, it has the concession rights for the exploitation and extraction in Mexico of the world's largest fluorspar mine and has modern plants for the production of HF and refrigerant gases, which allows it to forge solid relationships with strategic market participants. In addition, the proximity to the end fluorochemicals market in the U.S. affords it a competitive advantage. The Company frequently enters into long-term dollar-denominated contracts with reputable international customers for the sale of the fluorite and HF it produces. The Company's global conditioning will allow it to explore opportunities in order to supply more value-added products.

Our proven ability to integrate and operate acquired companies throughout the Americas, Europe, the Middle East, Asia and Africa

Since 2003, Mexichem has grown rapidly by consolidating 30 finalized business acquisitions. The acquisition of Netafim is part of the Company’s growth strategy, which gives it access to smart technology for use in water supply solutions, telecommunications and other sectors.

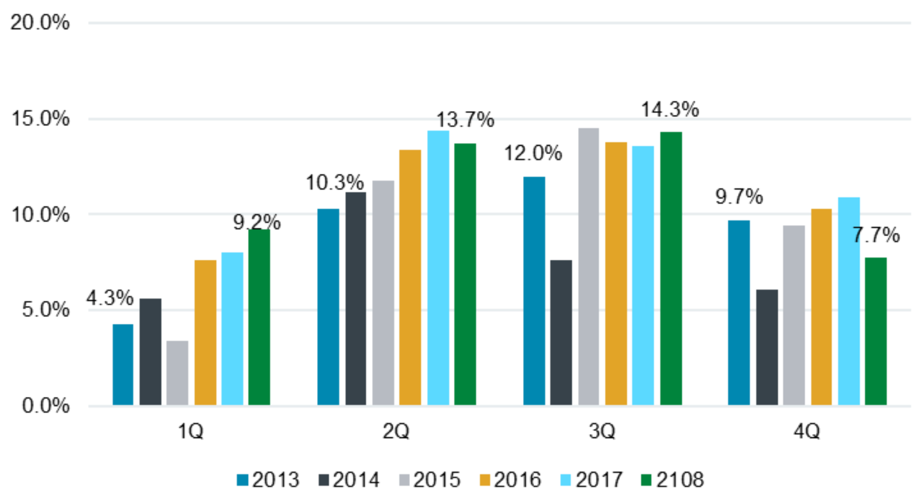
The Company believes that the acquisition of Netafim is transformational and will further push its strategy toward specialty solutions, products and services, conditioning it as an innovative leader in the high-growth market of precision agriculture. By acquiring Netafim, Mexichem has become a leading developer of solutions for addressing two of the megatrends facing the world: food security and water scarcity, which includes responding to the need to increase crop yields and meet the highest sustainability standards with respect to fertilization. Netafim has a long history at the forefront of creating smart solutions in the irrigation market. This acquisition will give Mexichem access to this smart technology, which can be used in water supply and telecommunications solutions, and in other sectors, providing a platform from which it is possible to generate smart industrial solutions based around existing production lines that serve the infrastructure, housing, and data communication markets, as well as other sectors. The Issuer believes that this acquisition will also strengthen its global presence and impact in key growth markets and allow it to grow in the replacement market and diversify and expand the end markets in which it sells its products.

Successful acquisitions have contributed to the significant growth of Mexichem's net sales and EBITDA, making it a leader in the industries in which it operates.

Thus, the geographical diversification of the contribution of Mexichem’s sales, the diversification of its products, which has led to more than 60% of its sales coming from finished and specialty products, and an increasing generation of cash flow, has changed Mexichem's profile considerably, from a company based on commodities and chemical products, to a company increasingly based on innovative and specialty products, which has made it more and more resilient in the face of constant changes in the global economy.

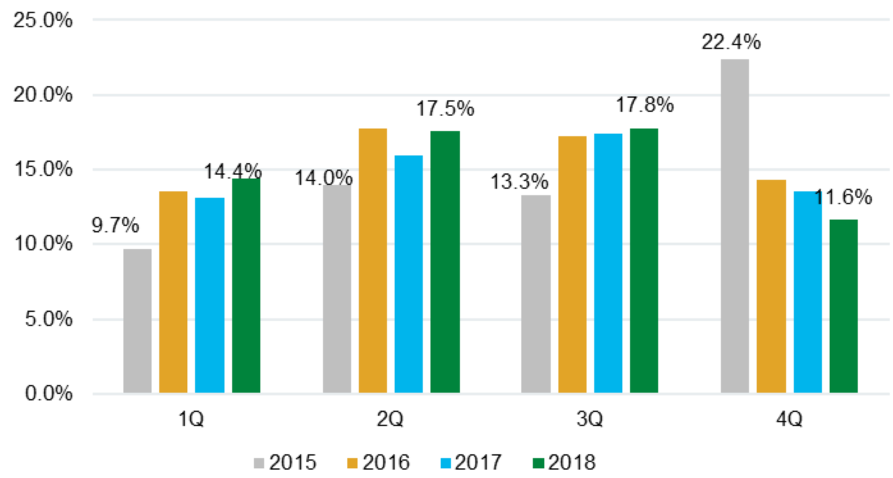
Some examples of the evolution of the results of the most recent acquisitions are presented below.

EBITDA Margin Wavin [(1)]



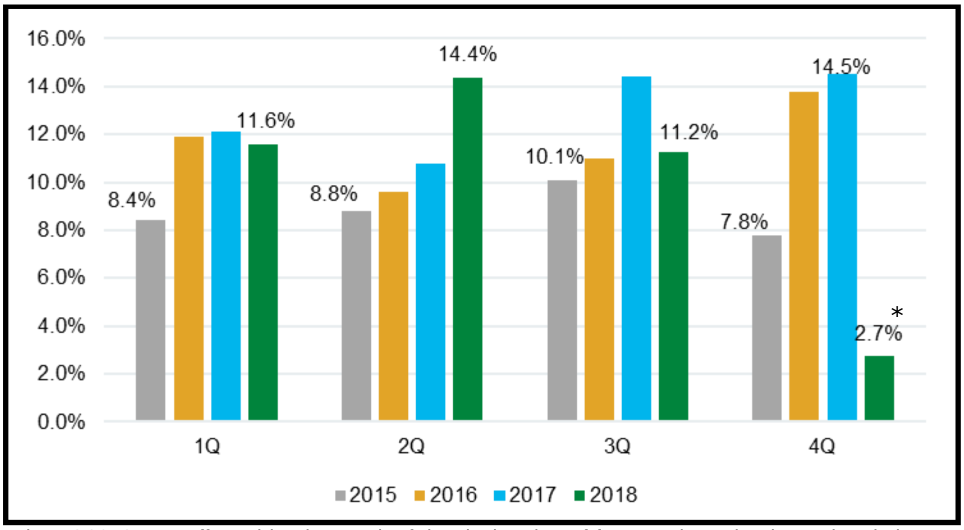
Note:* Includes Wavin Africa, Others, China, Australia and Middle East
(1) *EBITDA excludes restructuring costs and a benefit of US$17 million in 4Q13*

EBITDA Margin Dura-line (1)



Note:* Includes USA, Canada, Oman, Mexico, South Africa and Czech Republic.
(1) *4Q15 EBITDA includes the effect of discontinued operations*

EBITDA Margin Vestolit [1]



*The 4Q2018 was affected by the result of the declaration of force majeure by the main ethylene suppliers of Vestolit, which forced us to declare our force majeure consequently.

From 2003 through December 31, 2018, including Netafim, Mexichem has invested approximately $6 billion in acquisitions.

Our management team with extensive industry experience

Mexichem's key executives have extensive experience in leadership conditions in top tier global companies, with an average of more than 10 years working in similar industries and more than 20 years of professional experience. The administrative team has a proven track record of operating successfully in the industry, particularly facilitating Mexichem's operations and integrating new acquisitions in order to grow and strengthen its businesses.

Strong relationships with major suppliers and long-term contracts

Mexichem operates under long-term product supply contracts with its main domestic and foreign customers and suppliers, which allows for sustainable development. Based on growth potential and size, Mexichem has defined the market segments it wishes to participate in and, under this contract scheme, has conditioned itself alongside strategic clients in high growth potential markets. This lends the company a competitive advantage that is difficult for its competitors to match.

Based on the size of the market and its growth potential, Mexichem has identified more attractive markets and has entered into and expects to enter into strategic contracts with market leaders that give it a unique advantage over its competitors that do not have similar strategic alliances.

Considerable economies of scale in strategically located low-cost plants

Mexichem benefits from an important economy of scale in the global fluorite market for the following reasons: (1) it has the rights to the world's largest fluorite mine, according to estimates made by experts certified by the Mining and Metallurgical Society of America, and through the acquisition of FDM, it has increased the potential reserves of the highest purity fluorite, (2) it has one of the world's largest HF production capacities, according to the latest survey conducted by Roskill Consulting in 2018, (3) it has established strong relationships with strategic market participants, (4) it has become a world leader in the chemical fluorite market, especially in the production of refrigerant gases, and (5) it is close to the U.S. fluorocarbon market.

The Fluor business group operates under long-term US dollar-denominated contracts with international customers for the supply of acid grade fluorite. Mexichem believes that, given its global scale, this should enable it to explore opportunities within the fluorochemicals industry with a greater number of value-added products, either through joint ventures with established producers or through direct acquisitions.

The Vinyl business group of the Ethylene Chain begins its processes by extracting salt from its own mines to produce PVC resin, which is one of the main raw materials used in the manufacture of plastic pipes.

In October 2013, a joint venture was formalized with OxyChem for the construction of an ethylene cracker in Ingleside, Texas. The Issuer considers that this joint venture allows for a significant integration (approximately 70%) of ethylene, a raw material that represents approximately 39% of the cost of VCM and 23% of the cost of PVC pipes. The commencement of commercial operations (Q2 2017) in the Ethylene Cracker in Texas has allowed Mexichem to reap the benefits of vertical integration in the value chain from ethane to PVC (including the chlor-alkali chain), which in turn, generates a substantial reduction in the costs of PVC production, as well as direct management of the production and supply of its main raw material, ethylene.

With Ingleside's Ethylene Cracker operating at 100% capacity, the Vinyl Business Group is approximately 70% vertically integrated, including Vestolit's installed capacity in PVC production.

Raw materials and production facilities are in advantageous geographic areas, which allows the Company to reduce operating costs. Mexichem also owns (through a joint venture) a port terminal in Altamira, which not only reduces costs, but also affords it better access to export markets. The salt dome and chlorine, caustic soda and PVC facilities in Mexico are located near the oil zones of the Gulf of Mexico, while the fluorine mine and HF production facilities are near the U.S. border and the coasts of the Gulf of Mexico.

This location gives the Issuer immediate access to the market that has the highest fluorine demand in the world: The U.S. The EBITDA margin reported in the Fluor business group at the end of the 2018 fiscal year was 43.3%.

Innovation through research, development and patented production processes

Mexichem has a product research and development department with human resources and facilities that allow it to innovate in processes and products that are tailored to its customers' needs. The Company has its own technology for its production processes which places it at the forefront of technology since it has developed in its different production chains, unique designs that give it advantages over its global competitors. The Company's 19 research and technology centers are located in Mexico, the U.S., the Netherlands, Italy, India, the Czech Republic, the UK and Israel, and focus on the development of new products and the alignment of processes to achieve safety and optimization of its production chain. In the Fluor business group, cutting-edge technology for fluorite purification has been developed in the hydrofluoric acid process. This innovation has succeeded in lowering the annual production cost of HF. Additionally, as a result of the acquisition of Wavin, Mexichem gained access to new technologies and products developed by this business group, with whom it already had technology transfer contracts. In total, the Company has more than 500 patented products.

The following is a summary of each of the chains and business groups that make up the Company's main activities:

1. ***Ethylene Value Chain.*** Ethylene is the main raw material used in producing PVC resins, and therefore, with Ingleside's entry into operation, vertical integration of the Vinyl and Fluent business groups (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture - Netafim) will continue, thus supporting total integration from salt extraction to the production of PVC pipes, connections, water tanks, etc. This chain is made up of the following business groups:

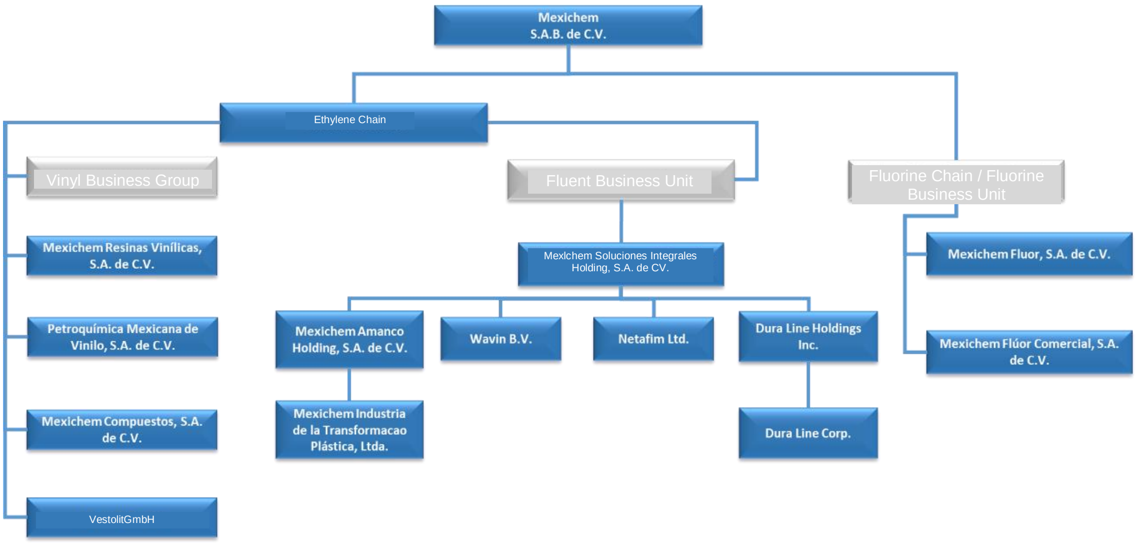
- ***Vinyl Business Group (formerly Chlorine-Vinyl Chain).*** This business group consists of six manufacturing processes: (i) basic chemicals including ethylene, chlorine, caustic soda and their derivatives, VCM, EDC and specialty chemicals; (ii) phosphates used in food and beverages, soaps and detergents, fertilizers and food supplements; (iii) the vinyl process, which produces general resins used for pipes and fittings, cable, flexible and rigid films, bottles, etc.; (iv) specialty resins used for flooring, wallpaper, coatings, among others; (v) the plasticizer process that produces phthalic anhydride and plasticizers used in the processing of PVC resin; and (vi) the compound process, which produces PVC and non-PVC compounds used in different production processes such as pipes, fittings, cables, medical applications, synthetic leather, and window frames, among others. The Vinyl Business Group had net sales of $2,460 million in 2018, $2,317 million in 2017, and $2,026 million in 2016, which represented approximately 34%, 38%, and 37% of Mexichem's total sales (before holding company revenues and intercompany eliminations) in those years. Mexichem owns the rights to a salt dome in Mexico with more than 30 years of potential reserves and operates modern production facilities for chlorine, caustic soda, PVC resins and compounds. It is the largest producer of specialty resins, and the fifth largest producer of PVC resins in the world.

- ***Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line- and Precision Agriculture - Netafim).*** This business group produces PVC, polyethylene and polypropylene pipes and fittings, precision drippers for polyethylene irrigation, and geosynthetics and geotextiles. The products of this Business Group are used for water management systems for irrigation, drinking water and sewerage, surface heating and cooling systems, water treatment systems including for soil and waste applications, gas and telecommunications. In 2018, 2017 and 2016, the Fluent business recorded sales of $4,077 million, $3,023 million and $2,892 million, respectively (before holding company revenues and eliminations), which represented approximately 57%, 50% and 53% of Mexichem's net sales (before holding company revenues and eliminations) for each of those years, respectively.

2. ***Fluor Value Chain / Fluor Business Group:*** The process of this business group is divided into three processes: (i) the Fluorite Process, which consists of the extraction of fluorite, used for the production of hydrofluoric acid in the cement, steel, ceramic and glass industries, (ii) the Hydrofluoric Acid and Aluminum Fluoride process, used for the production of refrigerant gases, downstream fluorine compounds and the aluminum industry and (iii) the Refrigerant and Propellant Gases process, used in air conditioning and medical applications. This business group includes the mining concession for the world's largest Fluorite mine with an installed annual production capacity of approximately 1.6 million tons, representing approximately 20% of the world's annual fluorite requirements. The mine has proven reserves of about 64 million tons (40 years) according to the latest estimate made by experts certified by the Mining and Metallurgical Society of America. Sales of the Fluor Chain or Fluor business group in 2018, 2017, and 2016 amounted to $837 million, $681 million, and $583 million, respectively, representing approximately 12% of Mexichem's net sales for each of those years (before holding company revenues and eliminations).

3. ***Energy Business Group***. With the creation of this business group, the Company will gain access to energy cogeneration projects. On July 15, 2014, the consortium formed by Mexichem, Enesa, and Invenergy Clean Power LLC was selected by Pemex to develop a cogeneration plant. This project has been halted and no significant investments have been made to date.

The following organizational chart shows the corporate structure of the Company at the time of this Annual Report, indicating the conditioning of the subsidiaries in relation to the business groups.



Mexichem's main significant subsidiaries are:

Mexichem Resinas Vinílicas, S.A. de C.V. is a subsidiary of the Vinyl Business Group in our Ethylene Value Chain, which produces and sells PVC resins for the plastic industry. It owns the shares of: i) Mexichem Ethylene Holding Corp., 50% of the shares of Ingleside Ethylene LLC, which represents the Mexichem and Oxychem ethylene cracker joint venture, ii) Mexichem Resinas Colombia, S.A.S., and (iii) Vestolit, GmbH, manufacturers and marketers of PVC resins, and others.

Mexichem Compuestos, S.A. de C.V. is a Mexican company that produces compounds for various market sectors. It is a subsidiary of the Vinyl Business Group and owns the shares of: i) Mexichem Specialty Compounds, Inc. located in the U.S., ii) Mexichem Specialty Compounds, Ltd., a company located in the UK that produces polyvinyl chloride and special thermoplastic compounds, and iii) C.I. Mexichem Compuestos Colombia, S.A.S., a manufacturer of flexible compounds.

Mexichem Flúor, S.A. de C.V., which belongs to our Fluor Value Chain. Its main activity is the extraction and sale of Fluorite, as well as the production of hydrofluoric acid. It owns that shares of the subsidiaries that produce refrigerant gases in the UK and the U.S. As of January 1, 2011, most of its products have been distributed by its subsidiary, Mexichem Flúor Comercial, S.A. de C.V. The company is consolidated in the Fluor Chain and Business Group.

Mexichem Soluciones Integrales Holding, S.A. de C.V. is our trading subsidiary for the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) and consolidates and owns the shares of: i) Mexichem Amanco Holding, S.A. de C.V., which owns the shares of Fluent Business Group in Latin America and Wavin, B.V., the holding company of the Fluent Business in Europe (Building & infrastructure); ii) Dura-Line Holdings, Inc., which owns the shares of subsidiaries located in the U.S. and Canada, Czech Republic and AMEA (India, Oman and South Africa), which distribute micro ducts (Datacom), and iv) as of February 7, 2018, 80% of the shares representing the capital stock of Netafim, L.T.D, which owns the shares of subsidiaries located in Latin America, Spain, Australia, India, China and Israel (Irrigation).

Changes in Products and Services Offered

The strategy established by the Company is to maintain the competitiveness of our Fluor and Vinyl businesses and focus increasingly on our Building & infrastructure, Datacom, and Precision Agriculture businesses within the Fluent Business Group, all with the aim of placing the customer at the center of Mexichem's development by creating and developing innovative products and services that benefit people and their quality of life throughout the world ("human-centered" innovation), seeking, on a daily basis, to have a positive impact, through our solutions and products, on people and organizations around the world. As part of our strategy, we continue to pursue our goal of expansion into differentiated products and high-margin specialties, evolving from a production-oriented company to one that is much more consumer-centric, ensuring the supply of our raw materials.

The purchase of Química Flúor added Hydrofluoric Acid to our product portfolio, which is necessary to produce multiple specialty products in the Fluor Value Chain. Mexichem's acquisition of Resinas Vinílicas in Mexico and Colombia brought with it the production of suspended and emulsion vinyl resins, copolymer, homopolymer, Blender resins and Extender resins. Amanco added the production of pipes and solutions for the conduction of fluids. The integration strategy for the Fluor Business Group has allowed for the incorporation of Fluoride Aluminum into the product portfolio through its plant in Tamaulipas. Through the acquisition of Ineos, Fluor entered the Refrigerants market with higher added value products, and the latest acquisition of Fluorita de México gave it access to the highest purity Fluorite in the world.

The acquisition of Wavin (together with Amanco in the Building & infrastructure business group) in May 2012, incorporated new technologies and products to the offer of the Fluent Business Group, especially in the following areas:

- Water management and conduction by means of roof drainage via siphon, rainwater infiltration/attenuation units and filters
- Surface heating and cooling by means of roof heating systems and underfloor cooling systems
- Water treatment systems

The joint venture with Oxy incorporates Ethylene production for the integration of the Vinyl Business Group.

With the acquisitions of Dura-Line (Datacom), Vestolit and the license to distribute and sell HFC-227/eaP propellant for pharmaceutical grade in 2014 and the acquisitions of Gravenhurst in Canada and Vinyl Compounds Holdings in the UK in 2016, Mexichem entered new markets and geographies with higher-margin specialty products.

With Dura-Line (Datacom), Mexichem included in its portfolio high-density polyethylene (HDPE) products in conduit pipe solutions, pipe protectors, and pressure pipes for telecommunications (voice and data), as well as in the energy and infrastructure industry.

With Vestolit (Vinyl), the Company included high-impact suspension PVC resin (HIS-PVC) and PVC paste.

The acquisition of the license for the distribution and sale of pharmaceutical grade HFC-227ea/P, incorporates a medical propellant to the Fluor Business Group.

With Gravenhurst (Datacom), Mexichem entered the Canadian telecommunications market with specialty polyethylene products, while with Vinyl Compounds Holdings the Company acquired a leading supplier of

PVC compounds that serves a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods in the UK.

Netafim (Precision Agriculture) afforded Mexichem access to smart technology, which can be used in water supply systems, telecommunications, and other sectors, offering a platform from which it is possible to generate smart industrial solutions based around existing production lines that serve the infrastructure, housing, and data communication markets and other sectors. The Issuer believes that this acquisition will also strengthen its global presence and impact in key growth markets and allow it to grow in the replacement market and diversify and expand the end markets in which it sells its products.

Finally, Sylvin Technologies will enable the Company to offer greater added value to its U.S. customers. Sylvin's key raw materials are PVC resins, plasticizers and stabilizers, which should result in synergies with the operations of the Vinyl business group.

Changes in the company name

Mexichem has not made any changes to its corporate name during the last three fiscal years reported on in this Annual Report.

Insolvency or bankruptcy

Mexichem has never been insolvent or bankrupt.

Changes in Corporate Structure

The Company has continued with the corporate restructuring of its subsidiary companies with the purpose of aligning, integrating and optimizing the production processes of its value chains considering its business acquisitions. Mexichem continues to make name changes and effect mergers of several of its subsidiaries.

On January 31, 2018, the appointment of Daniel Martínez-Valle as the new CEO of the Issuer was announced, following the resignation of Antonio Carrillo Rule. The Mexichem Board of Directors ratified Daniel Martínez Valle as CEO on February 7, 2018.

In early 2018, Andres Múgica, former President of the Fluor Business Group became the head of operations for Building & Infrastrucutre Latin America (Amanco -Fluent Latam). Amanco together with Wavin (Fluent Europe) make up the Building & infrastructure business, presided over by Marteen Roef since 2018. Marteen Roef was previously the President of Fluent Europe (Wavin). Peter Hadju was appointed President of the Datacom (Dura-Line) business (Fluent U.S./Canada and AMEA). The appointments of both Maarten Roef and Peter Hajdu followed the retirement of Paresh Chari, the then President of the Fluent Business Group. On February 7, 2018, Mexichem completed the acquisition of Netafim, and Ran Maidan was appointed President of the Precision Agriculture business (Netafim) and therefore continues to act as CEO of Netafim, a condition he has held since before the acquisition.

At the beginning of 2018, Sameer S. Bharadwaj, President of the Compounds business unit, also became President of the Fluor Business Group. Sameer served as a member of the Fluor Business Group Advisory Board from 2010 to 2016, demonstrating in-depth knowledge of the Fluor Business Group.

In Q1 2017, the Administration decided to report independently on U.S. and AMEA operations. As of this period, four regions will be reported on for the Fluent business (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture -Netafim): LatAm, Europe, U.S./Canada and AMEA.

In September 2016, as part of Mexichem's strategy to consolidate its leadership team, Mexichem appointed attorney Francisco R. Hernández Castillo as Legal Corporate Vice President, effective September 1, 2016.

Summary of Corporate and Structural Changes

The most important changes that have allowed the Company to create synergies and enhance its processes are mentioned below:

Vinyl Business Group:

The following changes have been made to the **Vinyl Business Group** (formerly Chlorine-Vinyl Chain):

Caustic soda process. The subsidiaries currently responsible for the Caustic soda process are Mexichem Derivados and Petroquímica Mexicana de Vinilo.

At the end of February 2016, Mexichem changed the name from AlphaGary to Mexichem Specialty Compounds, which is part of the Compounds business unit in the Vinyl Business Group.

On December 20, 2017, Mexichem announced the decision of the PMV shareholders not to rebuild its VCM production capacity. As a result, the joint venture for the production of VCM, the assets and liabilities associated with the production of ethylene and the ancillary services associated with VCM and ethylene were classified on the latter date as discontinued operations in Mexichem's Financial Statements for the years 2017, 2016, and 2015. In addition, PMV's decision not to rebuild the VCM plant resulted in the additional cancellation of $196 million related to the assets of the Ethylene plant and ancillary services related to the VCM and Ethylene plants, which are also reported as discontinued operations. Thus, all impacts and recognized revenues related to the incident at the VCM plant have been reported as discontinued operations. This represents PMV's exit from the VCM and Ethylene businesses in Mexico, but not from the caustic soda business, the plant for which will continue to be operated by PMV.

On July 6, 2018, Mexichem announced that in line with its strategy of consolidation of its key businesses, it reached an agreement to acquire 44.09% of the shares representing Pemex's capital stock in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of similar companies and precedent transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, which means that, as of the latter date, PMV is exclusively a subsidiary of Mexichem and its activity consists, as of the latter date, only of the operation of the caustic soda plant.

On November 28, 2016, Mexichem announced the acquisition in the UK of Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds serving a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods. The Derbyshire-based PVC compound manufacturer, VCHL, generated annual revenues of approximately $40 million in the years leading up to the acquisition. Mexichem consolidates the financial statements of VCHL under its Compounds Business Unit, a leading supplier of PVC compounds that serves the global market and is part of the Vinyl business group.

In February 2017, the equal joint venture formalized on October 31, 2013 between Mexichem and Occidental Chemical Corporation (OxyChem), called Ingleside Ethylene LLC, began operations on time and on budget of the ethylene cracker in the OxyChem complex located in Ingleside, Texas. During the second quarter of 2017, the Cracker began commercial operations. The Cracker has a production capacity of 1.2 billion pounds (550,000 metric tons) of ethylene per year and provides OxyChem with a continuous source of ethylene for the production of vinyl monochloride (VCM), which Mexichem uses to produce polyvinyl chloride (PVC resins) as well as PVC pipes. The total amount invested during 2017 and 2016 alone was $62 million and $350 million respectively (based on credit journal entries and not cash flow). The joint venture also includes the pipeline and storage plant in Markham, Texas. The plant has 150 permanent employees. Construction began in the second quarter of 2014.

On January 22, 2018, Mexichem announced the acquisition of Sylvin Technologies Inc., a PVC compound manufacturer based in Denver, Pennsylvania, for $39 million free of cash and debt. Sylvin recorded total sales of $29 million in 2017. The company has a 30-year history serving a wide range of industries including: cable, electrical, industrial, automotive, medical and food products. Mexichem will consolidate Sylvin into the Vinyl Business Group under the Compounds Business Unit.

In the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture -Netafim):

The following changes have been made to the **Fluent Business Group** (formerly Integral Solutions Chain):

In 2016, Mexichem acquired Gravenhurst Plastics Ltd. (GPL) in Ontario, Canada to reinforce its global growth model in value-added specialty products. GPL provides high-density polyethylene (HDPE) tubing and fiber optic ducts as well as construction products in the Canadian market.

In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a subsidiary of Mexichem, reached an agreement to acquire: i) voting shares representing 80% of the subscribed and paid-in capital stock, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital, of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, to Netafim.

In the Fluor Business Group:

The following changes have been made to the **Fluor Business Group:**

On March 23, 2017, Mexichem announced that the U.S. International Trade Commission (ITC) found that imports of refrigerant gases R-134a are causing material damage to the R-134a production industry in the U.S. The decision was the result of a year-long investigation by the U.S. Department of Commerce, which found that imports of R-134a from China were being introduced into the U.S. at prices below fair value. On February 22, 2017, the Commerce Department announced that imports from China of R-134a engaged in dumping practices and imposed antidumping duties of between 148.79% and 167.02%.

Climate Change Summary

Mexichem has performed various analyses to determine the degree of exposure to the possible effects of climate change on its operations.

The effects of climate change identified in the different areas where Mexichem has operations or market presence are desertification and drought, rising sea levels, changes in rainfall patterns, decreased water availability, deforestation and disease. All these phenomena could affect the Company's conditions, operating results and financial position, due to the need to generate investments in order to adapt operations, the increase in the price of supplies and energy, the closing of affected operations, and the relocation of suppliers, protection measures against natural phenomena, the relocation of facilities to places with more favorable conditions and greater environmental regulatory requirements.

In this sense, the main risks foreseen are the physical risk to current and future facilities, as well as the availability of water for their operation. Mexichem conducts risk assessments and detects opportunities arising from climate change in each of the regions in which it operates. Preventive measures have been identified and based on this, actions are being taken to mitigate these risks. Operational risks at areas at sea level have been identified and mitigated through constant hurricane monitoring, supported by forecasting models from the Miami National Hurricane Center. In this way, it is possible to plan actions regarding the supply chain and operation of plants, as well as to prevent difficulties that may result from these types of events.

Extreme weather events can also have a serious impact on the company's logistics as production units could be isolated without the capacity to receive or ship products by land or sea, as the case may be. What is more, the flow of materials could be interrupted in places that do not belong to the company, but that are strategic for the transport of goods (ports closed in the U.S. due to hurricanes or inaccessible border bridges due to floods in Europe). Thus, Mexichem's operating sites are exposed to hurricanes, cyclones and tropical storms resulting from Climate Change. If affected by these phenomena, the Company could see its operating results and financial condition affected.

As an example of the above, in September 2017, as a result of Hurricane Harvey, certain subsidiaries of the Vinyl Business Group declared an incident of Force Majeure related to the supply of all their suspensions, copolymers and emulsions of PVC resins produced in Mexico, Colombia and the U.S, due to the fact that their main supplier of VCM and other raw materials had declared Force Majeure.

Since the Intergovernmental Panel on Climate Change (IPCC) predicts that extreme weather events will increase in intensity and number, Mexichem has designed contingency plans that seek to normalize operations as soon as possible. Redundant transport options, alternate routes and logistic means or emergency inventories are some examples of what the plans account for. If the Company manages to operate almost as usual in the face of these events, it will have a clear advantage over the competition, who have not taken such measures.

While climate change can have negative impacts on operations, it can also represent interesting business opportunities such as:

- The opening of new markets for products that contribute to the adaptation and mitigation of climate change impacts.
- Durability and conditioning as a result of consumer preference for companies committed to caring for the environment and social responsibility.

Summary of changes in working capital

In addition to the operational progress achieved in 2018, Mexichem continued to exercise financial discipline in order to maximize the Company's long-term performance. Specifically, in 2018 Mexichem increased its working capital needs by $92 million compared to 2017 as a result of the operation throughout 2018 of the ethylene cracker in Texas, higher PVC and refrigerant gas prices, the consolidation of Netafim in Mexichem's financial statements, and the Company's deleveraging strategy, which increased accounts receivable and inventories and reduced suppliers.

Integrated Companies

On December 31, 2018, the principal subsidiaries of the Group were as follows:

Mexichem Resinas Vinílicas, S.A. de C.V., a subsidiary of the Vinyl Business Group of our Ethylene Value Chain, which manufactures and sells PVC resins for the plastic industry. It owns the shares of: i) Mexichem Ethylene Holding Corp., 50% of the shares of Ingleside Ethylene LLC, a company that represents the joint ethylene cracker venture between Mexichem and Oxychem; and ii) Mexichem Resinas Colombia, S.A.S. and Vestolit, GmbH, which manufacture and market PVC resins.

Mexichem Compuestos, S.A. de C.V., a Mexican company that manufactures compounds for various market sectors. It is a subsidiary of the Vinyl Business Group, and owns the shares of: i) Mexichem Specialty Compounds, Inc. located in the U.S., ii) Mexichem Specialty Compounds, Ltd., a company located in the UK that manufactures polyvinyl chloride and special thermoplastic compounds, and iii) C.I. Mexichem Compuestos Colombia, S.A.S., a manufacturer of flexible compounds.

Mexichem Flúor, S.A. de C.V., a company whose main activity is the extraction and sale of fluorite, as well as the production of hydrofluoric acid. It is the owner of the shares of subsidiaries that mainly produce refrigerants in the UK and the U.S. As of January 1, 2011, most of its products are distributed by its subsidiary Mexichem Flúor Comercial, S.A. de C.V. The company is consolidated in the Fluor Value Chain and Business Unit.

Mexichem Soluciones Integrales Holding, S.A. de C.V. This is our trading subsidiary for the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim), and it owns the shares of: i) Mexichem Amanco Holding, S.A. de C.V., which owns the shares of the Fluent Business Group in Latin America and Wavin, B.V. the holding company of the Fluent Business in Europe, which together form the Building & infrastructure business; ii) Dura-Line Holdings, Inc, which owns the shares of the subsidiaries located in India, Oman, South Africa, the Czech Republic and the U.S., which distribute micro ducts and form the Datacom business, and iii) as of February 7, 2018, 80% of the shares representing the capital stock of Netafim, L.T.D, which owns the shares of subsidiaries located in Latin America, Spain, Australia, India, China and Israel and forms the Precision Agriculture business.

Mexichem's stake in the capital stock of the subsidiaries as of December 31, 2018, 2017 and 2016, by business group, is shown below.

Group	Country	Equity Stake %
Vinyl:		
Mexichem Derivados, S.A. de C.V.	Mexico	100
Mexichem Compuestos, S.A. de C.V.	Mexico	100
Mexichem Resinas Vinílicas, S.A. de C.V.	Mexico	100
VESTO PVC Holding GmbH, Marl	Germany	100
Mexichem Specialty Compounds, Inc	U.S.	100
Mexichem Specialty Compounds, Ltd	UK	100
Vinyl Compounds Holdings, Ltd	UK	100
Mexichem Resinas Colombia, S.A.S.	Colombia	100
Mexichem Speciality Resins, Inc.	U.S.	100
C.I. Mexichem Compuestos Colombia, S.A.S.	Colombia	100
Petroquímica Mexicana de Vinilo, S.A. de C.V. (in	Mexico	100

2017 and 2016 the percentage was 55.91%)		
Ingleside Ethylene LLC	U.S.	50
Sylvin Technologies Inc.	U.S.	100
Fluor:		
Mexichem Flúor, S.A. de C.V.	Mexico	100
Mexichem Flúor Comercial, S.A. de C.V.	Mexico	100
Fluorita de México, S.A. de C.V.	Mexico	100
Mexichem Fluor Inc.	U.S.	100
Mexichem Fluor Canada Inc.	Canada	100
Mexichem UK Ltd	UK	100
Mexichem Fluor Japan Ltd.	Japan	100
Mexichem Fluor Taiwan Ltd.	Taiwan	100

Group	Country	Percentage of Ownership
Fluent (Building & Infrastructure - Wavin and Amanco-, Datacom - Dura-line-, and Irrigation - Netafim-):		
Dura-Line Holdings, Inc. (Datacom)	U.S.	100
Mexichem Canada Holding, Inc (antes Gravenhurst Plastics, Inc.) (Datacom)	Canada	100
Mexichem Soluciones Integrales Holding, S.A. de C.V.	Mexico	100
Mexichem Amanco Holding, S.A. de C.V. (Building & Infrastructure)	Mexico	100
Mexichem Soluciones Integrales, S.A. de C.V. (Building & Infrastructure)	Mexico	100
Mexichem Guatemala, S.A. (Building & Infrastructure)	Guatemala	100
Mexichem Honduras, S.A. (Building & Infrastructure)	Honduras	100
Mexichem El Salvador, S.A. (Building & Infrastructure)	El Salvador	100
Mexichem Nicaragua, S.A. (Building & Infrastructure)	Nicaragua	100
Mexichem Costa Rica, S.A. (Building & Infrastructure)	Costa Rica	100
Mexichem Panamá, S.A. (Building & Infrastructure)	Panama	100
Mexichem Colombia, S.A.S. (Building & Infrastructure)	Colombia	100
Pavco de Venezuela, S.A. (Building & Infrastructure)	Venezuela	100
Mexichem Ecuador, S.A. (Building & Infrastructure)	Ecuador	95
Mexichem del Perú, S.A. (Building & Infrastructure)	Peru	100
Mexichem Argentina, S.A. (Building & Infrastructure)	Argentina	100
Mexichem Brasil Industria de Transformação Plástica, Ltda. (Building & Infrastructure)	Brazil	100
Wavin B.V. (Building & Infrastructure)	Netherlands	100
Wavin Nederland B.V. (Building & Infrastructure)	Netherlands	100
Wavin Belgium N.V. (Building & Infrastructure)	Belgium	100
Wavin (Foshan) Piping Systems Co. Ltd. (Building & Infrastructure)	China	100

Wavin Ekoplastik s.r.o. (Building & Infrastructure)	Czech Republic	100
Nordisk Wavin A/S, (Building & Infrastructure)	Denmark	100
Norsk Wavin A/S, (Building & Infrastructure)	Norway	100
Wavin Estonia OU, (Building & Infrastructure)	Estonia	100
Wavin-Labko Oy, (Building & Infrastructure)	Finland	100
Wavin France S.A.S., (Building & Infrastructure)	France	100
Wavin GmbH, (Building & Infrastructure)	Germany	100
Wavin Hungary Kft. (Building & Infrastructure)	Hungary	100
Wavin Ireland Ltd., (Building & Infrastructure)	Ireland	100
Wavin Italia SpA, (Building & Infrastructure)	Italy	100
Wavin Latvia SIA, (Building & Infrastructure)	Latvia	100
UAB Wavin Baltic, (Building & Infrastructure)	Lithuania	100
Wavin Metalplast-BUK Sp.zo.o. (Building & Infrastructure)	Poland	100
Wavin Romania s.r.l. (Building & Infrastructure)	Romania	100
OOO Wavin Rus (Building & Infrastructure)	Russian Federation	100
Wavin Balkan d o.o., (Building & Infrastructure)	Serbia	100
Wavin Slovakia spol s.r.o. (Building & Infrastructure)	Slovak Republic	100
AB Svenska Wavin, (Building & Infrastructure)	Sweden	100
Pilsa A.S., (Building & Infrastructure)	Turkey	100
Wavin Ltd. (Building & Infrastructure)	UK	100
Warmafl oor (GB) Ltd., (Building & Infrastructure)	UK	100
Wavin Ukrain O.O.O.T.O.V., (Building & Infrastructure)	Ukraine	100
Netafim Ltd. (Irrigation)	Israel	80

Main Activity of the Business Groups

The following pages describe the Business Groups, their (ii) Distribution Channels, (iv) Main Clients and (viii) Market Information (numbering is in accordance with the numbering in Annex "N", Instructions for the preparation of the Annual Report) of the Sole Issuer Circular:

ii. Distribution Channels

See Section 2) "The Issuer", item b, "Description of Business" for each business group, of this Annual Report.

Vinyl Business Group

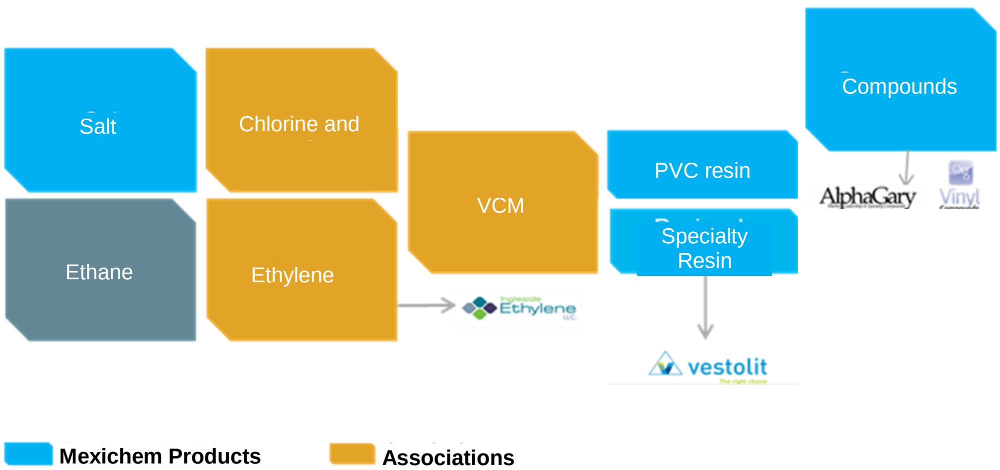
The process begins with the extraction of salt, by injecting water into the salt dome, converting it into brine, which is then transported by brine ducts to the plant where it is separated into chlorine and caustic soda by applying an electric current (electricity). Chlorine is combined with ethylene to form vinyl chloride monomer (VCM), which is polymerized to produce polyvinyl chloride (PVC). Mexichem currently obtains the necessary VCM for PVC production mainly by acquiring it from OxyChem, although it also has supply contracts with other suppliers for smaller amounts, which is expected to continue in the future. Ingleside began the ethylene cracker startup process in February 2017, starting commercial operations in the second quarter of 2017, allowing Mexichem to reap the benefits of vertical integration in the value chain from ethane to PVC (including the chlor-alkali chain), which in turn will allow Mexichem to reduce its PVC production costs, as well as directly manage the production and supply of its main raw material, ethylene.

PVC is a versatile plastic that has countless everyday uses, such as pipes for transporting drinking water and for irrigation, coatings for electrical conduction cables, profiles for constructing windows, doors, facades or entire houses, tiles, floors, furniture coverings, automobile parts and household appliances, clothing and footwear, containers and packaging, medical devices, adhesive tapes, and many others.

This business group also produces PVC compounds, specially formulated to meet the specific requirements of customers who transform this polymer into end use goods. PVC Compounds incorporate the various additives necessary for the processing of Vinyl Resins, and those required to obtain the functional properties unique to each use.

PVC resins can be combined with other additives to make value-added products such as compounds, pipes and coatings.

The main production chain of the Vinyl Business Group is as follows (in addition to what is shown in the graph below, the Vinyl business group produces and sells byproducts derived from the production of chlorine and caustic soda):



The Vinyl business group has 22 sites with 31 plants operating in Mexico, Colombia, the U.S., the UK and Germany focused on the production of PVC and specialty resins, compounds, VCM (only in Germany) and various byproducts such as chlorine and caustic soda. 20 of the 22 sites comply with ISO-9001 quality standards, 14 of them are certified under ISO-14001 environmental management standards, and 14 have OSHAS 18001 security accreditation. These plants are part of the international initiative within the chemical industry known as Responsible Care and meet strict standards of safety, health and environmental protection throughout the manufacturing life cycle.

The Vinyl business group consists of the following subsidiaries:

- Mexichem Derivados, S.A. de C.V. and Mexichem Derivados Colombia, S.A.S. and Petroquímica Mexicana de Vinilo, S.A. de C.V., which produce chlorine, caustic soda and specialized chlorinated products such as sodium hypochlorite, hydrochloric acid, and other specialized chemicals;

- Mexichem Resinas Vinílicas, S.A. de C.V., and Mexichem Resinas Colombia, S.A.S., leaders in Latin America in the production of PVC resins;

- Mexichem Specialty Resins Inc., a leader in the production and marketing of specialized resins;

- Quimir, S.A. de C.V., a producer of industrial and food phosphates;

- Mexichem Compuestos, S.A. de C.V., and Mexichem Compuestos Colombia S.A.S., producers of compounds and plasticizers;

- Mexichem Specialty Compounds (formerly AlphaGary Corporation and AlphaGary Ltd.), manufacturers of PVC and PVC-free compounds;

- Vestolit GmbH, producer of chlorine, caustic soda and PVC resin in high-impact suspension (HIS-PVC) and PVC resin in paste;

- Ingleside Ethylene LLC, which began producing ethylene in February 2017 and began commercial operations in the second quarter of the same year;

- Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds.

- Sylvin Technologies Inc. a specialist manufacturer of PVC compounds.

From 2016 to date the Vinyl Business Group has made the following acquisitions and entered into the following joint ventures:

Vinyl Compounds Holdings Ltd. (VCHL). On November 28, 2016, Mexichem announced the acquisition in the UK of Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds serving a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods. The Derbyshire-based PVC composite manufacturer VCHL, at the time of the acquisition, generated revenues of approximately $40 million. Mexichem has consolidated the financial statements of VCHL's operations under its Compounds Business Group, a leading supplier of PVC compounds that serves the global market and part of the Vinyl Business Group.

On January 22, 2018, Mexichem announced the acquisition of Sylvin Technologies Inc., a PVC composite manufacturer based in Denver, Pennsylvania, for $39 million free of cash and debt. Sylvin recorded total sales of $29 million in 2017. The company has a 30-year history serving a wide range of industries including: cable, electrical, industrial, automotive, medical and food products. Mexichem consolidates Sylvin's financial statements in the Vinyl Business Unit in the Compounds Business Unit.

Sales

In 2018, sales and the EBITDA of the Vinyl business group were $2,460 million and $557 million, respectively, representing an increase of 6% and 10% with respect to 2017. In 2017, net sales were $2,317 million and EBITDA was $507 million (including inter-group business transactions), representing an increase of 14% and 79%, respectively, compared to the previous year. In 2016, Vinyl had net sales of $2,026 million and an EBITDA of $283 million. In 2018, 2017 and 2016, Vinyl contributed 34%, 38% and 37% of the Company's net sales (before parent company revenues and intercompany eliminations) as well as 40%, 46% and 32% of its consolidated EBITDA, respectively.

The table below shows the Vinyl Business Group's production and sales volumes for 2018, 2017 and 2016.

On December 31

Vinyl Business Group [1]	**2018**	**2017**	**2016**
Volume (million tons)	2.524	2.505	2.454
Net sales [2]	2,460	2,317	2,026
EBITDA	557	507	283
EBITDA margin (%) [3]	22.64%	21.88%	13.97%

1. The above amounts have only been adjusted to eliminate intra-group (but not inter-group) business transactions.
2. In millions of dollars.
3. The EBITDA margin represents the EBITDA of the Vinyl Business Group divided by the net sales of said Business Group.

	Year ended December 31:					
	Volume Sold (1)			Sales (2)		
Vinyl	2018	2017	2016	2018	2017	2016
Chlorine	121	104	68	18	15	13
Soda	375	390	405	242	191	153
Hypochlorite	157	149	162	18	16	16
Hydrochloric Acid	59	54	49	10	7	7
Salt	33	34	40	1	1	2
Phosphates	41	40	43	49	47	51
Other (3)	33	35	43	30	29	26
Sum Derivatives	820	807	809	368	307	267
Vinyl (4)	1,529	1,522	1,482	1,638	1,595	1,387
Compounds	237	234	212	525	482	424
Eliminations	(62)	(58)	(49)	(71)	(67)	(52)
Vinyl Total	2,524	2,505	2,454	2,460	2,317	2,026

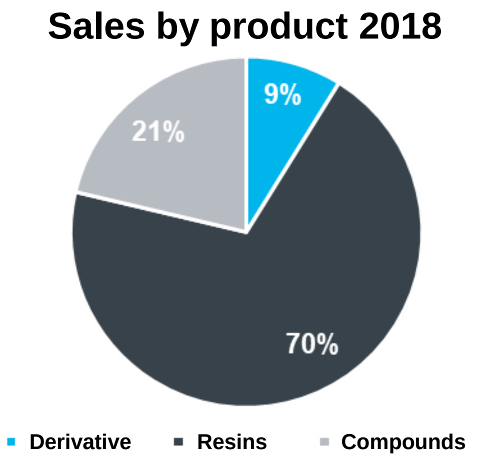
(1) Tons.

(2) Figures in thousands.

(3) Includes sales of Colombia Derivatives, Ethylene and other products.

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

In addition, the following graph shows a breakdown of sales per business in 2018.



Information excluding inter-string transactions within the same Business Group

Salt-Chloro-Sose-Ethylene-VCM Process

Mexichem has plants for the Salt-Chloro-Sose process in Mexico and Colombia; in Germany, it produces chlorine, caustic soda, sodium hypochlorite, hydrochloric acid, and VCM, in addition to plants that produce industrial and food phosphates. Likewise, in a 50/50 joint venture with Oxychem, the Issuer produces ethylene in a cracker located in Ingleside, Texas.

Products

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

Caustic soda. It has an endless number of applications; the main ones include: the production of oils, soaps and detergents, regeneration of ionic exchange resins for water treatment, washing of glass bottles, bleaching of cellulose in the pulp and paper industry, production of refined sugar, dyeing of cotton fabrics, production of agrochemicals, manufacture of gelatins, cleaning products in general, among others.

Sodium hypochlorite. It is mainly used for the manufacture of liquid bleach, as a general sanitizer, for the treatment and purification of water, manufacture of industrial catalysts, for bleaching paper, among others.

Hydrochloric acid. It is used for the production of high fructose which in turn is used as sweetener in the soft drink, candy and brewing industries; it is widely used for drawing and pickling metals, it is used in the pharmaceutical industry for the production of medicines, manufacture of pigments and dyes, and manufacture of ferric chloride, which is used in the lithography industry, among others. It is widely used for the manufacture of plastics and rubber, in the oil industry, and ceramics, among others.

Ethylene. Ethylene is the most important segment of the petrochemical industry and is converted into a large number of final and intermediate products such as plastics, resins, fibers and elastomers (all of which are polymers, including polyethylene (PE) and polyvinyl chloride (PVC), solvents, coatings, plasticizers and antifreezes, among the most widely used.

VCM. Vinyl chloride is used almost entirely (96-98%) in the manufacture of polyvinyl chloride or PVC resin, a very versatile product that has applications in the medical and construction sectors, as well as in cable sheathing, piping, rigid and flexible profiling, and toys.

Industrial and food phosphates. Used mainly for the manufacture of detergents, fertilizers, animal feed, ceramics, water treatment, textiles, toothpastes, beverages, sausages, dairy products and bakery.
Plants and Mines (See Section 2, "The Issuer", item x, "Description of its Main Assets" of this Annual Report).

Raw Materials

The main raw materials in the Salt-Chloro-Sose Process are salt, electricity and natural gas, which represented 12%, 70% and 13%, respectively, of the sales cost in 2018 in the Derivatives Business Group. In Mexico, these raw materials are obtained through long-term supply contracts, with periodic reviews, with the National Water Commission (water), Federal Electricity Commission (electricity), and PEMEX Industrial Transformation (natural gas), with the exception of salt, which to a large extent is extracted from the concession for the exploitation of the company's salt dome. In Colombia, they are obtained from: Avanti (Gas Natural Fenosa), Codensa, Grupo Enel (electricity), Empresas Públicas de Cajica (water) and Brinsa SA (salt).

Sales and Marketing

Mexichem has long-term contracts with some customers, for which it has established sales schemes that promote loyalty through discounts for volume acquired during specific periods of time. Long-term contracts represent approximately 70% of chlorine sales and 60% of caustic soda sales, and provide for the use of a price formula based on North American reference prices provided by IHS Markit and ICIS. The remaining volume is sold on the spot market at prices calculated by reference to the prevailing sales price at that time. In Europe, 100% of the chlorine produced is used to produce VCM and derivatives, caustic soda is sold to third parties.

Main Clients

The clients of the Salt-Chloro-Sosa-Ethylene-VCM Process are located in (1) the petrochemical, secondary chemical, agrochemical and pharmaceutical industries; (2) PVC resin production, plastics processing, (3) soap and detergents, cellulose and paper, matches, and polymers such as polyurethane products for hygiene and cleaning of hospitals and homes, and (4) water treatment, bottling, and metal-mechanic industries. The 10 most important customers of this Business Group represent 0.9% of Mexichem's total sales, and the most important customer represents 0.2% of the Issuer's total sales, so there is no dependence on one or more customers, since the loss of such customers would not adversely affect the Company's operating results or Financial Condition.

Distribution Channels

The products of the Salt-Chloro-Sosa-Ethylene Process are marketed directly to the industries that use them as inputs to produce other products. There is no special sales method, as all sales are made through the sales force in our own branches and distributors.

Distribution Contracts

The sale of Salt-Chloro-Sosa-Ethylene Process products is made directly to customers so there are practically no distribution contracts for these products.

Cyclic Behavior

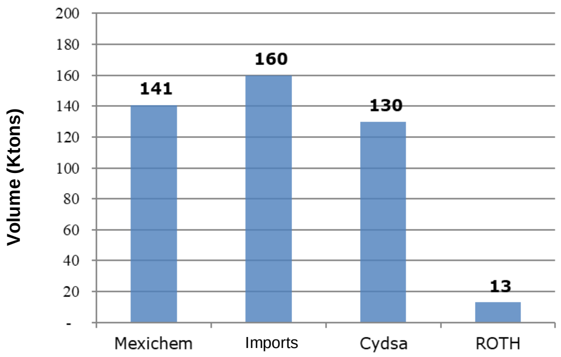
The chemical industry behaves in accordance with the international economy expansion and contraction cycles and the supply and demand conditions in key countries and regions such as the U.S., China, Latin America and the Middle East.

Positive and Negative Aspects of its Competitive Condition

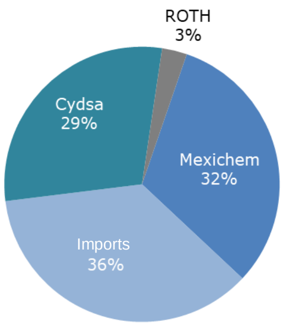
The Company maintains its leadership condition in the domestic market and has managed to maintain competitiveness levels comparable to those of U.S. producers, Mexichem's main international competition, through significant investments and the commercialization of products with greater added value.

Market Share

See Section 1, "General Information", item b, "Executive Summary", numeral 1, "The Company", of this Annual Report for more information on market share.
The following graph shows Mexichem's participation in the caustic soda market in Mexico during 2018:



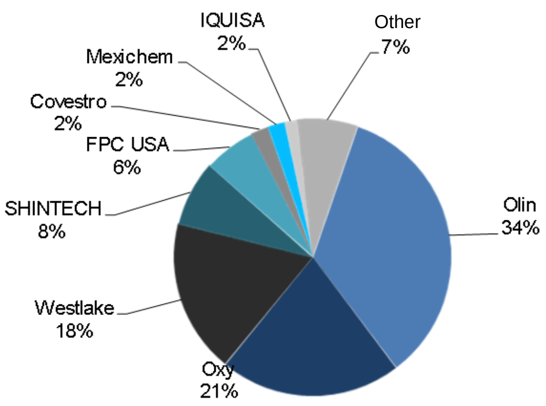
Caustic Soda
Market Share in Mexico



Source Mexichem market research based on ANIQ import-export reports.

The total capacity in the caustic soda market in North America is 16.4 million metric tons.

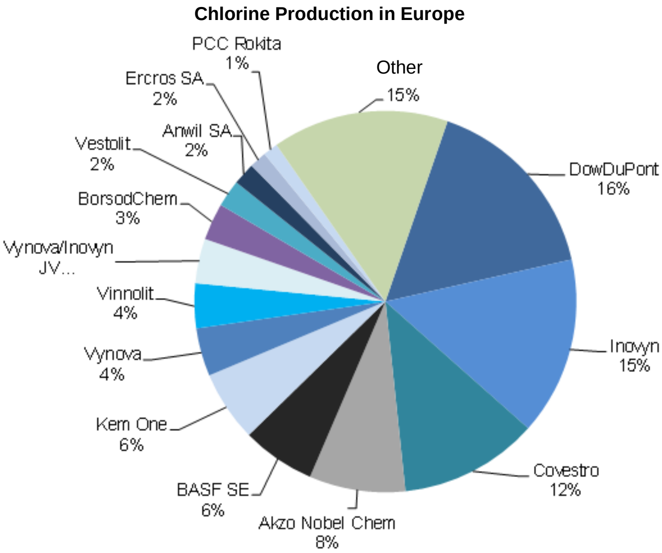
Caustic Soda Production in North America



Source IHS Markit

In Europe, the caustic soda market is consumed and produced locally due to the high cost of transportation and storage. The market is very fragmented, with local producers competing in specific geographic markets. Mexichem competes with producers integrated in the production of caustic soda such as Nourvon Covestro and Dow Chemicals.

In 2018, the total chlorine capacity in Europe reached 11.6 million tons, although 9.8 million tons were produced, with a decrease of 1% over the previous year. The following graph shows the main chlorine producers, based on the IHS Markit report.



Source IHS Markit

The international market share of these products for Mexichem is not substantial since it only exports its excess production.

Process Chlorine and Caustic Soda

Salt-Chloro-Sosa (chloro-alkali) is a term that refers to the chemistry of chlorine and caustic soda. Chlorine and caustic soda are co-products that result from the disintegration of salt into components by means of the electrolysis process. This process produces a proportion of chlorine and caustic soda, which is referred to as ECU. An ECU consists of 1 unit of chlorine and 1.12 units of caustic soda. The main materials used in this process are electricity and salt, electricity being the main cost.

Although chlorine is used in 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.

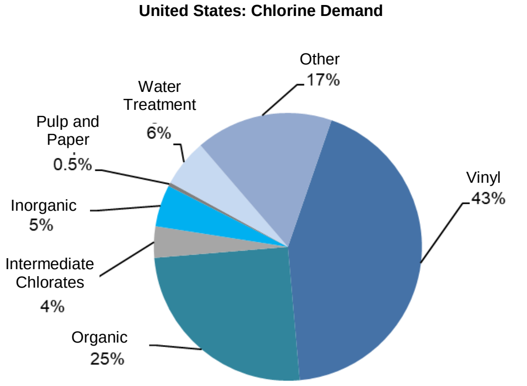
The chlor-alkali industry is cyclical due to the direct impact of economic growth on demand, where periods of low profitability and growth are often followed by periods in which attractive margins justify capacity expansion. In general, the demand for chlorine depends on the construction sector, while the demand for caustic soda depends on the manufacturing sector.

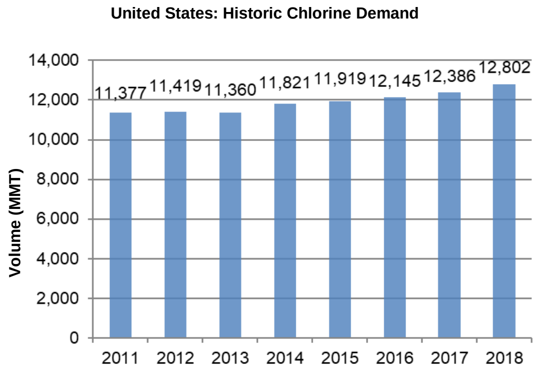
The primary markets for chlorine and caustic soda are the U.S. and Mexico. The majority of chlor-alkali producers are regional, with Dow Chemical Company being a notable exception, as it is a multinational and global company with a strong presence in North America and Europe.

According to a study by IHS Markit Chemical, Chlor-Alkali Analysis 2018, chlorine consumption is expected to present an annual worldwide increase of between 2.1% and 2.2% in the future.

Traditionally, chlorine demand drives the chlor-alkali production rate as chlorine plants are often integrated by facilities producing chlorine derivatives such as vinyl and PVC resins. The demand for chlorine is highly dependent on the demand for vinyl (particularly PVC resin). Since most of the chlor-alkali production is not composed of users of caustic soda, their demand may vary significantly.

Vinyl production, particularly PVC resin, represents the largest use of chlorine in the U.S.. Vinyl production including PVC resin production accounted for 43% of chlorine consumption in the U.S. in 2018, as shown in the table below. PVC is widely accepted as it can be molded for a variety of uses in the construction industry, including rigid and flexible tubing, pipe fittings, and wire/cable coatings, among other applications.

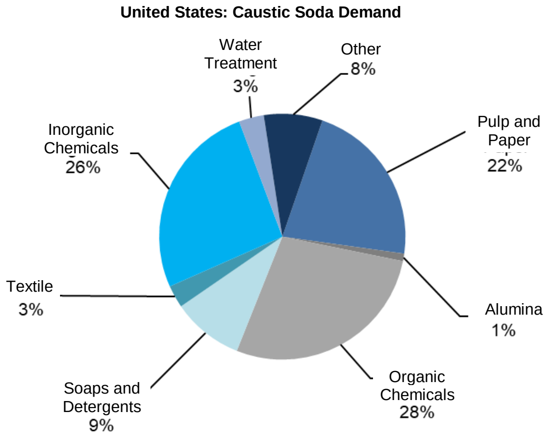


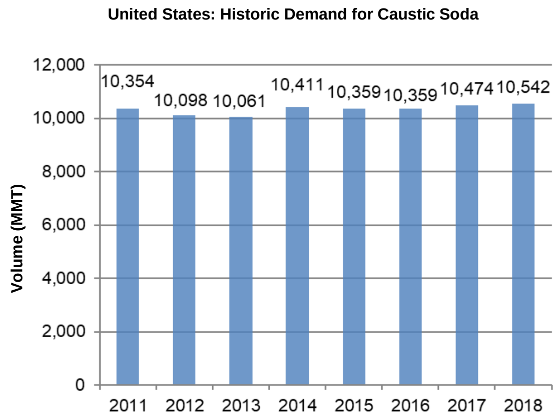


Source IHS Markit

Caustic soda in the USA is used in many industrial applications in the manufacture of organic chemicals (28%) such as propylene oxide and epichlorohydrin, inorganic chemicals (26%) such as titanium dioxide, as well as in the production of pulp and paper (22%). In 2018, the total production capacity of caustic soda in the USA was 15.2 million tons per year, and 14.4 million tons for chlorine.

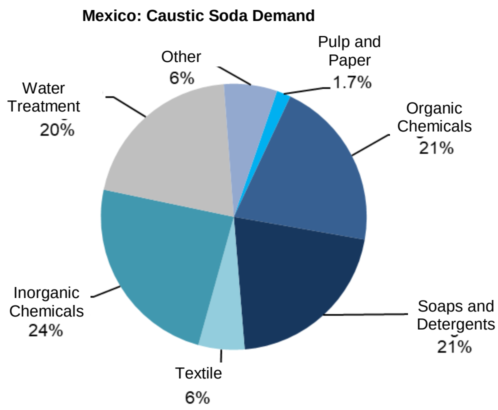
Demand for caustic soda in the U.S. increased 0.6% in 2018 compared to 2017, while chlorine demand increased 3% year-on-year.

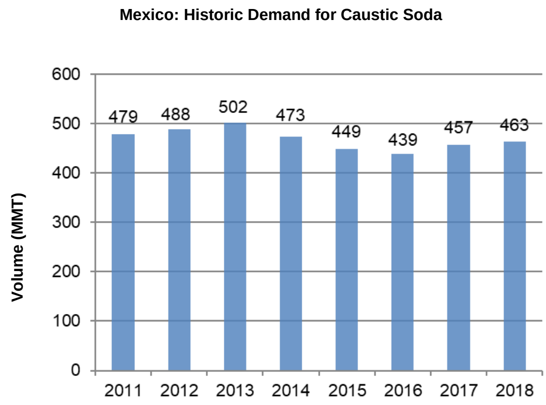




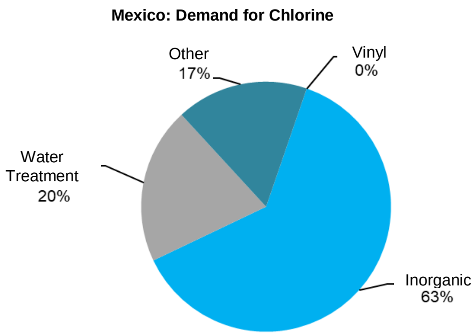
Source IHS Markit

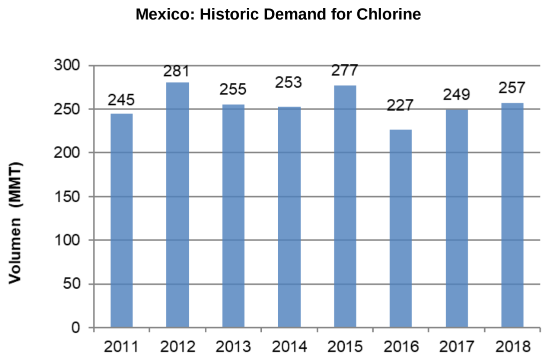
In Mexico, caustic soda has many industrial uses, including organic and inorganic chemical products, as well as in the production of soaps and detergents, each representing 21% of total demand for such product. The total production capacity of caustic soda in Mexico in 2018 was 594,000 tons, and 551,000 tons for chlorine, while the production of caustic soda and chlorine of the Issuer, in the same year in Mexico was 174,000 and 155,800 tons. In 2018, the demand for chlorine in Mexico increased by 3%, compared to 2017, year in which production levels fell by the PMV incident, while the demand for caustic soda increased 1% year-on-year according to IHS Markit.





Source IHS Markit

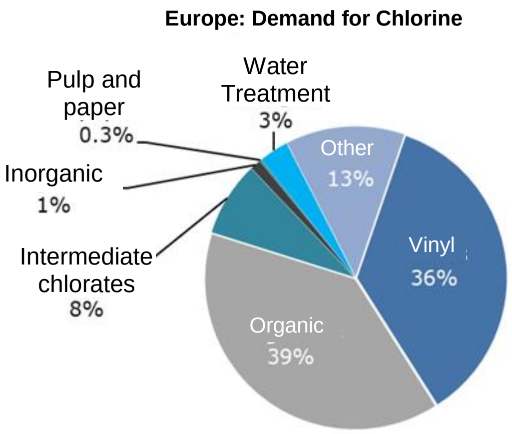




Source IHS Markit

In the last 20 years, there has been a significant change in the use of chlor-alkali production technologies. Membrane cell technology began to be used in the mid-1980s, which has replaced mercury cell technology because membrane technology attracts environmental improvements and cost efficiencies. In Western Europe, all production of chlorine-alkali based on mercury technology was converted to membrane cell technology in early 2019. Some chlor-alkali plants with asbestos-based diaphragm cells will continue to operate under extensions, the last of which is scheduled to transform in 2025. Mexichem does not use mercury technology in its chlorine processes.

The production of caustic soda reached 9.8 million tons, i.e. a decrease of 1.5% compared to 2017.

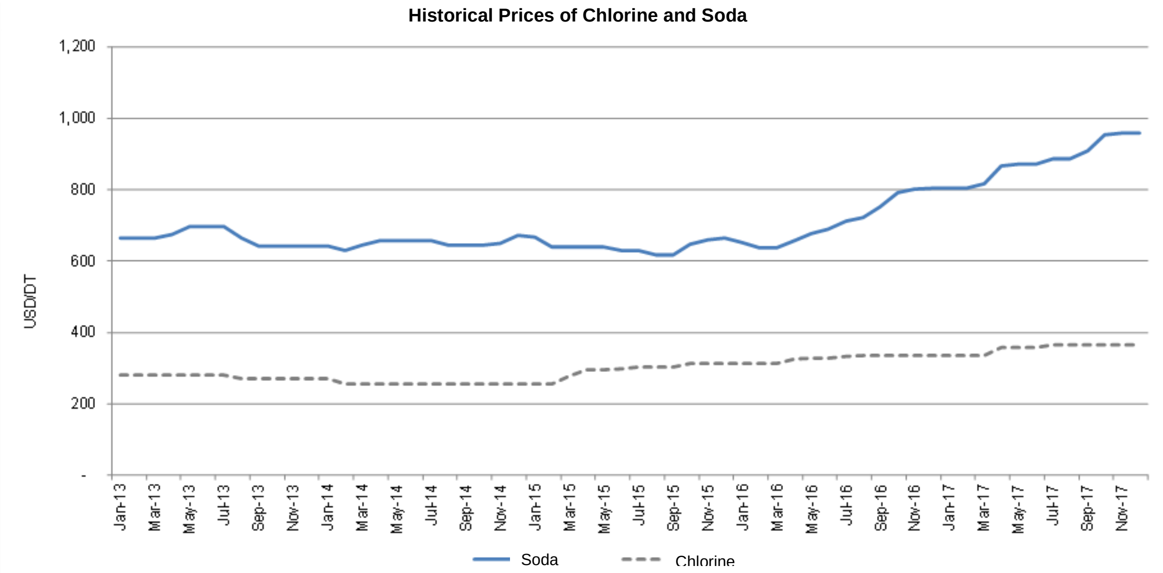


Source IHS Markit.

Chlorine and caustic soda prices

In North America, buyers of chlorine tend to concentrate, while consumers of caustic soda are generally more fragmented. Some of the largest buyers of chlorine have multi-year supply contracts, which include maximum prices and/or discounts to mitigate price volatility in the Spot Market.

In 2018, PVC demand increased 3.5%, driven by growth in the construction and housing sector. The Indian subcontinent will be the main player in terms of growth, followed to a lesser extent by Southeast Asia. As a result, chlor-alkali producers increased total production in order to supply PVC demand, as well as to stabilize prices.



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

Vinyl Process

Products

The main products of the Vinyl Process are PVC Resins and PVC Compounds used for the manufacture of flexible profiles, rigid profiles and floors for the construction industry, as well as upholstery, flexible and rigid films, bottles, containers and footwear.

The following are results of the Vinyl Process:

PVC resins. PVC resins with very diverse applications are manufactured, mostly for the construction sector, such as cable coatings, window frames, pipes for carrying drinking and sanitary water, toys, balls, containers, hoses, chairs, decorative items, houses and many more. Other products manufactured with PVC have applications in the medical area, since PVC is used to make bags for blood, dialysis and catheters.

PVC compounds. They are used in the manufacturing of cables, flexible profiles, footwear injections, automotive use, manufacturing of window profiles, sliding doors for closets, blinds, rigid pipes and all kinds of similar articles, computer circuit-holders, injection of accessories for pipes and similar items, purified water bottles, production of containers and packaging by bio-orientation process, containers for edible oils, vinegar, detergents, cleaners, juices, sauces, coffee powder, among others.

Plants. (See Section 2, "The Issuer", item x, "Description of its Main Assets", of this Annual Report).

The following table shows the capacity and production of the vinyl manufacturing process as of December 31, 2018, 2017 and 2016, by major product:

	Installed capacity			As of December, 31		
Product	2018	2017	2016	2018	2017	2016
		(thousands of tons)			(thousands of tons)	
PVC Resin	1,832	1,832	1,812	1,462	1,464	1,404
Compounds	447	417	417	*288	*258	*239

Total compound capacity includes: 276,000 tons of compounds and 141,000 tons of AF and DOP plasticizers.
*Note: The compounds sales volume does not consider the self-consumption of plasticizer by Compuestos Mexico. In 2018 it was 9,489 tons; in 2017 it was 8,416 tons; and in 2016 it was 9,007 tons.

Raw Materials

The main raw material used in the Vinyl Process is VCM, which in 2018 and 2017 represented 73% and 75% of the sales cost of this process, respectively. Mexichem buys VCM from third parties, such as Westlake and OxyChem. According to its installed capacity for PVC production at the close of 2018 in its Vinyl process, the Company requires more than 1.8 million tons of VCM for all its plants (1.4 million tons in America and 0.4 million in Europe). With the operation of Ingleside's Ethylene Cracker, Oxychem produces VCM at a lower cost, allowing Mexichem to maintain or improve its profit margins (in the Americas, the Company maintains an integration of approximately 90% to Ethylene, whereas considering the PVC production capacity in Germany, its global integration is approximately 70%).

At the production plant in Europe (Germany), the most important raw material purchased from third parties is ethylene, which is purchased through two supply contracts valid until 2019, and prices are established on a monthly basis, while salt is obtained from SGW, a subsidiary of the Company, and electricity from Evonik Industries.

Sales and Marketing

Mexichem maintains long-term contracts with its main customers and sales schemes that promote loyalty through volume discounts acquired during specific periods of time. Long-term contracts are continuously renewed and provide for the use of price formulas based on international references. Some of these references influence the cost of VCM, which allows Mexichem to maintain differentials between the price of VCM and the price of PVC throughout the cycles. Likewise, these contracts provide their customers with adequate market conditions and competitive prices. Approximately 45% of PVC Resins sales are made under this scheme. The remainder is sold on the Spot Market at the reference price at the time of sale.

Main Clients

PVC products are used by customers in the manufacture of pipes and fittings, flexible and rigid profiles, upholstery, flexible and rigid films, bottles and containers, synthetic floors, blinds, laminated polystyrene, toy industry, footwear and articles for the medical industry, among others. The 10 most important customers for the Vinyl Business Group represent 5% of Mexichem's total sales, and the most important customer represents 1% of the Issuer's total sales, so there is no dependence on one or more customers, since the loss of such customers would not adversely affect the results of operations or Financial Condition.

Distribution Channels

The products of this process are marketed directly to the industries that use them as inputs to produce other products. There is no special sales method, as all sales are made through the sales force in our own branches and distributors.

Distribution Contracts

PVC is sold directly to customers, so they have virtually no distribution contracts for their products.

Cyclic Behavior

Mexichem is the largest producer of polyvinyl chloride (PVC) in Latin America and the fifth largest in the world, as well as the largest producer of specialty resins globally. The global PVC market is linked to the construction industry. The balance between world supply and demand continues with a surplus of supply and the balance is increasingly better in the North America and Europe regions, which generates an increasing trend in the degree of use of plants.

Positive and Negative Aspects of its Competitive Condition

The Vinyl Process maintains the strategy of vertically integrating its business to be competitive in the markets it serves, investing in projects that have the purpose of ensuring the national and international competitiveness of its products, as well as the development of specialized and differentiated products.

In the recessionary stages of the national and international economic cycle, demand may be reduced, and oversupply generated, affecting the international prices of the products manufactured by the Company. The products manufactured and traded by the Issuer compete in global markets and are therefore subject to the supply and demand trends of such markets and, therefore, to international prices that may affect profit margins, based on the efficiency levels of each producer. The vertical integration strategy has allowed the Company to consume a high percentage of intermediate products for final processes, reducing the impact of a decrease in the prices of basic products.

The supply and co-investment contract with OxyChem, and the acquisition of Policyd (a major resin producer in Mexico) have contributed to a strong condition in the PVC market. In addition, with the latest acquisition of Vestolit in Europe, Mexichem increased its portfolio of specialty products made to measure with high-impact suspension PVC resins (HIS-PVC). Mexichem is the only producer with this technology in Europe and, with the current capacity, it is also the largest producer of specialty resins in the world.

The main competitors in the PVC market in Latin America and Europe are Shintech, Inc., Formosa Plastics (FPC), Westlake/Vinnolit, Inovyn, and OxyChem (OXY).

Worldwide PVC resin producers by company in 2018 (Average annual capacity)

Condition	Company	Capacity ('000 Tons)	Ownership Interest
1	SHINTECH	3,940	7.1%
2	Westlake	3,104	5.6%
3	FPC	3,299	6.0%
4	Inovyn	2,195	4.0%
5	Mexichem	1,840	3.3%
6	Oxy	1,683	3.0%
7	Xinjiang Zhongtai	1,530	2.8%
8	Xinjiang Tianye Group	1,400	2.5%
9	Beiyuan Chemical	1,150	2.1%
10	Hanwha Chemical	905	1.6%
11	LG Chem	900	1.6%
12	Kem One	881	1.6%
13	Vynova	820	1.5%
14	Junzheng Technology	800	1.4%
15	Tianjin Dagu	800	1.4%
16	Reliance Industries	750	1.4%
17	Braskem	719	1.3%
18	Chiping Xinfa Chem	700	1.3%
19	Thai Plastic	567	1.0%
20	Taiyo Vinyl	563	1.0%
21	Asahimas Chemical	550	1.0%
22	Unipar Indupa	523	0.9%
23	Anhui Huasu	520	0.9%
24	Inner Mongolia Yili	500	0.9%
25	Shanxi Ruiheng Chem.	500	0.9%
26	Xinjiang Snxon Energy	500	0.9%
27	Inner Mongolia Jilantai	480	0.9%

28	Ningxia Jinyuyuan	470		0.8%
29	Kaneka Corp	460		0.8%
30	Sanyou Chemical	460		0.8%
31	Hengtong Lianchuang	450		0.8%
32	Jinchuan Chem.	450		0.8%
33	Taiwan Liancheng	450		0.8%
34	Ibn Hayyan	406		0.7%
35	Baotou Haipingmian	400		0.7%
36	BorsodChem	400		0.7%
37	Dezhou Shihua	400		0.7%
38	Erdos Power & Metal.	400		0.7%
39	Haohua Yuhang	400		0.7%
40	Inner Mongolia Dongxing Chem	400		0.7%
41	Inner Mongolia Yihua	400		0.7%
42	Qingdao Haiwan Group	400		0.7%
43	Qinghai Yihua Chem.	400		0.7%
44	Sichuan Jinlu	400		0.7%
45	Tianjin LG Bohai	400		0.7%
	Other	15,732	28.4%	
	Total	**55,397**	**100.0%**	

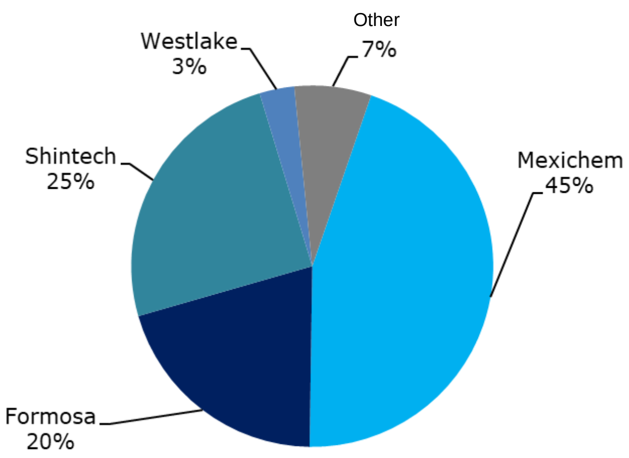
Source IHS Markit

Vinyl Process Market Share

For more information on market share, see Section 1, "General Information", item b "Executive Summary", numeral 1 "The Company" of this Annual Report.

In 2018, Mexichem's share of the Mexican PVC resin market was 45%, as shown in the graph below:

Participation of the Mexican Market

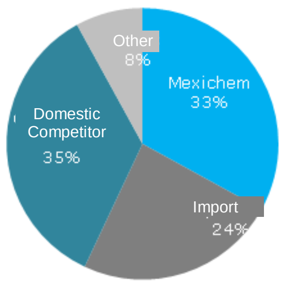


Source IHS Markit and Mexichem

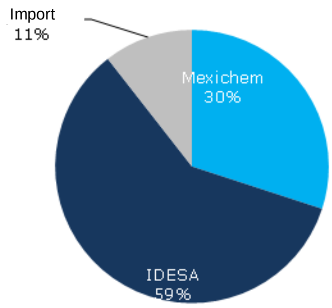
The total market capacity in Mexico is 509,603 metric tons.

Mexichem's market share in Mexico for compounds, phthalic anhydride, and plasticizers is shown below.

Compounds: Mexican market share

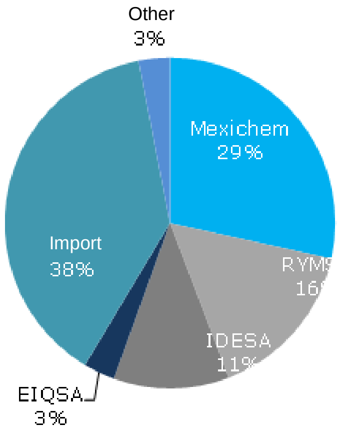


Phthalic anhydride: Mexican market share



Source IHS Markit, Mexichem

Plasticizers: Mexican market share



Source Mexichem

General Industry Information

Mexichem focuses on the manufacture of products that are used in the construction, housing, infrastructure, telecommunications, water supply, automotive, sewage, and drainage and irrigation industries, among others. In addition, it participates in industries that use chlorine, caustic soda, chlorine derivatives and resins. It also manufactures transformed products, including pipes and fittings for the transportation of fluids such as water and other PVC compounds.

PVC resin

PVC is a powder that is ground to form a plastic resin. PVC is manufactured by polymerization of the VCM, which is formed from the joint reaction of ethylene and chlorine. The PVC resin has multiple applications such as pipes and connectors for water conduction (particularly for use in housing and sanitation), profiles, films and sheets, bottles, wire and cable coating, and floors, among others.

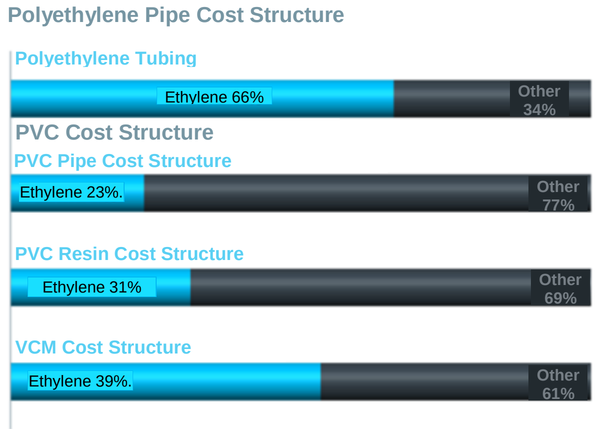
PVC is the third most used plastic in the world after polyethylene and polypropylene. According to IHS Markit, global demand for PVC reached approximately 44.8 million metric tons in 2018, which is largely supplied to the construction sector. From 2017 to 2018, world demand for PVC grew at a rate of 3.5%. The pipe represents more than 45% of all PVC consumption worldwide. The estimated average annual growth rate of PVC demand until 2027 is between 2.3% and 3.6%.

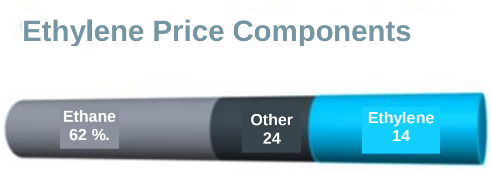
PVC is a versatile plastic that has numerous applications for everyday use, such as pipes to transport drinking water, sewage or water for irrigation, electrical cable coatings, profiles for the construction of windows, doors, façades or complete houses, tiles, floors, furniture coatings, automotive parts and appliances, clothing and footwear, containers and packaging, medical devices, adhesive tapes and many others.

In the PVC production chain, vertical integration is a priority issue which, if not done, could lead to the disappearance of non-integrated PVC producers. Additionally, vertical integration to manufactured products can affect this industry. It is believed that non-integrated PVC producers will face significant challenges in competing with integrated consumers, who normally have significantly lower production costs.

The PVC industry is largely affected by changes in energy prices, particularly crude oil and natural gas (including shale gas), from which ethane is derived and subsequently transformed into ethylene, the key component of the PVC production chain.

The following graphs illustrate the impact of the cost of ethylene on PVC and polyethylene products as of December 31, 2018:

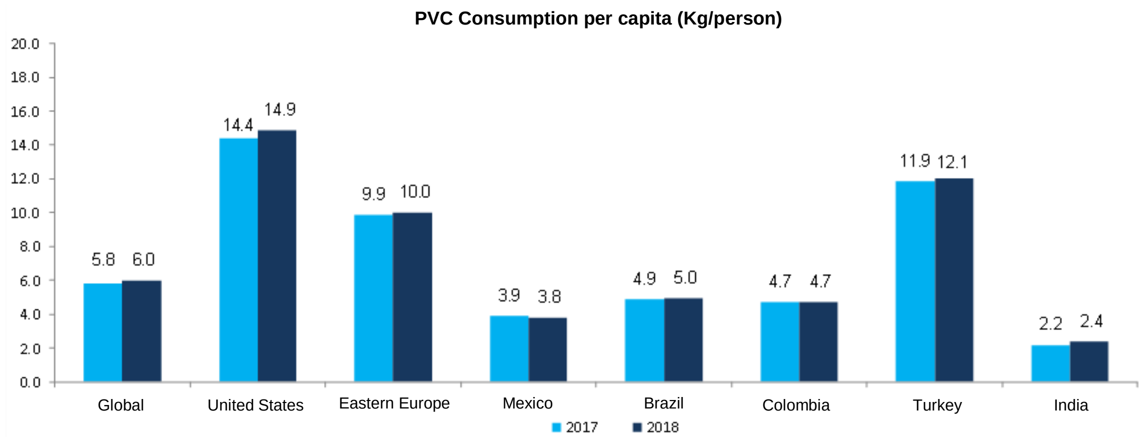




Source IHS Markit

According to IHS Markit, the demand for PVC in the last year has faced a 3.5% increase in global consumption. Developing countries are expected to drive demand growth, as investments in infrastructure and housing are required to sustain population growth. The lack of infrastructure projects has negative impacts on competitiveness and productivity. The key markets for Mexichem's PVC products are the U.S., Mexico, much of Latin America, particularly Brazil and Colombia, Western Europe, India and Turkey.

Currently, there is no significant growth in per capita PVC consumption in Latin America compared to the rest of the U.S. and Turkey. The apparent under-consumption of PVC in these markets demonstrates the growth potential for PVC consumption.

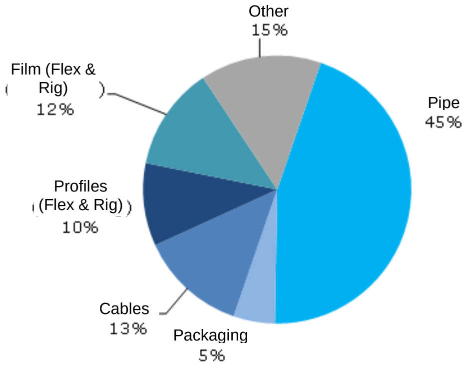


Source IHS Markit

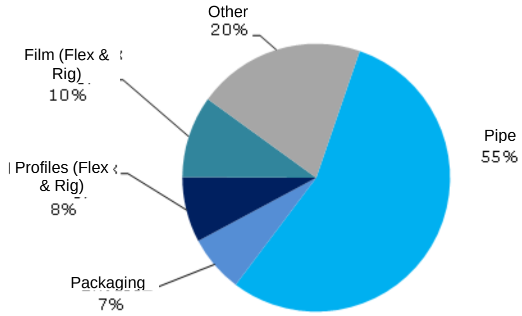
Unlike the chlor-alkali and PVC industries in the U.S. and Western Europe, Mexichem focuses on markets that enjoy constant growth in areas such as government investments and infrastructure and construction projects related to high housing deficits, particularly in countries such as Mexico, Brazil, Turkey, Peru, Colombia, and Ecuador, according to figures from each country's Institutes of Statistics and Censuses.

Within the PVC applications in Mexico, Colombia, India and the U.S., most of the production is destined for pipes and fittings. In 2018, the production of pipes and fittings in India, Colombia, the U.S. and Mexico represented 71%, 55%, 49% and 45%, while for rigid and flexible profiles it represented 4%, 7%, 25% and 10% of PVC applications, respectively.

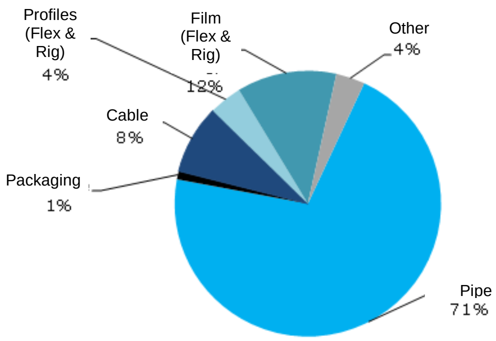
Mexico: PVC Applications



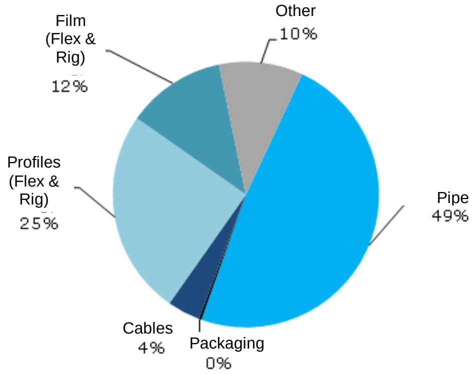
Colombia: PVC Applications



India: PVC Applications

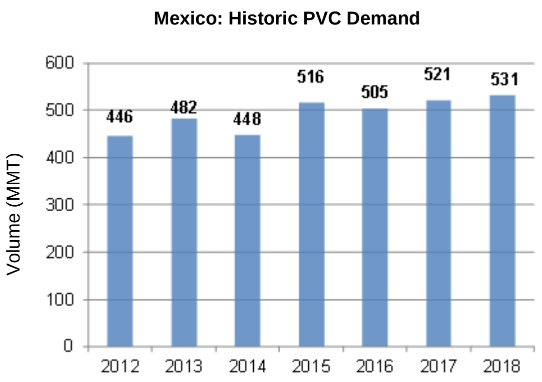


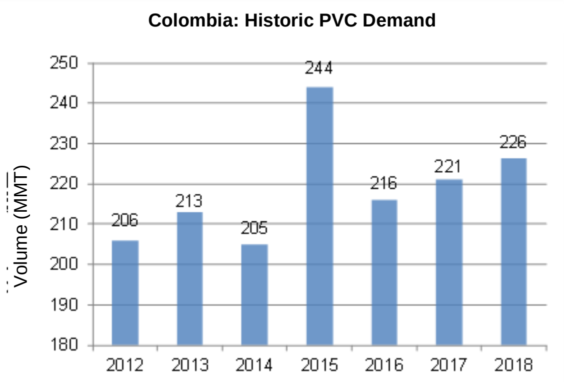
United States: PVC Applications

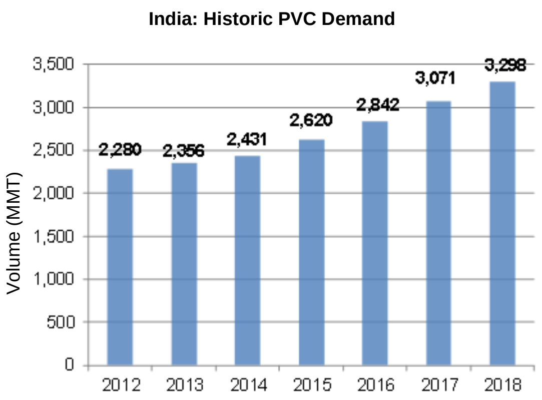


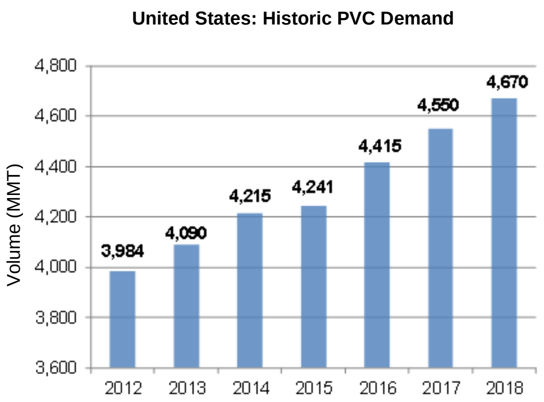
Source IHS Markit

Within the countries analyzed, both India and the U.S. are the markets with the highest demand for PVC, although the per capita consumption of this product is 2.4 and 14.9 kg per capita, respectively. In India, the U.S. and Mexico, the demand for PVC has grown at an average compound annual rate of 8%, 3%, and 1% (2016-2018) respectively in the last three years, and Colombia had a decrease of 2.5% for the same period, while in 2018 consumption grew by 2% both for Mexico and Colombia; in the case of India and the U.S., the increase was 7% and 3%, respectively.









Source IHS Markit

Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture -Netafim)

This Business Group integrates Mexichem's processes and products with greater contact with the general public. Its most important products are: PVC, polyethylene and polypropylene pipes and fittings for conducting fluids such as water and natural gas; voice and data conduction; water collection and conduction systems and solutions for infrastructure and construction such as heating and hot and cold water in houses and buildings; systems and solutions for the conduction of water in the irrigation of fields and crops, as well as geosynthetics, which the group produces and markets throughout Latin America, Asia (India and China), Africa (South Africa), Middle East (Oman), Europe, the U.S. and Canada, and which contributes to the welfare and development of millions of people.

The Fluent Business Group divides its operations into three businesses and five regions: (i) Building & infrastructure (Amanco and Wavin) which is comprised of the Fluent LatAm and Fluent Europe regions; (ii) Datacom (Dura-Line) which is comprised of the Fluent U.S./Canada and Fluent AMEA regions; and (iii) Precision Agriculture (Netafim). In each of them, the brands and the marketing of the products and/or solutions are different, as described below.

Through its Building & infrastructure business (Amanco and Wavin), Mexichem is the global leader in Latin America and Europe in the production and distribution of plastic piping systems, fittings, and accessories for fluid conduction, mainly water and gas, for construction (residential and commercial). The Fluent Business Group in LatAm and Europe is focused on the (residential and commercial) construction and infrastructure markets. In LatAm, it mainly has technical solutions with geosynthetics such as nonwoven geotextiles, fabrics, geomembranes and geogrids for the execution of civil, environmental and infrastructure works, as well as other products for the construction sector and other industries such as mining.

Through the Datacom (Dura-Line) business, primarily in the U.S./Canada and AMEA regions, the Company has conditioned itself as a leader in the production and distribution of pipelines and accessories and solutions for cable and fiber optics for voice and data conduction, as well as pipelines for natural gas conduction and distribution.

Finally, through the Precision Agriculture business (Netafim), the company is the world leader in the production and sale of intelligent precision irrigation solutions, with 17 plants and 29 subsidiaries located in Israel, Spain, Australia, India, the U.S. and Latin America, serving more than 110 countries.

The Company offers solutions in agriculture, civil and project engineering, related to the management, use and control of water in the agriculture, livestock and aquaculture areas. All this allows the Company to offer the widest range of solutions according to its customers' needs.

In the Building & infrastructure business in Latin America (Fluent LatAm - Amanco), the Issuer has conditioned itself as the largest producer of pipes, fittings, systems and solutions for water conduction aimed at the construction industry (residential and commercial) and for infrastructure through the main brands "Amanco", "Pavco" and "Plastigama". It has production facilities in 12 Latin American countries, including Mexico, as well as a commercial presence in 24 countries and more than 50,000 points of sale throughout the region. Construction is one of the main drivers for the plastic piping systems market, both housing and infrastructure.

In Europe (Fluent Europe), the Company is one of the leading suppliers of plastic piping systems and water conduction solutions through Wavin and its main brand "Wavin", offering innovative products through a global network of distributors, plumbing dealers, civil contractors, housing developers, large installers, utilities and municipalities. Its operations are based in Zwolle, The Netherlands, and it has commercial presence in 28 countries that are supplied through 25 manufacturing and assembly plants. The Building & infrastructure business in Europe (Fluent Europe - Wavin) has incorporated new technologies and products into the offer of the Fluent Business Group, especially in the following fields of application: water transport and handling systems, as well as systems in buildings for waste and soil ("Soil & Waste") and for heating and cooling systems ("Hot & Cold"), including surface heating and cooling.

In the Datacom business (Fluent U.S./Canada and Fluent AMEA), Mexichem completed the acquisition of Dura-Line based in Knoxville, Tennessee, U.S. on September 19, 2014. Dura-line has 20 manufacturing plants in the U.S., Mexico, India, Oman, Europe and South Africa. The Company is a global leader in high-density polyethylene (HDPE) products in voice and data conduction, as well as natural gas pressurized piping and solutions. The clients are large North American corporations, as well as multinational companies that rely on the high quality of the products and services provided by the Company. With this acquisition, Mexichem advanced its strategy of consolidating itself as a global, vertically integrated company with a focus on products and specialty solutions. In 2015, Datacom's business opened three new manufacturing plants, two in India (Hyderabad and Neemrana) and the other in Clinton, Tennessee, U.S. It also closed the Middlesboro Kentucky plant. In 2016, the Company incorporated the acquisition of Gravenhurst in Canada into its Datacom business.

In the Precision Agriculture business: on February 7, 2018, Mexichem announced that it completed the acquisition of Netafim, an Israeli company, leader in the production and sale of intelligent precision irrigation solutions that has 17 plants and 29 subsidiaries located in Israel, Spain, Australia, India, the U.S., and Latin America, through which it serves more than 110 countries. Netafim is aimed at high-growth markets and produces solutions to address two of the global megatrends such as water and food shortages.

At the close of December 2017, sales and the EBITDA of the Fluent Business Group (Building & infrastructure - Wavin and Amanc-, Datacom - Dura-Line, and Precision Agriculture - Netafim), including Netafim, represented $4.077 billion and $527 million, respectively, resulting in growth of 35% and 37%, with respect to 2017. As of December 31, 2017, net sales were $3.023 billion and an EBITDA of $385 million, resulting in a 5% increase and a 9% decrease, respectively. The Fluent Business Group contributed 57%, 50%, and 53% of Mexichem's net sales (before parent company revenues and intercompany eliminations) and 38%, 35%, and 45% of Mexichem's total EBITDA in 2018, 2017, and 2016, respectively.

Sales

The following table shows the sales of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom – Dura-Line-, and Precision Agriculture - Netafim) for the period 2016 to 2018.

	As of December 31,		
Fluent (Building & Infrastructure - Wavin and Amanco-, Datacom - Dura-Line-, and Precision Agriculture -Netafim-) (1)	2018	2017	2016
Total sales (in millions of dollars)	4,077	3,023	2,892

[1] The above amounts have only been adjusted to eliminate intra-string (but not inter-string) transactions.

The consolidated sales of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line-, and Precision Agriculture -Netafim) by region in the period 2018 to 2016 were as follows:

	Year ended December 31:		
	2018	**2017**	**2016**
Fluent Business Group	Figures in Millions		
Total Fluent LatAm (Building & infrastructure - Amanco)	1,076	1,132	1,100
Total Fluent Europe (Building & infrastructure - Wavin)	1,385	1,321	1,269
Total Fluent U.S. (Datacom)	536	449	384
Total Fluent AMEA (Datacom)	159	138	149
Total Netafim	945	-	
Eliminations	(24)	(17)	(10)
Total Fluent	4,077	3,023	2,892

(1) Beginning in 2017, the Fluent US/AMEA region was separated into Fluent US/Canada and Fluent AMEA.

Products

Part of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim), The Company specializes in the manufacture and marketing of pipes used to protect cables, which include fiber optics, copper, and electrical cables for telecommunications, voice and data transfer, electricity and CATV; as well as piping systems for the transportation and storage of water, sewerage, drainage, irrigation and pipelines for natural gas distribution. Fluent concentrates on three main segments:

Building & infrastructure (Amanco and Wavin):

Housing: The Company produces PVC, polyethylene and polypropylene piping systems, available in sizes ranging from 1/2" (12 mm) to 4" (110 mm), with a cemented (weldable) joint and a complete program of fittings for applications in single-family homes, residential complexes, high-rise buildings, commercial buildings, hotels, swimming pools, landscaping and certain industrial applications, produced under ISO or ASTM (American Society and Testing Materials) standards according to applicable local regulatory requirements. It also produces systems for hot water, which allows for a whole range of solutions for different types of works, in diameters from 20 mm (½") up to 110 mm (4"), PVC sanitary and ventilation systems, and it has recently introduced solutions in polypropylene. It also offers a complete program of fittings and accessories, in various diameters, standards and colors, guaranteeing an excellent performance of its pipes, fittings and accessories. The systems are available in two versions: rigid with solid walls and flexible with corrugated walls. The wide range of fittings allows its application in domestic, commercial and industrial installations. PVC pipes and other plastics are manufactured in 5 different designs for use in single-family homes and large industrial buildings. The main characteristics are resistance to ultraviolet rays and corrosion, maintenance-free mechanical rubber union that avoids deformations due to temperature differences. The "piping systems" concept seeks to offer integral solutions, for which it is essential to complete the sanitary systems of some components that guarantee the same quality and useful life throughout the installation. For this, the Company offers an important range of siphons, siphoned floor sinks and other accessories for sanitary applications inside the house.

Construction: The Company produces ductile bio-oriented PVC for potable water conduction by bio-orientation of the PVC molecules, generating a laminated layered structure, which significantly increases the mechanical resistance and strength of the pipe. Amanco's "Biaxial" technology has a lower wall thickness, which makes it more flexible, lighter, and easier to handle, guaranteeing savings in installation and energy consumed for the operation of the systems. With the "Novafort" technology, it produces sanitary sewage and rainwater pipes with double-structured wall, manufactured in a double extrusion process, with a smooth interior wall and corrugated exterior with "Elastomeric" sealing union, which ensures the hermeticity of the joint and a fast installation; this prevents the filtration of water from the conduits, protecting the environment by guaranteeing that the transported waters do not filter and eventually contaminate the subsoil water. "Novafort" is made of inert material, guaranteeing excellent resistance to the action of chemical substances and to the corrosive attack of the materials present in the water it transports, as well as of the soils in which it is installed. The Company produces HDPE water tubing in sizes greater than 1,000 millimeters with technology that allows for easy location of the tubing from the surface. In addition, Mexichem produces and sells CableCon™ solutions for use in other infrastructure markets, such as electric lighting, motors for commercial agriculture machinery, and energy distribution. HDPE pipes are also used for underground high voltage LT/HT cables.

Telecommunications. The Company produces highly engineered ducts, micro ducts and cable management solutions for the telecommunications market (voice and data) and offers multiple ducting solutions under the Dura-Line brand. The SILICORE duct is manufactured with a high-density polyethylene (HDPE) rigid cover and solid polymer coating. The duct has an external cover and slippery center that eliminates the need for lubrication, reduces friction and protects the cable before, during and after installation. The Wave Rib conduit is coated with reverse oscillating waves to reduce friction and facilitate cable placement which lowers installation costs. The Tornado Plus Conduit product is specially designed to facilitate better installation because it creates an air chamber that allows cable installation over long distances. The company is a leader in the development and manufacture of short diameter duct installations. SILICORE, also known as a solid lubricant in lining, is a micro duct system for use primarily in broadband and cable television and telecommunications applications. These patented solutions provide network flexibility by installing fiber that extends the growth of data networks without the need to increase the installation of trenches.

The Company has developed a new line of microduct solutions designed to be used inside and outside buildings in order to improve network capabilities in enterprises. Mexichem's technology provides a comprehensive solution to meet future growth needs with affordable installation costs. Through its CableCon™ product, the Company is the leading provider of volume and sales-based conduction solutions in North America. CableCon™ is a conduction system in which the fiber is pre-installed in the conduit, which lowers installation costs for the customer. The increase of Cable-Con's consumers has been achieved through a customized production according to their needs.

It also sells a wide range of accessories for users in the telecommunications sector (voice and data) such as connectors, woven fiber optic tapes, cable television, and equipment installation. Fittings are designed to streamline and improve the installation of piping and duct solutions.

Precision Agriculture (Netafim):

Precision Agriculture: through the acquisition of Netafim, The Company produces intelligent solutions for the precision agriculture market under its own brand.
Within Netafim, our technologically advanced micro-irrigation solutions consist mainly of drip irrigation solutions, but we also sell sprinklers and micro-sprinkler products. We primarily serve the agriculture market, while some of our products are used in gardening and mining applications.

Netafim's broad product portfolio includes drippers, drip lines, strategic system components (such as filters, valves and air valves) and advanced digital technology for agriculture. Advanced digital farming technology provides solutions for irrigation and fertigation and, in 2018, we have begun offering monitoring, analysis and control capabilities. We also provide end-to-end solutions that include bulk water supply, feasibility studies and design, implementation, and after-sales support. In addition, through our leading presence in the irrigation market, we have built a deep agriculture knowledge base and offer our agronomic services and support to help our end users maximize the productivity of their systems.

We operate under the Netafim brand, which we believe is well known in key agriculture markets and symbolizes its proven track record as a pioneer and innovator in the advanced micro-irrigation field. Since the introduction of the world's first commercial drip irrigation system in 1966, Netafim has invested years of research into micro irrigation to maximize the benefits of this technology. As a result of this investment, we have been responsible for key technological milestones in the micro-irrigation sector, such as low-pressure and pressure-compensated drippers. We have become a world leader in advanced micro-irrigation by helping the world "grow more with less", as our customers demonstrate by generally achieving higher crop yields while using less water, less land and energy resources, and allowing reduced use of other inputs such as labor, nutrients and crop protection.

Plants

(See Section 2, "The Issuer", item x, "Description of its Main Assets", of this Annual Report).

Raw Materials

The main raw materials used by the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) are PVC, polyethylene and polypropylene resin.

During 2018, for the Building & infrastructure business in Latin America (Fluent LatAm - Amanco), approximately 70% of the cost of sales in the manufacturing of its products was PVC resin. The company purchases 49% of this raw material through U.S. and local suppliers in countries where logistics costs or tariffs make the PVC resin produced by the Company very expensive, while the rest is obtained from the PVC resin subsidiary of the Vinyl Business Group, Mexichem Resinas Vinílicas, from its operations in Mexico and Colombia.

Additionally, Colombia and Brazil signed a free trade agreement which, as a result of the acquisition of Mexichem Resinas Colombia, has allowed Mexichem to export to Brazil under better conditions, a situation that has placed it in a competitive condition to distribute to the Andean and South American regions from the PVC resin plant in Colombia.

In the case of the Building & infrastructure business in Europe (Fluent Europe - Wavin), 42% of its raw materials are Polyolefin: (PE) polyethylene and (PP) naphtha-based polypropylene, while the remaining 58% is PVC resin (virgin and recycled) and additives, of which the Vinyl Business Group provides approximately 11%.

For Datacom's business in the U.S./Canada and AMEA (Fluent U.S./Canada and Fluent AMEA), the main raw material is medium and high-density polyethylene resin, the price of which is substantially subject to fluctuating market conditions. A significant determinant in the price of resin is the price of oil, which routinely experiences volatility. Purchases of this raw material are made from a small number of local suppliers. Generally, these contracts have a duration of between one and three years. The Company has a long-standing business relationship with regional resin suppliers, with an average 10-year tenure. In terms of prices, contracts with suppliers are based on market prices according to the applicable region.

Finally, for the irrigation business (Netafim), the main raw materials are polyethylene (PE) resins in different grades and products made from PVC resins.

Sales and Marketing

In the case of pipe sales, the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line- and Precision Agriculture - Netafim) has established a series of programs aimed at the different market sectors. Such a strategy is the result not only of an assessment of consumer profiles and needs, but also of new trends in distribution channels, where there is a growing influence of large retailers.

The strategy resulting from these factors focuses on:

- Management of retail networks to improve loyalty
- Innovation in services to provide consulting and training support
- Providing tailor-made products and services for construction companies and telecommunications customers
- A specialized sales force
- Alliances for turnkey services with selected construction and telecommunications companies
- Transparency in transactions, technical support to improve the productivity of the Company's customers
- Specialized services for access to credit and insurance

Main Clients

The main clients of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) belong to the infrastructure industry, divided into housing (self-construction) and construction, which includes large and small construction companies, governments that perform public works, telecommunications and energy companies, and individual and large corporate farmers.

Due to this Business Group’s large number of customers, for the Building & infrastructure business in Latin America (Fluent LatAm - Amanco), the top 10 customers represented 1.1% of Mexichem's sales, as a result of diversification and the type of customer it serves, while in Europe (Fluent Europe - Wavin) the top ten customers represented approximately 8.7% of the Company's sales.

In turn, Datacom's top 10 business customers (Fluent U.S./Canada and Fluent AMEA) represented about 3.6% of the Company's sales in 2018. Finally, in the case of Netafim, its largest customer represents approximately 2% of Mexichem's sales.
As of December 31, 2018, the 10 main clients of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) represent 10.6% of Mexichem's total sales, of which the biggest client represents 2.8%, so there is no dependence on one or more clients, since their losses would not adversely affect the Company's operating results or Financial Condition.

Distribution Channels

This Business Group's products are distributed through more than 100,000 direct and indirect points of sale, including large construction companies, as well as small retail stores.

At Building & infrastructure in Latin America (Fluent Latam - Amanco), products are distributed through more than 50,000 points of sale, mostly with greater direct customer contact, while Europe (Fluent Europe - Wavin) operates primarily through indirect distribution, which means that its products are shipped to wholesalers or retailers who have central warehousing, as well as multiple retail outlets. In total, the Company operates approximately 65,000 points of sale in Europe, including direct distribution as well as construction companies, and works closely with its network of distributors throughout Europe to provide them with the best service, a broad portfolio of solutions and effective supply chain management.

Datacom's business (Fluent U.S./Canada and Fluent AMEA) distributes its products to more than 2,200 customers both directly and through distributors in more than 50 countries, providing solutions and building long-term relationships with customers.

Finally, Netafim distributes its products to more than 2,000 customers both directly and through distributors in more than 110 countries.

Cyclic Behavior

The behavior of sales of the products in this chain is influenced by the economic cycles of each of the countries in which it operates, especially by the activity of the construction, housing, telecommunications and agriculture sectors.

Seasonality is similar for Building & infrastructure in Europe through Wavin and Datacom in U.S./Canada (Fluent Europe and Fluent U.S./Canada). Normally, the first and fourth quarters of each year have the lowest cycle caused by winter; however, climatic conditions in recent years have varied in such a way that the behavior of demand has been impacted differently.

Netafim's seasonality depends on the climate of the countries in which it operates; the second quarter of each year is the one with the highest demand, followed by the fourth quarter, while the first quarter and the third quarter have less demand. In Europe, there is an increase in demand for the company's products during the spring months. Meanwhile, countries in the Southern hemisphere show a greater demand from September and October, which is the beginning of their spring season. Finally, in December, there is an increase in demand for its products driven by an increase in sales in the U.S. and India.

Positive and Negative Aspects of its Competitive Condition

The main competitive advantage of the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line- and Precision Agriculture - Netafim) is its leading condition in the Building & infrastructure business in almost all Latin American countries and in the 28 European countries in which it maintains a commercial relationship; Datacom's business, with presence in regions such as the U.S. and countries such as India, Oman and South Africa, and the recent incursion into Canada, achieved a wide distribution network, as well as greater brand recognition. The Fluent Business Group faces strong international competition in the countries in which it participates, including competition involving prices, investment programs and modernization of production processes.

In the Building & infrastructure business in Latin America, according to market research, Mexichem through Amanco is the largest producer, Tigre is the second largest, and Aliaxis is the third largest producer of PVC pipes and fittings. The remainder is distributed among several local producers. In Europe, its main competitors include The Aliaxis Group, Uponor, Pipelife, Aalberts Industries, Geberit and GF Piping Systems.

For Datacom's business in the U.S./Canada and AMEA, the main competitors are Performance Pipe (a division of Chevron Phillips Chemical Company), LP, Blue Diamond Industries, LLC, JM Eagle and, to a lesser extent, small regional manufacturers, as well as some European companies such as Gabo Systemtechnik GmbH (d.b.a. Gabocom) and Emetelle. In developing countries, the competitive landscape is much more fragmented when compared to markets in the U.S., Canada or Europe.

Netafim's main competitors in the world are: Jain Irrigation, Rivulis/Eurodrip, Irritec, Toro, Metzer and smaller local competitors in the countries where it is present.

Market Share

The Building & infrastructure business in Latin America (Fluent LatAm - Amanco) has approximately 31% market share in the PVC pipe market; in this region, it is estimated that it has a significant market share in most of the countries in which it has a presence, given that it is the market leader in most of the countries. See Section 1, "General Information", item b, "Executive Summary", numeral 1 "The Company" of this Annual Report for further information.

Netafim has an approximate market share in precision irrigation products of 35% in North America, 40% in Latin America, 35% in Europe and 20% in AMEA.

General Industry Information

The industry has diverse applications in plastic pipes and related products for commercial construction, infrastructure, telecommunications and irrigation. The main inputs are PVC, medium and high-density polyethylene and polypropylene, which are used to create tubes of various types and sizes and drippers to meet customers' needs. The demand for pipes, fittings and solutions in the Building & infrastructure business (Fluent LatAm - Amanco and Fluent Europe - Wavin) and Datacom (Fluent U.S./Canada and Fluent AMEA), is highly related to the construction and infrastructure GDP and the penetration of digital telecommunications, industries in which moderate and high growth is expected worldwide, respectively, in the coming years. In developed economies and Western Europe, construction activity has stabilized since 2009, the year with the highest investment in the industry, so demand for construction materials is expected to remain at stable levels. Demand in Western Europe accounts for around 10% of global consumption and is mostly concentrated in profiles (30% of total demand) followed by pipes and fittings. In addition, plastic pipe is a substitute for copper, concrete, cement and iron pipes.

Additionally, PVC belongs to a cyclical industry linked to the behavior of the Gross Domestic Product (GDP). The demand for PVC is influenced by economic growth, so that GDP is a strong indicator of plant utilization factors. A strong GDP, compared to that of other countries, indicates a high utilization factor and therefore high PVC prices, and the opposite 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 the ratio of PVC demand to economic growth is multiplied by 2 in most cases, due to a higher growth potential than in industrialized countries.

Finally, in the precision agriculture business (Netafim): according to the Food and Agriculture Organization of the United Nations (FAO), only 324 million hectares of the 1.6 billion hectares of arable land are equipped with irrigation systems, representing approximately 20% of arable land. Approximately 77% of the land equipped for irrigation uses flood irrigation, the least sophisticated and least water-efficient method of irrigation. Sprinkler irrigation systems, which are deployed on approximately 18% of irrigated land, are generally used on large, uniform tracts of land. Meanwhile, micro-irrigation is the most technologically advanced form of irrigation in use and is currently implemented on approximately 5% of the world's irrigated land. Micro-irrigation systems pump water through piping systems equipped with drippers and drip lines, as well as micro-sprinklers.

Fluor Business Group

The value chain of this Business Group originates in calcium fluoride, better known as Fluorite, a non-metallic mineral that acts as a flux, among other applications.

Mexichem holds the concession for the exploitation and extraction of the world's largest fluorite mine located in the state of San Luis Potosi in Mexico, among other concessions. Fluorite in its natural state (whose concentration varies between 50% and 90%) is used in the steel, cement, glass and ceramics industries, generating significant energy savings, among other benefits. This type of fluorite is called metallurgical grade.

Concentrated fluorite (with a minimum concentration of 97% without impurities) is known as acid grade and is used in the production of hydrofluoric acid, which is obtained through chemical processes using sulfuric acid from sulfur. Mexichem competes with China in the production of this acid. China is the main producer, generating approximately 53% of world sales.

Hydrofluoric acid is mainly used in the manufacture of refrigerant gases and propellant gases for air conditioning, refrigerators, freezers and medical applications for the treatment of respiratory diseases. It is also used as an input in the production of gasoline and aluminum fluoride, the pickling of stainless steel, in nuclear fuels, in the manufacture of integrated circuits, in the manufacture of specialized plastics such as fluoropolymers and in the production of fluorinated salts such as lithium salts, which are used in batteries. Mexichem is one of the world's leading producers of hydrofluoric acid.

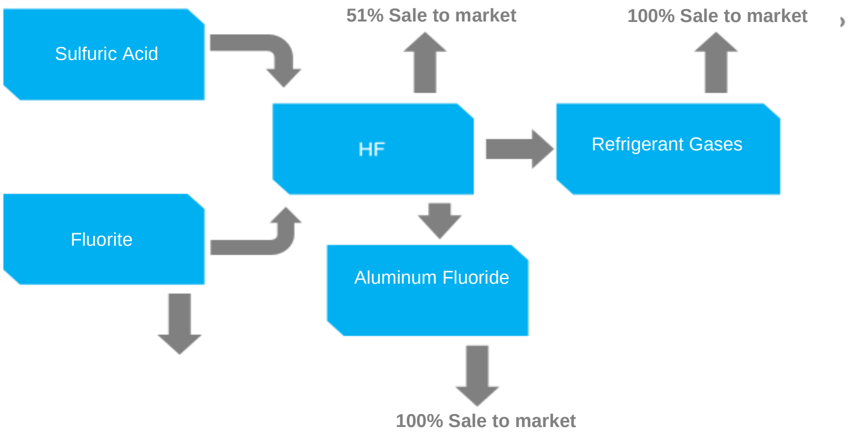
The Company is one of the world's leading suppliers of refrigerant gases, primarily R-134a gas, used primarily in the automotive and refrigeration industries. R-134a gas is also used as propellant gas in medical devices such as inhalers for asthmatics, an application in which Mexichem has nearly 75% of the world market.

This Fluor Business Group is comprised of seven operating plants established in Mexico, the UK, the U.S., Taiwan and Japan, of which five are certified in accordance with ISO-9001, 3 with ISO-14001, one with OHSAS 18001, two with TS 16949, one with Clean Industry Certification by Profepa, one with Integral Responsibility certification by ANIQ and two with ISRS (International Safety Rating System) level 7. The three chemical process plants of this Business Group are signatories of the chemical industry's voluntary commitment to Responsible Care.

The oversupply of production in China resulted in an average reduction of 16% in the prices of acid grade fluorite from January 2015 to January 2018. This situation is mainly caused by a worldwide overproduction of aluminum and refrigerant gases, mainly from China. Similarly, from 2015 to early 2018, aluminum prices decreased 6%, so aluminum producers have had to operate below production cost and close several aluminum plants.

The demand for metallurgical grade fluorite during 2017 and 2018 remained stable as steel production in the U.S. and Europe rose slightly.

Today, Mexichem is the world's largest producer of fluorite and integrated HF. In addition, the Company is one of the world's largest producers of HF, considering the operations in Mexico, and the largest supplier in the U.S. Spot Market.



The Fluor Business Group is the world's largest integrated producer of refrigerants. Mexichem also continues its commitment to provide new-generation refrigerants that are more environmentally friendly.

Sales

The volumes and sales of Fluor Business Group in the last three fiscal years have been as follows:

	Year ended December 31, 2018					
	Volume Sold [1]			Sales		
Fluor	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
Metallurgical Grade Fluorite, Acid Grade Fluorite, HF and ALF3	1.115	1.056	0.864	409	354	327
Refrigerant and Medical Gases	0.058	0.059	0.065	472	360	300
Eliminations	-0.023	-0.017	-0.026	-45	-33	-44
Total Fluor	**1.150**	**1.098**	**0.903**	**836**	**681**	**583**

Millions of tons.

i. Fluorite Process

The activities of this Process focus on the exploitation of Fluorite, which is commercialized in two basic presentations: (i) metallurgical grade, used in the production of steel, ceramics, glass and cement; and (ii) acid grade, used in the production of hydrofluoric acid, which is the main raw material for the manufacture of virtually all compounds containing organic and inorganic fluorite, including fluorocarbons, Fluor elastomers as well as aluminum fluoride for the production of aluminum.

Products

The Fluorite Process extracts and processes:

Metallurgical grade fluorite, flux for the steel and cement industry

There are different sizes for the metallurgical gravel, depending on the size required by the customer for its final process (fine, chunk, standard, and special). The calcium fluoride grade is in the range of 50% and 90%.

Acid grade fluorite, raw material for the production of hydrofluoric acid and aluminum fluoride

Acid grade fluorite has a calcium fluoride content of at least 97%.

Plants and mines

(See Section 2, "The Issuer", item x, "Description of its Main Assets", of this Annual Report).

Raw materials

The main raw materials in the Fluorite Process are: (i) electricity, (ii) water, and (iii) consumables, including natural gas. The supply of these raw materials is obtained under the scheme of long-term supply contracts with periodic reviews. Thus, contracts are maintained with CFE and the National Water Commission, in some cases through concessions to exploit their own wells.

The main suppliers of raw materials in Mexico are the National Water Commission (water), the Federal Electricity Commission (electric energy) and PEMEX Transformación Industrial (natural gas).

Sales and marketing

Mexichem maintains long-term contracts with its main metallurgical-grade and acid-grade fluorite customers, in which sales schemes have been established to promote customer loyalty for specific periods of time. Long-term contracts (between 3 and 5 years) provide for the use of a price formula based on international reference prices, which provides Mexichem with long-term stability.

Main clients:

The products of this process are used by customers in the iron and steel, glass, ceramics, aluminum, cement and chemical industries (fluorocarbons for refrigeration, propellants, foaming agents, thermoplastic polymers, etc.). The total sum of the 10 most important clients of the Fluor Business Group represents 5.4% of Mexichem's total sales. No single customer represents more than 1% of the Company's total sales and, therefore, there is no dependence on one or more customers, since the loss of such customers would not have a material adverse effect on the Company's results of operations or financial condition.

Distribution Channels

Fluorite process products are marketed through distributors worldwide, as well as direct plant deliveries, through railroads, marine vessels and auto transportation. There is no special sales method as all sales are made through the sales force in our own branches and with distributors.

Regarding freight, these are operated through long-term contracts with railway and maritime companies, in which a consideration is established represented by a fixed part (rent) and a variable part, which includes a price per kilometer or mile traveled, which is linked to the price of fuels, guaranteeing a reliable and continuous supply for the operation of the plants.

Distribution contracts

Sales through distributors are made through long-term contracts, who purchase the described fluorite products directly for resale in the markets in which they are present.

Cyclic behavior

The Fluorite process of the Fluor Business Group does not show cyclical behavior.

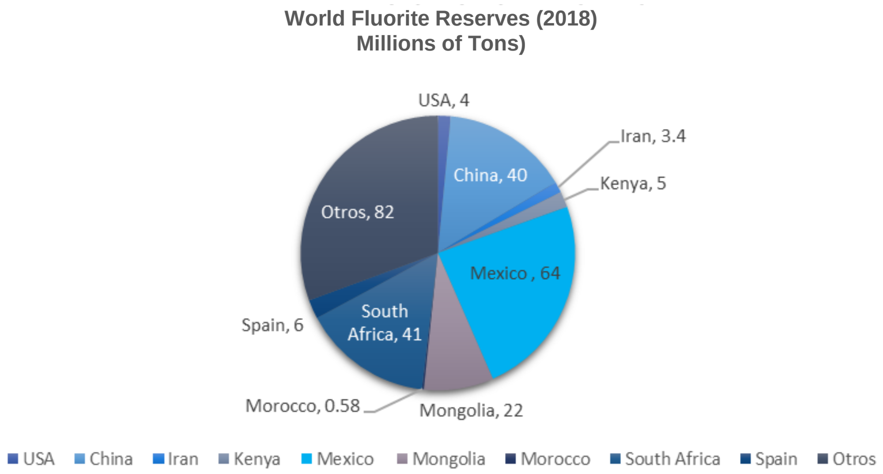
Positive and Negative Aspects of its Competitive Condition

The Fluorite Process has an important logistical advantage by producing 1.6 million tons of Fluorite in three different locations and with rail access to the cities of Altamira and Tampico, which are worldwide distribution ports. In comparison, according to data from Roskill Consulting, China produces about 3.7 million tons in more than 650 mines, currently being the world leader in the production of Fluorite; and representing Mexichem's greatest competition.

Likewise, Mexichem stands out for its constant investments and productivity alliances with the union bases, which have allowed significant increases in productivity in recent years. The grade quality of the ore naturally extracted from the mine must be added, which avoids the application of additional processes after extraction in order to be sold as metallurgical grade. Finally, it should be noted as a positive aspect for Mexichem that the Company has long-term contracts with its main customers.

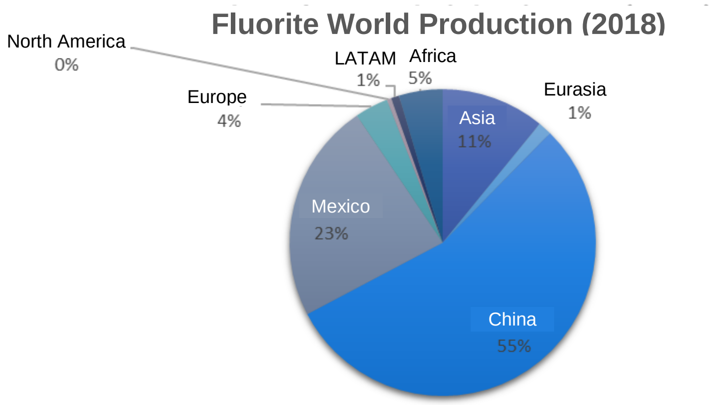
Market share

The following graph shows the distribution of fluorite reserves worldwide in 2018, which according to USGC in its latest publication were for 260 million tons.



Source: USGS internal report and analysis.

Mexichem maintains an important 23% share of the global Fluorite market and exports around 80% of its production worldwide. China has a 55% share of the global market, South Africa 5%, and Mongolia 4%. These countries are its greatest competitors. China's annual production fell 13% in 2018 compared to production in 2016. *For more information on market share, see Section 1, "General Information", item b, "Executive Summary", numeral 1, "The Company", of this Annual Report.*



Source: Roskill Consulting and internal analysis (2018)

ii. Hydrofluoric Acid (HF) and Aluminum Fluoride (AIF3) Process

Hydrofluoric acid (HF) is produced by reacting fluorite (CaF2) with sulfuric acid. Once produced, hydrofluoric acid undergoes several stages of distillation to achieve the 99.99% purity necessary to meet the high standards demanded by the market. Sulfuric acid is made by Mexichem Flúor from sulfur which is converted into sulfuric acid once it comes into contact with air at high temperatures and water. Mexichem is one of the world's largest producers of HF.

Aluminum fluoride is an essential element for the manufacture of aluminum and is produced by the reaction of hydrofluoric acid (HF) with aluminum hydroxide. From its Matamoros plant, Mexichem supplies several of the world's leading aluminum producers.

Products

Acid grade fluorite is a mineral with a minimum calcium fluoride concentration of 97%. By making it react with sulfuric acid, which comes from sulfur, hydrofluoric acid is generated; it is mainly used in (1) the manufacture of refrigerant gases and propellant gases for air conditioning, refrigerators, freezers and medical applications for treatment of respiratory diseases, (2) the manufacture of highly specialized plastics known as fluoropolymers, (3) the manufacture of aluminum fluoride, (4) the manufacture of high octane gasolines, (5) cleaning of metallic surfaces such as the pickling of stainless steel, and in other uses to a lesser extent, such as the manufacture of uranium fluoride for the nuclear industry, the manufacture of integrated circuits and fluorinated salts for a wide variety of applications.

Plants

(See Section 2, "The Issuer", item x, "Description of its Main Assets", of this Annual Report).

Mexichem owns and operates one of the largest HF plants in the world, located in the city of Matamoros, Tamaulipas, Mexico, with an annual installed capacity of 125,000 tons. The plant is strategically located to have easy access to its main raw materials in Mexico and exports 97% of its production of hydrofluoric acid, mainly to the U.S., as well as 100% of its production of aluminum fluoride. The Matamoros plant is operated with the highest technology in compliance with all applicable regulations.

The concepts of "Sales and Marketing", "Main Customers", "Distribution Channels", "Distribution Contracts", "Cyclical Behavior", "Positive and Negative Aspects of its Competitive Condition" and "Market Share" of the HF Process are described in the Fluorocarbon Process.

Raw materials

The main raw materials used in the production of HF are acid grade fluorite and sulfur. Fluorite has traditionally been obtained from the San Luis Potosi mine and, to a lesser extent, through purchase from third parties.

Sales and marketing of hydrofluoric acid (HF) and aluminum fluoride

The Issuer has several long-term HF supply contracts with its major customers in North America. Aluminum fluoride is sold to customers through purchase orders or contracts with a term of less than or equal to one year.

iii. Refrigerant Gases and Fluorocarbons Process

Fluorocarbons

Fluorinated hydrocarbons or fluorocarbon compounds are aliphatic compounds that have fluorine atoms or a combination of carbon and fluorine in their structure. They have a highly developed industrial application: they are used as anesthetics in medicine, as propellant gas in aerosols, they are also used as degreasers in metallurgy, as cleaners of electrical and electronic contacts, but their most important use is as refrigerants in air conditioning systems and domestic and industrial refrigeration.

Refrigerants: Fluorocarbons combine good thermodynamic properties (with boiling points below target-typical temperatures, high vaporization heat, moderate density in liquid form and high density in gaseous phase) with a safe (low toxicity and flammability) and non-corrosive nature.

Propellants: On December 31, 2014, Mexichem UK Ltd. (of the Fluor Business Group), acquired the pharmaceutical grade sales and distribution license for HFC-227ea/P, a medical propellant gas from E.I. Du Pont de Nemours and Company, which further strengthens the market-leading condition of the Company's proprietary ZEPHEX® brand. The product is used to safely deliver a variety of medications in aerosol form, including use in inhalers for the treatment of asthma. Under the terms of the acquisition, Mexichem acquired the exclusive worldwide rights to sell and distribute the product for the medical and pharmaceutical markets regulated under its ZEPHEX® brand, the worldwide brand of medical propellants contained in about 75% of the inhalers produced worldwide.

Plants.

(See Section 2, "The Issuer", item x, "Description of its Main Assets", of this Annual Report).

Raw materials

The main raw material used in the production of refrigerant gases is HF, which comes mostly from our plant in the city of Matamoros for our production of refrigerant gases at our plant in St. Gabriel in the state of Louisiana, USA, and is mainly imported from third parties for our production of refrigerant gases in the city of Mihara, Japan.

Sales and marketing of refrigerant gases

Mexichem sells refrigerants worldwide through regional distributors, key to the aftermarket, mainly without a contract or with a short-term contract. It sells directly to OEM (original equipment manufacturers) on short-term contracts.

Medical thrusters are sold in bulk directly to pharmaceutical companies under contract and packaged for business through agents and distributors without contract.

Main clients:

The total sum of the 10 most important clients of the Fluor Business Group represents 4% of Mexichem's total sales. No single Fluor customer represents more than 1% of the Company's total sales and, therefore, there is no dependence on one or more customers, since the loss of such customers would not have a material adverse effect on the Issuer's results of operations or financial condition.

Distribution Channels

Mexichem markets its products directly to customers and with some distributors. There is no special sales method, as all sales are made through the sales force in our own branches and through distributors.

Distribution Contracts

The sale is made directly to customers so most do not have distribution contracts.

Cyclic Behavior

There are no seasonal cyclical behaviors for the Fluoric Acid Process and Refrigerant Gases market.

Positive and Negative Aspects of its Competitive Condition

The main competitive advantage of the Hydrofluoric Acid and Refrigerant Gases Process lies in the vertical integration with respect to its main raw material, fluorite, which it obtains from its mines in Mexico, giving it long-term viability by having a guaranteed supply, which differentiates it from the main non-integrated producers dependent on fluorite's external supply. As previously mentioned, China is the main producer of fluorite worldwide, and it should be noted that its strategy has consisted of using this mineral to manufacture finished products in this industry, such as fluorocarbons and fluoropolymers, thus significantly reducing the supply of ore in metallurgical or acid grade worldwide.

On the other hand, Mexichem has a strategic and unique geographic location that gives it access to the North American market (one of the main consumers of hydrofluoric acid and other fluorochemicals in the world), which gives Mexichem a sustainable competitive advantage that is difficult to match. In addition, Mexichem's proximity to such an important market for such products as the North American market represents a significant competitive advantage with respect to the strict transportation regulations applicable to hydrofluoric acid.

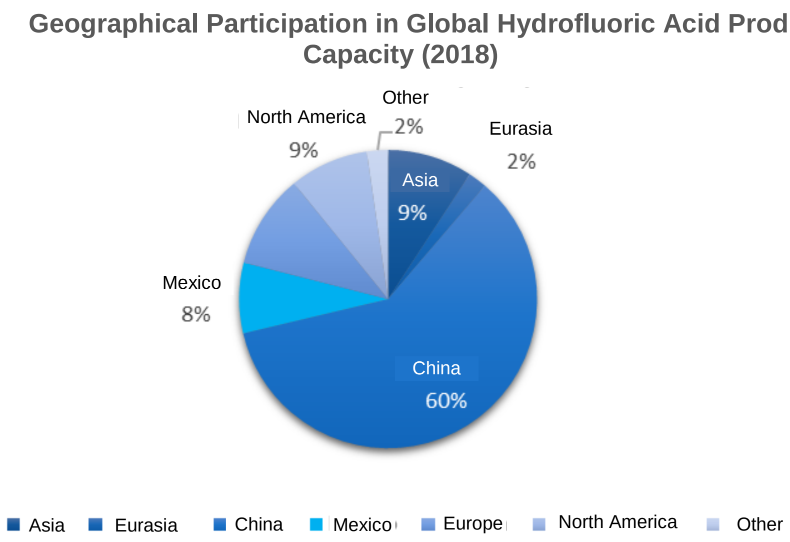
Market share of the Fluor Business Group

See Section 1, "General Information", item b, "Executive Summary", numeral 1, "The Company", of this Annual Report for more information on market share.

The Issuer estimates that global demand for hydrofluoric acid (HF) in 2018 was 1.4 million tons, of which 50% were produced in China, 30% in North America and 15% in Europe. The strongest demand growth during 2018 occurred in Asia, driven by growth in final HF applications.

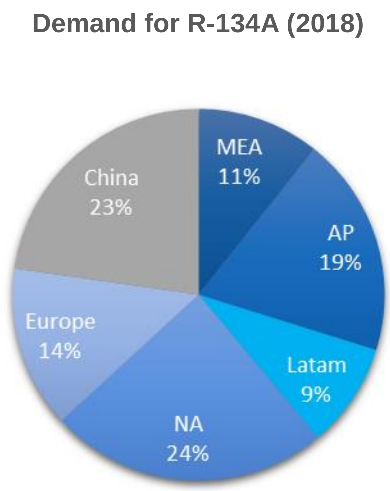
Mexichem Fluor competes with Honeywell International and Solvay in the HF market.

The following figures refer to the world production of HF; there is currently a total production capacity of approximately 2.6 million metric tons, plus another 1.0 million tons that are reserved to produce IDA3.



Source: Roskill Consulting Fluospar Report (2018)

The following graph shows the market share of the refrigerant gas HFC-134a, for which there is a global production capacity of 321,000 metric tons. The total demand for gas 134 A during 2018 was 252,789 tons.

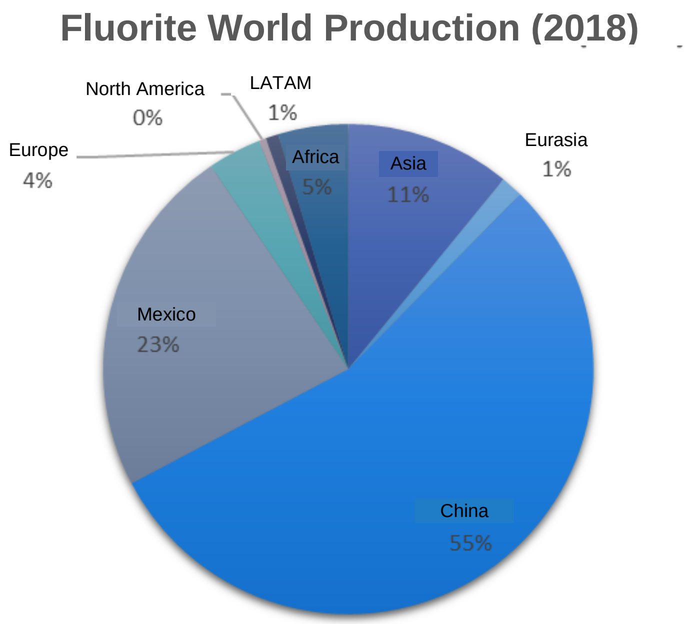


Source: BSRIA Report (2018)

Fluor Industry Overview

Fluorochemicals are compounds containing the chemical element fluorine, which obtained by mining and processing Fluorite; they are used in refrigerant gases, fluoropolymers and Fluor elastomers.

In 2018, worldwide production of Fluorite was approximately 6.5 million metric tons according to Roskill Consulting's estimates and internal analysis.



Source Roskill Consulting 2018, internal analysis

In 2018, the leading country in Fluorite production was China, accounting for 55% of the world's annual production. The rest of world production is predominantly concentrated in Mexico, Mongolia and South Africa, which together contributed an additional 32% to world production in the same year.

Most acid grade fluorite is consumed in the production of HF, required for the manufacture of fluorochemicals, followed by aluminum production and steel manufacturing. World consumption of acid-grade fluorite grew by 3% during 2018.

Mexichem is the world's largest fluorite producer, accounting for approximately 96% of Mexico's active production capacity, which is equivalent to approximately 20% of Fluorite's annual global needs.

HF is the most important chemical derived from Fluorite. The world's largest HF production capacity is in China, followed by North America and Western Europe.

World production of hydrofluoric acid (thousands of metric tons from 2016 to 2018)

	2018	**2017**	**2016**
China	1,540	1,500	1,480
North America	220	220	185
Europe	261	241	200
Asia	237	212	118
Mexico	196	152	130
Rest of the World	111	67	53
Total	2,565	2,392	2,166

Source: Roskill Consulting 2018

Do-Fluoride in China, the largest producer of HF in the world, has about 10% of world capacity. Excluding China, Mexichem was the largest producer of HF in the world during 2018, followed by Honeywell adding plants in the U.S. and Germany. Most of Mexichem's production is exported to the U.S. where it is consumed to produce fluorocarbons and other applications.

Production of 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. However, the production capacity of this product is expected to decrease over the next few years due to various policies to reduce the use of gases with high global warming potential.

For the same reasons mentioned above, the export market for HFC-134a is expected to decrease by 35% by 2020.

General Description of Industrial Processes of the Issuer

Mexichem has different technologies for manufacturing its products. In many cases, it uses its own technologies, such as PVC production, Fluorite purification, Compounds and piping, among others.

The main processes for the manufacture of the Group's most important products are explained below:

a) Ethylene Value Chain

This chain consists of the Vinyl and Fluent Business Groups (Building & Infrastructure - Fluent LatAm - Amanco and Fluent Europe - Wavin, Datacom - Fluent U.S./Canada and Fluent AMEA, Precision Agriculture-Netafim).

Within the Vinyl Business Group, the main production processes are Caustic soda and PVC Resin.

The following describes the processes of the

Vinyl Business Group

Caustic Soda Process

Chlorine and Caustic Soda are obtained mainly by electrolysis of Sodium Chloride (NaCl) in aqueous solution, called the chlor-alkali process. The industry employs three methods: mercury amalgam cell electrolysis, diaphragm cell electrolysis and membrane cell electrolysis. Mexichem uses diaphragm and membrane electrolysis cells.

Ethylene Process

The industrial process to produce ethylene is carried out using ethane from cryogenic units, which is fed to pyrolysis furnaces, also called Crackers. During the cracking of ethane in the Crackers, ethylene, hydrogen and other hydrocarbons are produced; these products are subsequently separated at low temperatures for use and to achieve the purification of ethylene to polymer grade.

Mexichem, in its strategic partnership with Oxy in Ingleside, has been producing ethylene since February 2017.

VCM Process

VCM is manufactured from chlorine and ethylene. These raw materials are reacted in a catalytic reactor to form an intermediate product called dichloroethane (Ethylene Dichloride or EDC). Purified dichloroethane undergoes thermal deco condition to produce VCM.

This process ceased to be carried out by PMV since the first quarter of 2016, due to the incident in Clorados III and continues to be produced by Vestolit.

Vinyl Process

In the production of PVC, three basic processes are used worldwide for the polymerization of VCM: by suspension, by emulsion and by mass. Mexichem uses only the first two processes, of which 79% of its production is obtained by suspension and 21% by emulsion. Both processes are explained below:

PVC by Suspension

This is the most widespread and adopted process in the world. Using this method, VCM is combined with water in the presence of a suspending agent, at a much lower level than in the emulsion polymerization process. Water and VCM are added in a reactor with agitation to form a suspension of VCM in an aqueous phase. Once mixed, this suspension is stable until polymerization begins, which occurs when a VCM-soluble starter is added to the mixture. Because the initiator is insoluble in water, each suspended drop acts as a mini mass polymerizer.

When water and VCM are mixed by vigorous agitation, small droplets of VCM form in the aqueous suspension. This suspension is stable only in agitation, because the two liquids are immiscible. If this mixture is allowed to react, the resulting PVC particles will tend to agglomerate into very large particles (larger than the size of the reactor). For this reason, suspension agents (also called emulsifiers or colloidal protectors) are initially added to the water/VCM mixture before the initiator is loaded. Emulsifiers are a water-soluble, non-ionic polymer. When water and VCM are mixed, the emulsifier surrounds each drop of VCM and forms a protective barrier around it. This barrier is effective because the polymers are compressed when two droplets collapse. This compression is essentially an increase in the concentration of the emulsifying polymer and, as such, results in an increase in osmotic pressure at the point of collision. To counteract this increase in pressure, the water diffuses into the contact area and separates the droplets.

The emulsifying polymer has both soluble and insoluble components in VCM. The insoluble serve to anchor the emulsifier in the surface of the VCM drop, avoiding the disinsertion during the collision of the drops. Several emulsifying agents are used in the process. Each of these substances provides different levels of colloidal droplet protection.

PVC by Emulsion

The elaboration of PVC Resins by emulsion (including those made by the micro-suspension process) are generally used in the formulation of Plastisol for coatings and molding.

In the emulsion polymerization process, the VCM, water, emulsifier and catalyst are loaded into a stainless-steel reactor where they are agitated. The reaction occurs at a pressure of approximately 145 psi and temperatures between 40° and 65° Celsius. The exothermic reaction releases about 640 BTUs per pound of polymer. The circulation of water through cooling jackets cools the reactor.

The resulting latex is stripped of the VCM that did not react, and the solid polymer is recovered by a drying process. The dry resin is screened to break up agglomerates and separate the larger particles.

Emulsion resin processing is often more complex than suspension technology. The polymerization cycle time can be two to three times longer than in the suspension process. Catalysts are more water soluble than VCM. In addition to molecular weight, resin particle size and distribution are critical to the performance of the final product.

There are also processes which involve the formation of a latex seed outside the main reactor. A portion of this latex seed is loaded into the reactor along with the water, VCM and process chemicals. The function of this seed is to promote resin formation and particle size control.

PVC Resin is used for the manufacture of Compounds; the resin is combined with other additives through a mixing process in order to obtain a homogeneous mixture that integrates the appropriate quantities in the entire mixture. From this part of the process, a *dry blend* is obtained and it is cooled to a certain temperature and fed to an extruder, which melts the mixture through temperature and pressure, and then converts this dry mixture into *pellets*, which are finally cooled and bagged in different presentations.

Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture - Netafim)

Mexichem has a unique technology in Latin America to produce pipes that carry drinking water. This technology is called Biaxial because the pipe undergoes bio-orientation of its molecules axially and longitudinally, generating a structure of laminar layers, providing the pipe with significantly greater mechanical resistance compared to conventional pipes, and flexibility that makes them virtually unbreakable. This technology allows a thinner wall in the manufacture of the pipe, and this makes them lighter, easy to manipulate and increases the water conduction area, guaranteeing savings in the handling, installation and consumed energy for the operation of the system.

PVC Resin is used for the manufacture of pipes, fittings, hoses and flexible floors; different additives are added to the resin, which later undergoes the extraction and injection transformation process, as applicable.

Datacom's business (Fluent U.S./Canada and Fluent AMEA) manufactures specialized ducts for the telecommunications sector from its main raw material, polyethylene. The manufacturing process of telecommunication ducts consists of using virgin polyethylene with certain additives to then go through the transformation process by extrusion in one or two stages depending on the product to be manufactured.

These ducts are specially produced and customized for the diverse clients with specific requirements in the telecommunications sector.

Datacom's business also manufactures specialized pipelines for the infrastructure sector for natural gas transmission from its main raw material, polyethylene and, until 2016, for pressurized water transmission, a business that was discontinued. The pipe manufacturing process consists of using virgin polyethylene of a specific grade for each gas conduction application, adding certain additives and then going through the extrusion transformation process. These pipelines ensure compliance with existing standards for natural gas handling.

b) Fluor Business Group

The different industrial processes of the Fluor Business Group are mentioned below:

Fluorite Process

Fluorite ore is extracted from the mine, along with some impurities such as carbonates and silicates. The ore is crushed and ground to small particle sizes to separate impurities.

The milled material must comply with a certain particle size, so it is classified with the help of cyclone filters, screens and separators; the part that does not meet the required specifications is returned to the mill.

The classified material is conditioned by adding oleic acid and dispersant and adjusting the PH. This is done in order to carry out the flotation process, where fluorite is concentrated, and impurities are separated.

Concentrated fluorite is in an aqueous medium and needs to be separated. The solids are separated from the water with the aid of a sedimentation tank and rotary filters, thus obtaining acid grade fluorite.

The main stages for obtaining fluorite are:

Exploration: Consists of locating, evaluating quality and quantifying mineral reserves.

Planning: In this stage, the ore preparation, development, decking, extraction, hauling and dipping works are projected, as well as the services (water, electrical energy, compressed air, ventilation, workshops, canteens, etc.), mining equipment and personnel of the operations.

Mine Production: The ore drilling and decking activities are carried out by means of controlled blasting, extraction by means of scoop tram equipment from the mined area to the loaders and trucking to the primary crushing area, where the ore is sent to the extraction sites (dipping), to be deposited on the surface to the preparation and crushing plants.

Preparation and Crushing Plants: These plants receive the ore extracted from the mine, where it is screened to obtain the metallurgical grade ore in its different sizes and obtain fine by-product (-3/4" product), which are the raw materials for the benefit plants.

Benefit Plants: fine material is concentrated in these plants, fed to 95% CaF2 purity quality (ceramic grade) and 97.3% CaF2 purity (acid grade).

Hydrofluoric Acid Process

The manufacture of hydrofluoric acid consists of making fluorite react with sulfuric acid. Hydrogen fluoride, better known as hydrofluoric acid, is obtained from this reaction.

Sulfuric acid is obtained by the oxidation of sulfur into sulfur dioxide SO_2 to convert it into sulfur trioxide SO_3 and then to obtain sulfuric acid.

Aluminum Fluoride Process

The production of aluminum fluoride is based on hydrofluoric acid, which evaporates and overheats before being injected in gaseous form into a double bed fluidized reactor. In the reactor, it contacts and reacts with aluminum hydroxide, which is in solid form, to produce aluminum fluoride. This product leaves the reactor in solid form at high temperature (700° C) so it must be cooled before being sent to storage and transport. Aluminum fluoride is used in the production of metallic aluminum.

Refrigerant Gas Process

Refrigerant gases are fluorocarbons that are produced by the fluoridation of trichloroethylene with hydrofluoric acid. Once the reaction takes place, the hydrochloric acid that is produced as a byproduct must be removed and the product must be distilled. Fluorocarbons are used in air conditioning equipment for automobiles.

iii. Patents, Licenses, Trademarks and other contracts

a) Patents and Licenses

We own, license or have rights to more than 500 patents, more than 2,000 trademarks, various patent applications and trademark registrations, as well as technology licenses in Mexico, Brazil, Colombia, the Netherlands and several other countries, which are currently used, or will eventually be used, in our operations. Most of our patents relate to the development of new products and processes for manufacturing and will expire between 2017 and 2027. Likewise, we renew our brands on a regular basis. While we believe that our patents and trademarks are valuable because of our broad range of products and services, we do not believe that the loss or expiration of any patent or trademark would have a material adverse effect on our results of operations, financial condition or the continuity of our business. As of December 31, 2018, we and our subsidiaries had more than 500 patents and industrial property designs issued or pending, both in Mexico and abroad.

b) Research, Development and Innovation

Mexichem recognizes the importance of innovation and development to remain a leader in its markets. The investments and actions in R&D are oriented to improve the performance of our products in benefit of the clients and to fulfill stricter regulations in the different geographic markets where we compete. We maintain 15 research and development centers with a technology center focused on developing technology to create products, improve processes and applications that positively impact the quality of life of users through comprehensive products and solutions.

The Vinyl Business Group has research and development centers located in Mexico (2), the U.S. (3), Germany (2), Colombia (1) and the UK (2); the Fluor Business Group has R&D centers in the UK (1) and Mexico (2). The Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) has R&D centers located in the Netherlands, Czech Republic and the U.S. Netafim adds a research center to Mexichem's operations while, as of the date of this report, the company inaugurated an innovation lab in San Francisco, California to explore innovative improvements to our existing products and/or new non-existing products for all Business Groups.

Mexichem has successfully developed specialty PVC products tailored to the special technical characteristics for clients in the construction industry, services, civil infrastructure, water piping, basic sanitation, transportation, energy and telecommunications. New-generation technology is also being developed for refrigerant gases that have been used in the automotive industry since 2017.

Mexichem organized a Technology Committee located in the Netherlands in its Building & infrastructure business to create synergies between Europe and Latin America (Fluent Europe - Wavin and Fluent LatAm - Amanco) focusing on satisfying the global market it serves and transferring technology between Europe and Latin America. The result has been that global solutions have been created and a technical team has been executing relevant technological changes in manufacturing processes.

The strategy in the R&D centers focuses on increasing project payback and meeting customer requirements by geographic regions; if necessary, projects are created in the countries that require it. This regional approach has enabled research and development centers to better serve the technological needs of our customers.

Mexichem maintains its strategy of migrating to higher added value products in the three Business Groups: in Vinyl, with the assets of Mexichem Specialty Resins, Mexichem Specialty Compounds, focused on high-end plastic compounds, and Vestolit, the largest producer of high-impact PVC resins. For example, the Company is developing a new generation of flexible PVC resins that are safer, more durable, and use less energy to manufacture final products, and developing better retardant solutions for cable production. In Fluent, in its Building & infrastructure business (Wavin and Amanco in Fluent Europe and Fluent LatAm) through its Technology Committee and its R&D centers, it’s creating innovative products such as heating systems that are digitally controlled via mobile phones (Sentio) and plastic bicycle paths (PlasticRoad). Our

Datacom business (Fluent U.S./Canada and Fluent AMEA), is producing high-density polyethylene products by means of pressure ducting and piping solutions for telecommunications (voice and data) and energy, while in its Precision Agriculture business (Netafim), through its generation of "irrigation as a service" solutions, is giving farmers the ability to manage nutrients, fertilizers and irrigation for their crops right from their mobile phone, with the support of agronomists and technologists. Fluor develops and markets medical grade propellants and Fluor composites for the cement industry.

Mexichem invested $41 million in Research, Development, and Innovation during 2018, $25 million in 2017, and $27 million in 2016.

c) Brands

The trademarks owned by Mexichem are registered either directly by the Company or by its subsidiaries in various countries in which it operates or could initiate operations.

The main brands under which Mexichem markets its products are:

Vinyl Business Group	
Line of business	Brand
PVC Resins	Primex, Iztavil, Petco,
PVC Specialty Resins	Vestolit
Compounds	Provin, Polivisol, Vindex B, Iztablend
Specialty Compounds	Alphagary, Alphaseal, Evoprene, Garaflex and Smokeguard
Plasticizers	Iztablend, Lugatom

Fluent Business Group (Building & Infrastructure - Wavin and Amanco-, Datacom - Dura-line-, and Irrigation -Netafim-)	
Line of business	Brand
Civil Construction, Infrastructure	Amanco, Pavco, Plastigama, Plastubos
Geosynthetics.	Amanco, Pavco, Bidim
Irrigation	Amanco, Pavco, Plastigama, Colpozos, Netafim
Telecommunications, Energy, Infrastructure.	Dura-Line
Plastic piping systems and solutions to customers in civil construction, agriculture and wholesalers, plumbing dealers, housing developers, large installers, telecommunications companies, utilities and municipalities.	Amanco, Pavco, Plastigama, Plastubos, Aquacell, Arot, Chemidro, Climasol, Connect to better, Hep 2 O, Herpworth, Q-Bic, Quickstream, Warmafloor, Warmawall, Wavin

Fluor Business Group	
Line of business	Brand
Medical Propellants	Zephex, Respia
Refrigerants	Klea, Arcton

Currently, globalization forces companies to differentiate themselves from others in order to compete in the international market; and for this reason, brands are important for the development of the Company, as they are distinctive signs that denote quality of the products marketed under them.

They are distinctive signs which allow the Company to identify its diverse products in the market. These brands are fundamental assets to the business and maintaining a good reputation is essential to attracting and retaining our customers.

The trademarks listed above are valid at the time of this publication and are periodically renewed.

d) Mining Concessions

The Company has 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 between 2029 and 2061, all of which are renewable pursuant to Article 15 of the Mining Law in force.

e) Other Contracts

Date of Signing	Contract Type	Held with:	Purpose of the Contract	Expiration and Extension
June 30, 2014	Revolving Credit Agreement	JP Morgan Chase Bank, N.A. as Administrative Agent; Bank of America, N.A.; BBVA Bancomer Institución de Banca Múltiple, S.A.; CitiGroup Global Markets Inc.; HSBC Securities (USA) Inc.; JP Morgan Chase Bank N.A.; Banco Santander (Mexico) Institución de Banca Múltiple Grupo Financiero Santander México, The Bank of Tokyo-Mitsubishi UFJ, Limited; Mizuho Bank Limited; Sumitomo Mitsui Banking Corporation, Credit Agricole Corporate and Investment Bank, Societe Generale.	Contracting of a $1.5 billion revolving credit facility with a five-year maturity at a LIBOR rate plus 95 basis points at 1.35 basis points, depending on the level of use and the rating assigned by Standard & Poor's and Fitch at the time Mexichem decides to draw down the credit facility.	This contract does not provide for a renewal clause at Mexichem's request. If Mexichem wishes to renew the credit facility after its expiration, the terms and conditions that will govern a new contract must be renegotiated with the banks.
September 19, 2014	Purchase and sale of shares	CHS Capital	Acquisition of 100% of the shares of Dura-Line.	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 100% of the shares of Dura-Line Holdings Inc.
December 1, 2014	Purchase and sale of shares	Strategic Value Partners LLC	Acquisition of 100% of the shares of Vesto PVC Holding GmbH (Vestolit).	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 100% of the shares of Vesto PVC Holding GmbH (Vestolit).
October 18, 2016	Purchase and sale of shares	Addario Family Trust, Hamer Family Trust, Tradd Trust, Branko Hamer Family Trust, Helbo Polymers Inc. and Brian Didone	Acquisition of 100% of the shares of GPL Plastics Holdings INC (Gravenhurst).	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 100% of the shares of GPL Plastic Holdings Inc.

Date of Signing	Contract Type	Held with:	Purpose of the Contract	Expiration and Extension
November 25, 2016	Purchase and sale of shares	Christopher Michael Makin, Jane Makin, Philip Goodinson, Richard Matthew Loynes and Andrew Beswick	Acquisition of 100% of Vinyl Compounds Holdings Limited.	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 100% of the shares of Vinyl Compounds Holdings Limited.
August 7, 2017	Purchase of 80% of the share capital of Netafim	Permira Fund	i) voting shares representing 80% of the subscribed and paid-in capital stock, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital, both of Netafim and iii) certain credits granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, in favor of Netafim.	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 80% of the share capital of Netafim Ltd.
January 22, 2018	Contract for the Sale of Shares	Sylvin Technologies, Inc., Jane C. Luce, Richard P. Witwer, Nancy Q. Witwer, Kathleen M. Witwer y Kathleen M. Witwer Irrevocable Trust	Acquisition of all outstanding shares of Sylvin Technologies, Inc.	This contract has no expiration date, nor is an extension applicable by the very nature of the contract, which is the purchase and sale of 100% of the shares of Sylvin Technologies, Inc.

iv. Main Clients

See Section 2) "The Issuer", item b, "Description of Business" for each Business Group, of this Annual Report.

Mexichem's top 10 customers combined accounted for 12.1% of its total net sales in 2018. Mexichem's largest individual customer represented 2.8% of its total net sales in 2018, so there is no dependence on one or more customers, since the loss of such customers would not adversely affect the Company's results of operations or financial condition.

Mexichem enters into and maintains various contracts within the ordinary use of its operations, such as software licenses, supply of raw materials, manufacture, purchase and rental of machinery, marketing, distribution, and sale and financing, among others, which may be short, medium, and long term, in accordance with the ordinary needs of the operation.

v. Applicable Legislation and Tax Situation

Our operations are subject to the laws and regulations of the countries in which we operate.

Tax Reform

The Mexican government, over the years, has implemented several changes in the tax laws applicable to Mexican corporations, including us. In December 2013, the Mexican government enacted several reforms to the federal tax laws, which came into effect on January 1, 2014. Among other changes, these reforms: (1) maintained the corporate income tax rate at 30%, (2) eliminated the flat rate or flat tax, (3) imposed withholding taxes at a rate of 10% on the payment of dividends from the net tax profit account (CUFIN) generated after December 31, 2013 and capital gains derived from the sale of shares by Mexican and foreign individuals, (4) eliminated deductions previously permitted in respect of payments between related parties or certain foreign corporations, (5) limited tax deductions for certain benefits paid to worker, (6) increased value added tax in certain regions of Mexico, and (7) increased mining taxes.

In 2016, a tax incentive was granted to individuals living in Mexico for the distribution of dividends or profits generated in the years from 2014 to 2016, provided that such dividends or profits are reinvested in the entity that generated them. The benefit consists of granting a tax credit of 1% in 2017, 2% in 2018 and 5% from 2019 onwards, against the payable income tax of 10% when these dividends are distributed starting in 2017.

In December 2017, U.S. Congress signed and published the "Tax Cuts and Jobs Act", an amendment that permanently reduced the corporate tax rate from 35% to 21% as of January 1, 2018, in addition to containing other provisions that, among others, modify the deferred obligations as of December 31, 2017.

Mining Law and its Regulations

Pursuant to the provisions of Article 27 of the Political Constitution of the United Mexican States, all minerals located in the subsoil of the Mexican territory are property of the Mexican Nation, so that individuals may only exploit such minerals through concessions granted by the Mexican Federal Government.

Our mining and exploration activities, as well as our production operations, are regulated in more detail by the Mining Law, which states that such activities may only be performed by Mexican citizens, rural communities and legal entities incorporated under Mexican law, and will be subject to mining concessions granted by the Mexican Ministry of Economy. Mexican law establishes that all mineral resources located in Mexican territory are the property of the Nation and that the exploitation of mineral reserves by the private sector requires a concession granted by the federal government. The Mexican Mining Law, as amended, establishes a simplified application process for obtaining a concession and provides for a 50-year term for mining concessions, which may be renewed for another 50-year term. The Mining Law also permits the granting of a single mining concession for both exploration and exploitation activities. In accordance with the provisions of the tax reform that came into effect on January 1, 2014, all entities subject to a mining concession must make a new payment for mining royalties, which corresponds to 7.5% of the net profits that a concession holder obtains from extractive activities. To calculate such royalties, earnings will be determined in a manner similar to the calculation of the general tax base – some interest and annual inflation adjustments are not included, and some deductions are not permitted for fixed asset investments, interest or annual inflation adjustment.

Our mining rights derive from concessions granted by the Mexican Ministry of Economy in accordance with the Mining Law and Article 27 of the Mexican Constitution and its regulations. Under the Mining Law, we are required to register our mining operations with the Public Mining and Mining Cartography Registry and to periodically file certain reports relating to our ore reserves. In that regard, we have complied with the submission of those records and reports in all relevant respects.

The rights granted to us by our mining concessions include: (1) exploration and exploitation activities within the area identified in the concessions, (2) proceeds from the sale of material resources extracted from such areas during the term of the concession, (3) the disposal of real property located within the area identified in the concession, unless it is subject to a valid mining concession granted separately, (4) the expropriation or temporary occupation or the temporary creation of easements on other real property to the extent necessary to carry out the exploration, exploitation and production operations described above, or to deposit or install in such area machinery and equipment and any other related objects, as well as the creation of underground easements through the mining lots, (5) the use of all water resources discovered during the exploration and exploitation processes, including their use for internal purposes by mine employees, (6) the preferential right to obtain a concession to use the mine water for any purpose other than that described above, (7) the right to transfer the rights deriving from the concession pursuant to (1) to (6) to any person legally authorized to hold such concession, (8) the reduction, subdivision and determination of the name of the geographical constituency covered by the concession, or its integration with adjacent lots, (9) the right to waive the concession and the rights derived therefrom, (10) the integration of two or more mines to provide evidence of completion of the works and tasks prescribed by the Mexican Mining Law, or to submit the required statistical and technical reports, (11) the right to request amendments to the concessions or to request the issuance of duplicate concession certificates, and (12) the right to request the extension of the concessions for a specified period.

Mexican law provides the federal government with the right to revoke or expropriate our concessions and assets if it considers necessary for public interest. In the event of expropriation, we have the right to receive compensation; however, both the terms for determining such compensation and the time for receiving it are not precisely specified under applicable law. In addition, the terms of our concessions require that we comply with certain existing obligations. See "Risk Factors - Risk factors related to our sector". *Our mining concessions may be subject to nullification, cancellation, suspension, expropriation or revocation of rights pursuant to applicable law and/or we may not be able to renew our existing concessions, which could have a material adverse effect on our operations and financial condition.*

Other provisions related to mining activities

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

- the Mining Law Regulations, published in the Official Federal Gazette on October 12, 2012, as amended;
- the Federal Property Act, published in the Official Federal Gazette on May 20, 2004, as amended;
- the National Waters Act, published in the Official Federal Gazette on December 1, 1992, as amended, and its regulations (Regulations of the National Waters Act), published in the Official Federal Gazette on January 12, 1994, and applicable Mexican Official Standards on water supply and wastewater discharge;
- the Federal Labor Act, published in the Official Federal Gazette on April 1, 1970, as amended, and NOM-023-STPS-2012, which is a legal provision that contemplates, among other issues, health and safety conditions in mines;
- the Federal Firearms and Explosives Act, published in the Official Federal Gazette on January 11, 1972, as amended, and its regulations;
- the General Ecological Balance and Environmental Protection Act, published in the Official Federal Gazette on January 28, 1988, as amended, and certain regulations and standards derived therefrom (especially the Regulations of the General Ecological Balance and Environmental Protection Act, published in the Official Federal Gazette on May 30, 2000, as amended);
- the Foreign Investment Law, published in the Official Federal Gazette on December 27, 1993, as amended, and its regulations (Regulations of the Foreign Investment Law and of the National Registry of Foreign Investments), published in the Official Federal Gazette on September 1, 1998;
- the Federal Weights, Measures and Standards Act, published in the Official Federal Gazette on July 1, 1992, as amended, and its regulations;
- the Federal Governmental Fees and Charges Act, published in the Official Federal Gazette on December 31, 1981, as amended;
- the General Law for the Prevention and Comprehensive Management of Waste, published in the Official Federal Gazette on October 8, 2003 as amended, its Regulations (Regulations of the General Law for the Prevention and Comprehensive Management of Waste) published in the Official Federal Gazette on November 30, 2006 and the Official Mexican Standards for the management of mining waste such as NOM-141-SEMARNAT-2003. It establishes the procedure for defining tailings, as well as the specifications and criteria for characterization and site preparation, design, construction, operation and post-operation of hauling dams and the NOM-157-

SEMARNAT-2009, which establishes the elements and procedures for implementing mine waste management plans;

- the General Law on Climate Change, published in the Official Federal Gazette on June 6, 2012, as amended, and its Regulations (Regulations of the General Law on Climate Change) published in the Official Federal Gazette on October 28, 2014;

- the General Law on Sustainable Forest Development, published in the Official Gazette on June 5, 2018, as amended and its Regulations (Regulations of the General Law on Sustainable Forest Development) published in the Official Gazette on February 21, 2005; and

- the Programs of Ecological Ordinance, Urban Development, Mexican Official Standards and the legislation and state and municipal regulations applicable to each specific site, in accordance with the activities that are carried out.

The concession titles also provide for other obligations applicable to the holder of the concession in question. In addition, a considerable number of regulations, rules and tax laws are applicable to mining activities conducted in Mexico.

The concession system

Mining concessions grant rights over a mine and not over the area of land where the concession is located. Mining concession holders are asked to negotiate access to the land under which the concession is located with the respective landowner or holder of the land, or to submit a request to the General Directorate of Mines to obtain a right of way or temporary occupation of the land, as the case may be. Expropriation of land may occur under the Mexican Agrarian Law.

Any person wishing to apply for a concession must first verify that the land in question is not located within a federal mineral reserve or in an area covered by a concession in force at the time. An application for a concession must be submitted to the General Directorate of Mines.

Types of mining concessions

As previously mentioned, mining concessions in Mexico have a term of 50 years from the date on which the corresponding title is registered in the Public Mining Registry and are renewable for another term of 50 years. The renewal of concessions must be requested within five years prior to their expiration. By law, mining concessions will remain in full force and effect until a resolution has been issued with respect to the request for renewal.

A mining concession allows its owner to carry out the exploration, exploitation and processing of minerals, use the water of the mine, request the temporary occupation or expropriation of the land and assign the rights guaranteed by the concession, among other actions.

Main requirements for concession holders

The Mining Law states that mining concessions may only be granted to Mexican citizens, ejidos, indigenous communities and corporations incorporated under Mexican law (whether controlled by Mexican or foreign investors), whose corporate purpose includes the exploration and exploitation of minerals and whose legal domicile is in Mexican territory.

Mexican companies that have foreign shareholders must be registered in the National Registry of Foreign Investments of the Mexican Ministry of Economy, and must annually submit certain financial, corporate and economic information. Failure to comply with this requirement does not result in the condition of significant fines.

Obligations of concession holders

Mining concession holders must comply with different obligations, including, but not limited to:

- initiate and provide evidence of commencement of exploitation or exploration work as provided for in the Mining Law and its regulations;

- pay the rights and fees for mining concessions;

- comply with applicable environmental and safety standards and regulations;
- refrain from removing permanent fortification, shoring and other facilities necessary for the stability and safety of mines;
- provide the Mexican Ministry of Economy with statistical, technical and accounting reports within the deadlines set forth in the Mining Law and its regulations;
- allow staff of the Mexican Ministry of Economy to conduct inspection visits;
- provide the Mexican Ministry of Economy with a geological-mineral report when the mining concession in question is cancelled due to the expiration of its term, abandonment, substitution by reduction of the size of the concession, violation of a judicial resolution; and
- in the case of mining concessions granted through a bidding process, provide the Mexican Geological Services with half-yearly reports on the project underway and the production obtained on the lot covered by the mining concession, in order to control the payment of the discovery premium or any other monetary compensation payable to such governmental entity.

The regulations to the Mining Law establish the minimum amounts to be spent or invested in exploration and/or exploitation activities. An annual report must be submitted in the month of May, in which the valuation projects carried out in the previous year are reported. Mining authorities may impose fines on concession holders if one or more proofs of project reports are not submitted on time.

Termination of concessions

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

- expiration of the term of the concession;
- a request for abandonment by the concession holder;
- replacement by a new concession as a result of changes in the area covered by the mining concession;
- a decision issued by a competent court; and
- violation of any of the terms of Article 55 of the Mining Law, namely:
    - i. using a mining concession to carry out the exploitation of minerals or substances not covered by the Mining Law;
    - ii. failure to perform or provide evidence of the valuation work contemplated by the Mining Law and its regulations;
    - iii. failure to pay mining rights;
    - iv. failing to deliver to the Mexican Geological Survey the half-yearly reports required under the Mining Law or failing to pay the discovery premium or any other monetary consideration payable; or
    - v. losing the legal capacity required to be the holder of a mining concession.

Pursuant to the Federal Property Act, the government may at any time revoke concessions for the use and exploitation of national assets for reasons of public interest or for reasons of national security after payment of compensation to the concession holder. The amount of such indemnity is determined taking into account the investments previously made by the concession holder and the depreciation of the equipment and facilities used exclusively in connection with the concession.

National Waters Act

Water use in Mexico, in connection with our Mexican operations, is primarily regulated by the Mexican National Waters Act.

In terms of the National Waters Act and the regulations derived from it, authority and administration in hydraulic matters is vested in the Mexican Federal Government, whose authority is exercised by the National Water Commission (CNA), the directorate responsible for supervising the national water use system and which is subordinate to the Ministry of the Environment and Natural Resources. In general, the development and use of national water resources by individuals and corporations can only be carried out based on a concession granted by the CNA.

In accordance with the National Waters Act, in order to obtain a concession for the use and exploitation of a specific volume of surface water or groundwater, the applicant must demonstrate to the CNA, among other things, that they have ownership and possession of the land on which the water will be extracted; and submit both an environmental impact study and a construction plan to be carried out or the characteristics of the existing infrastructure in the place where the water will be extracted and used. The concessions for the use and exploitation of national hydraulic resources have a term of between five and 30 years. Once the concession is granted, the holder has the right to exploit and use the national hydraulic resources during the authorized term (granted according to the availability of water in each region and the closed areas decreed) and according to the use approved by the CNA. The Mexican government is authorized to reduce the use of surface water or groundwater based on the volume of water not used by the concession holder.

Termination of water concessions

Concessions for the development of national water resources can be terminated, among other reasons, if:

- the term of the concession title expires; unless there is an extension for that term;
- the information provided to the Mexican government in connection with the concession is false;
- the concession holder fails to pay the required fees;
- the concession was granted in contravention of the provisions contained in the National Waters Act and its applicable regulations; or
- the concession holder only used or exploited the national hydraulic resources partially without there being a justified reason for doing so.

Similarly, the concession for the development and use of national water resources may be suspended if the concession holder:

- does not pay royalties for the use or use in accordance with applicable laws;
- does not pay the taxes corresponding to the use or exploitation within one year;
- does not allow the Mexican government to exercise its right to carry out inspection visits related to the resources or infrastructure used to exploit the concession;
- discharges waste that may affect drinking water sources and result in damage to public health; or
- does not comply with the terms and conditions set out in the concession title.

The suspension shall remain in force as long as the concession holder fails to remedy the non-compliance, or a competent authority orders the suspension to be stopped.

Finally, the concession for the development and use of national hydraulic resources may be revoked, among others, for the following reasons:

- disposing of the water in volumes greater than one-fifth of those authorized, when the beneficiary has previously been suspended in their right for the same reason;
- exploiting, using or taking advantage of national waters without complying with Mexican Official Quality Standards;
- carrying out works to discover, extract or dispose of subsoil water in regulated, closed or reserved areas, without the permission of the CNA;

- failure to pay the applicable duties in full or on time when the beneficiary has previously been suspended in their right for the same reason, even if it is a different tax year;
- transferring the rights of the title without permission from the NAC;
- using water for purposes other than that authorized, without permission from the NAC; or
- provisionally providing total or partial use of the concession waters to third parties without prior notice to the NAC.

Water concessions may be recovered for reasons of public utility or interest, by payment of compensation.

We have several water concessions that are essential to our operations. We believe that we are currently in compliance with the substantial terms of all our water concessions, as well as the wastewater discharge regulations.

Environmental Laws

Our operating mines, development projects and potential customers in Mexico are subject to Mexico's federal environmental laws and environmental protection provisions. The environmental legal framework in Mexico is the General Ecological Balance and Environmental Protection Act, which is administered by the Ministry of the Environment and Natural Resources (SEMARNAT) and whose verification of compliance is the responsibility of the Federal Attorney for Environmental Protection (PROFEPA).

In addition to the General Ecological Balance and Environmental Protection Act, there is additional relevant legislation that establishes provisions applicable to mining activities, including the General Law for the Prevention and Comprehensive Management of Waste, the Regulations of the General Ecological Balance and Environmental Protection Act regarding Environmental Impact Assessment, the National Waters Act, which regulates the use of groundwater and surface water, as well as wastewater discharges, and the General Law on Sustainable Forestry Development, among others. The CNA is responsible for implementing and monitoring compliance with the National Waters Act.

The development of mining activities is subject to obtaining several environmental permits from different offices within SEMARNAT. The most important authorizations are those related to (1) environmental impact and risk, (2) change in forest land use, and (3) wastewater discharges. In addition, authorizations and permits obtained for the development of mining activities and the processing of minerals will be subject to compliance with various conditions and agreements applicable to day-to-day operations.

Specifically, regarding environmental impact, exploration activities must comply with the Mexican Official Standard NOM-120-SEMARNAT-2011, which stipulates certain environmental protection requirements that must be met in the development of mining exploration activities. This standard is an exception to the obligation to submit an environmental impact statement for SEMARNAT evaluation; however, concession holders must submit a preventive report. For exploration, exploitation and use of minerals, an environmental impact study must be submitted to and approved by SEMARNAT prior to the beginning of these activities when direct mining exploration is located in agriculture zones, cattle ranches or wastelands and in zones with dry and temperate climates where xerophytic scrub vegetation, tropical deciduous forest, coniferous forests or oak forests.

PROFEPA monitors compliance with environmental legislation and with federal environmental laws, regulations and official standards in Mexico. If warranted by the results of an inspection visit or when prompted by public complaints, PROFEPA may initiate administrative proceedings against companies that violate environmental laws; in the most extreme cases, this may result in the temporary or permanent closure of facilities that do not comply with these laws, the condition of corrective or other cleaning and remedial measures, the revocation of operating licenses and/or other sanctions or fines. According to the Federal Penal Code, PROFEPA must inform the relevant government authorities of any environmental crime committed by a mining company in Mexico.

Mexico's environmental provisions have become increasingly stringent over the last decade, and this trend is likely to continue and may be influenced by the international environmental agreements that 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 provisions

The general regulatory framework for working conditions in Mexico is set forth in the Federal Labor Act and the Mexican Official Standards issued by the Ministry of Labor and Social Welfare.

In accordance with the Federal Labor Act and its regulations, all mines must implement a health and safety management system overseen by a supervisor designated by the employer. In addition, mining companies have the following obligations as employers:

- carry out the necessary plans, studies and analyses to ensure safe working conditions for employees;
- inform employees about work-related risks, health hazards and related preventive measures;
- provide employees with the necessary protective equipment required for the prevention of work-related hazards, and provide all training required for the use of such equipment;
- build and maintain ventilation systems and structural support in all underground facilities;
- implement control and monitoring systems to ensure that mining activities are conducted under safe conditions;
- maintain a recording and monitoring method to enable the employer to identify workers located in the mine, as well as to control the entry and exit of personnel; and
- refrain from employing minors.

All mine employees have the right to refuse to work or leave mine premises when (1) the employer fails to provide the necessary training on mining-related hazards; (2) the employees do not have the required safety equipment or training necessary for its use; or (3) the employees identify situations that endanger their lives or physical integrity or that of their co-workers.

Provisions on economic competition

On May 23, 2014, the new Federal Antitrust Law was published, which, among other things, sets out the obligations of notification prior to a merger. Approval from the Federal Antitrust Commission may be required for us to make major acquisitions, disposals or joint ventures. Failure to obtain approval from the Federal Antitrust Commission may result in the condition of fines, the decondition of assets and our inability to complete the proposed acquisition. As the opportunities to expand our operations continue, we may face increased scrutiny from economic competition authorities in the countries in which we operate. See "Risk Factors - Risk Factors Related to Mexico and the Major Countries in Which We Operate - Antitrust laws in Mexico and other countries in which we operate may limit our ability to expand business."

Energy reform

On December 20, 2013, the *Decree reforming and adding provisions to the Political Constitution of the United Mexican States on Energy*, or Energy Reform Decree, was published in the Official Federal Gazette; it included the general framework for the issuance of secondary laws for its execution, which were enacted on August 11, 2014.

The key features of the Energy Reform Decree and Secondary Legislation are described below:

- **Continuous property of the 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 carry out the exploration and extraction of hydrocarbons in Mexico through assignments to state-owned productive enterprises called "State productive enterprises" or through contracts entered with State productive 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 hydrocarbon exploration and extraction activities, which may include the following contractual agreements described in the Energy Reform Decree:

- licenses, under which the license holder would be entitled to the hydrocarbons once they are extracted from the subsoil;

- production sharing contracts, under which the contractor would be entitled to receive an agreed percentage of hydrocarbon production;

- profit sharing contracts, under which the contractor would be entitled to receive a percentage of the profits derived from the sale of the extracted hydrocarbons; and

- service contracts, under which the contractor would receive cash payments for services rendered.

The Mexican government will be able to combine elements of the contractual arrangements described above to maximize revenues attributable to Mexico and help ensure its long-term development. In addition, the Energy Reform Decree establishes the general terms applicable to the process by which the Mexican government grants one of this type of contracts, which must be governed by rules that guarantee transparency and effective supervision, and states that information on such contracts, including payments made or taxes paid under such contract, must be of a public nature. In addition to participation in exploration and extraction (*upstream*) activities, private sector companies may also participate in processing and transportation (*midstream*) and refining (*downstream*) activities and *retail* in the Mexican hydrocarbon industry, including refining, processing and transportation operations. These operations will be governed by a legal framework that will involve the granting of permits by the Ministry of Energy and the Energy Regulatory Commission pursuant to the Hydrocarbons Law. Under the Hydrocarbons Law, the Mexican government will have the authority to grant allocations for hydrocarbon exploration and extraction activities to Pemex and contracts of the types described above as "Private Sector Participation" to Pemex and private sector companies, including partnerships between Pemex and private sector companies. In addition, the Draft Hydrocarbons Law establishes the new regulatory framework described above that will allow private sector companies to obtain permits for processing and transportation activities and refining in the hydrocarbons sector in Mexico, including the refining and processing of natural gas.

Environmental Issues

We are subject to many environmental laws and regulations in each of the jurisdictions in which we operate. These laws and regulations impose increasingly stringent environmental protection standards with respect to air emissions, wastewater discharges, the use and handling of waste or hazardous materials, waste disposal practices, and the remediation of environmental damage or pollution, among other things. These standards cause us to incur substantial environmental costs and liabilities, including liabilities associated with the disposal of assets and past activities, even when they are performed by previous owners or operators and, in some jurisdictions, regardless of the fault or legality of the original activity.

To prevent, control and remedy environmental problems and promote compliance with administrative requirements, we maintain an environmental policy designed to monitor and control environmental issues. Our environmental policy requires each subsidiary to respect local laws and comply with our own internal regulations to minimize the use of non-renewable resources and the generation of hazardous and other wastes. We strive to use processes that are designed to reduce the impact of our operations on the environment at all stages of production and at all of our operations worldwide. We are committed to complying with all applicable laws and believe that we are in substantial compliance with all applicable environmental legislation.

We frequently incur capital expenditures that have an environmental component or are affected by environmental provisions. However, we do not maintain separate accounts for mixed capital and capital expenditures. Environmental expenditures that extend the useful life, increase capacity, improve safety or efficiency of assets, or are incurred to mitigate or prevent future environmental pollution, may be capitalized. Other environmental expenditures are expensed when incurred. For the years ended December 31, 2015, 2016, 2017 and 2018, our capital expenditures and repair expenses were not significant. However, our environmental expenditures may increase in the future.

Our commitment to the environment and social responsibility is a fundamental part of our corporate culture and values. As a result, we have implemented several community support initiatives in the vicinity of our production facilities and have formed alliances with major universities in those regions for the joint development of integration and training programs.

The following is an analysis of environmental provisions and issues in our major markets:

Mexico

We believe that all our production facilities in Mexico meet the material aspects required by applicable environmental and safety laws. As of the date of this report, we believe we have obtained the permits and authorizations required for our operations. We adhere to the comprehensive responsibility program promoted by ANIQ, which is based on the international standards of Responsible Care. We have received several awards as a result of our advanced safety and environmental program, and more than 75% of our sites have been certified by a third party in the ISRS and the remaining sites are working towards certification in 2019. The Mexican government, through the Federal Attorney for Environmental Protection, has granted our chemical operations the *"Clean Industry"* certification. Most of our operations are ISO 14001 compliant and certified.

If we fail to comply with Mexican environmental laws, we may be subject to fines ranging from 5,000 to 2.5 million Mexican pesos, and the Mexican government may partially or totally suspend our activities or impose civil and/or criminal penalties.

We help to 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 protect the environment and make our processes more efficient. In 2005, thanks to our energy efficiency program, we were recognized with Mexico's National Thermal Energy Savings Award for our exemplary thermal energy conservation practices. In 2006, our Coatzacoalcos operations were also recognized with the National Thermal Energy Savings Award in the category for Private Sector Industrial Facility Improvements, and our Matamoros operations received an award in the category for Best Practices in Electricity Efficiency. In 2007, we received two Thermal Energy Savings Awards for our energy efficiency program.

For more than 10 consecutive years, we have been recognized by the Mexican Center for Philanthropy (CEMEFI) as a "Socially Responsible Company", which has been the result of our social efforts, both internal and external, environmental programs aimed at reducing 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 wastes and other matters relating to the protection of the environment. Under federal and state environmental laws and regulations, we are required to obtain operating permits for our manufacturing facilities, which must be renewed periodically. In the event that any of our environmental licenses and permits expire or are not renewed, or when we fail to obtain the required environmental licenses and permits, we may be awarded fines ranging from 500 BRL to 50 million BRL, and the Brazilian government may partially or totally suspend our activities and impose civil and/or criminal penalties. As of the date of this report, all of our environmental licenses and permits are in full force and effect.

We believe that our operations comply with the material aspects required by the environmental laws and regulations in force in Brazil. We are addressing the 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.

Our safety management system in Brazil has been certified according to the Occupational Health and Safety Administration Systems (OHSAS) 18001 standards, and the performance of our system has helped us consistently reduce time lost due to accidents. We are working to ensure that all locations in Brazil are certified by a third party in the ISRS by the end of 2020.

As of the date of this report, our operations in Brazil follow and certified to ISO 14001.

Colombia

As of the date of this report, we believe that our production facilities are in material compliance with applicable environmental and safety laws and regulations and have the necessary licenses and permits to operate them. In addition, we believe that we comply with the requirements of local environmental authorities relating to the environmental impact our operations may cause as a result of industrial effluents, emissions and waste. In addition, we have voluntarily adopted additional standards, such as the Total Responsibility and Cleaner Production Agreement. In the event that any of our environmental licenses and permits expire or are not renewed, or when we fail to obtain the required environmental licenses and permits, we may be fined, and the Colombian government may partially or totally suspend our activities.

All our sites in Colombia have been certified by a third party ISRS, ensuring a strong culture of safety and continuous improvement. As of the date of this report, our chemical operations are following and certified to ISO 14001.

Europe

Following our acquisition of Wavin, we became subject to several environmental provisions in different jurisdictions across Europe, including provisions relating to carbon dioxide emissions, energy use, recycling and waste disposal and various sustainability initiatives. Prior to the acquisition, Wavin had already implemented several internal processes to monitor and reduce its carbon dioxide emissions by 20% between 2008 and 2015 and had already achieved a 14% reduction in emissions by 2013. Wavin joined several manufacturing organizations committed to continuously reducing energy consumption and improving efficiency. As a best practice in the marketplace, in collaboration with its customers and local governments, Wavin has implemented a plastic pipe waste collection program and is involved in partnerships with suppliers of recycled materials to share knowledge and expand best practices regarding their recycling programs. Wavin has been constantly increasing the use of recycled materials in its production processes.

Mexichem's foreign subsidiaries were incorporated in accordance with the mercantile regulations of their respective countries of incorporation and comply with their respective tax obligations.

For further details on the effect of business laws and regulations, refer to section c) Risk Factors in part a) Risk Factors Related to Operations and Industry.

The perceived effects of climate change may result in additional legal and regulatory requirements in any of the more than 30 countries in which Mexichem has production operations to reduce or mitigate the effects of emissions from operating facilities. *See Section 1, "General Information", item c, "Risk Factors", sub-item to "Impacts related to climate change may result in additional regulatory or legal requirements, as well as investments not contemplated by us."*

Tax Situation

Income Tax

Income tax is based on taxable income, which differs from the gain reported in the consolidated income statement and other comprehensive income, due to items of taxable income or expense or deductible in other years and items that are never taxable or deductible. The Entity's current tax liability is calculated using the tax rates enacted or substantially approved at the end of the reporting period by the countries in which the Entity and its subsidiaries are located.

The following table shows the legal income tax rates applicable for 2018 in each of the countries in which we operate.

Country	**%**	**Country**	**%**
Germany	34	Ireland	13
Argentina	35	Italy	24
Austria	25	Japan	30
Belgium	29	Latvia	15
Brazil	34	Lithuania	15
Bulgaria	10	Mexico	30
Canada	27	Nicaragua	30
China	25	Norway	23
Colombia	37	Oman	15
Costa Rica	30	Panama	25
Croatia	20	Peru	30
Denmark	22	Poland	19
Ecuador	22	United Kingdom	19
El Salvador	30	Czech Republic	19
Slovakia	21	Republic of Serbia	15
United States of America	21	Romania	16
Estonia	20	Russia	20
Finland	20	South Africa	28

France	33	Sweden	22
Guatemala	25	Switzerland	27
Netherlands	25	Taiwan	17
Honduras	25	Turkey	22
Hungary	9	Ukraine	18
India	34	Venezuela	34
Israel	23		

In the ordinary course of business, Mexichem applies various treaties to avoid double taxation and is responsible for withholding taxes.

vi. Human Resources

The personnel hired by Mexichem's subsidiaries are presented below:

Staff	**2018**	**2017**	**2016**
Unionized employees and temps	12,879	11,227	12,026
Non-unionized	9,228	6,444	6,871
Total	**22,107**	**17,671**	**18,897**

%			
Unionized employees and temps	58%	64%	64%
Non-unionized	42%	36%	36%
Total	**100%**	**100%**	**100%**

In 2018, the number of Mexichem employees increased to 22,107 as a result of the acquisition of Netafim. The percentage of unionized workers compared to the total number of workers was 58%, representing a reduction compared to 2017 given Netafim's organizational structure, which has a different proportion of non-unionized and unionized employees.

During the last three years, there has been no labor conflict with a material impact on the total operation of the company to report in Mexichem's plants, maintaining a positive relationship with the unions, which is characterized by mutual understanding and support to achieve significant changes for the Group's companies. Unionized workers of the subsidiary companies are affiliated to the corresponding unions and labor centers in each locality.

Mexichem administers its labor relations in accordance with applicable labor legislation and in terms of policies, procedures, and a Code of Ethics.

In addition, each plant has a specific area that coordinates labor relationships.

With respect to remuneration practices, Mexichem has a salary structure based on the principles of internal equity under an international methodology and standard for job evaluation and external competitiveness, in which there are salary tabulators designed and updated based on each country's salary market practices and macroeconomic indicators.

Over the past three years, Mexichem has transformed its talent management model by implementing processes and policies with global reach and based on best market practices to attract, retain, evaluate, develop, compensate and recognize its talent. To achieve this transformation, we have completed the implementation of a technology platform that allows us to administer and manage the key processes of human resources management; this global initiative ended in 2018.

Mexichem is aware that in order to become a world-class company, its people play a preponderant role. The Company requires extraordinary people doing extraordinary things, which is why the Company works to build a work culture where its human resources perform to the best of their abilities and in an inclusive and diverse environment. Mexichem seeks a committed workforce that works with passion and deep connection to its purpose and values. In 2018, the Company dedicated efforts and resources to measure the level of commitment of its employees, as well as innovation capabilities. Regarding the level of commitment, it was found that 86% of the Company's global workforce is committed, empowered and energized to do their job. At the end of 2018, actions were initiated to increase the level of commitment of its collaborators. For this reason, we launched a global recognition program that will allow us to recognize collaborators for the efforts they demonstrate in their daily work.

Certain subsidiaries of the Company have defined benefit plans funded for qualifying employees of its subsidiaries. Defined benefit plans are administered by a fund legally independent of the Entity. There is a pension fund board which is responsible for investment policy in relation to the fund's assets.

In its Code of Ethics, Mexichem includes its condition regarding diversity, establishing it as an important pillar for the success and strengthening of the Company. In 2018, the Issuer completed training on its compliance policies and code of ethics; 100% of its employees globally were trained in person or online. It also launched its diversity and inclusion policy, which aims to create a culture that incorporates different ideas and perspectives where its employees may perform to their fullest capacity. Mexichem hopes to achieve this objective by acting in accordance with applicable legislation, fostering communication and dialogue, as well as collaboration.

vii. Environmental Performance

Sustainability Model -

Commitment to safety, social and environmental responsibility

Mexichem's purpose is to improve people's lives with outstanding products and services. To achieve this, we are committed to responsible business growth, while complying with the laws and regulations of the countries in which we operate, minimizing the risks to our processes and products, and creating shared value for social progress.

The Issuer will continue to focus not only on economic development, but also on its commitment to society and environmental sustainability. As part of the above, it performs sustainability reporting under the Global Reporting Initiative (GRI) methodology, as a means of evaluating and establishing goals and work programs to achieve both commitments. In 2011, it obtained an "A" rating from GRI, the highest rating obtained by a company under this initiative and verified through an audit by an independent third party obtaining the "+" for the results. The Company maintained its "A+" rating until 2013. As of 2014, GRI introduced changes in the reporting and evaluation structure and, through the G-4 Guide, the "A+" evaluation disappears and the focus is established in Materiality Disclosure. In 2018, the Issuer joined the United Nations Global Compact and began reporting greenhouse gas emissions in the Carbon Disclosure Project (CDP). The sustainability report information is audited by a third party that meets the ISAE 3000 assurance standard. The Issuer complies with the new criteria of the GRI Guide based on materiality and verification of an independent third party to the relevant indicators. In addition, the Issuer has set long-term goals that it monitors year after year.

Sustainability Strategy

There are global trends that have the potential to affect the sustainability of our planet. Urbanization, population growth, water scarcity, digitization, food scarcity and climate change are issues on the global agenda that align to our business and for which we seek to provide solutions through our products and services.

With this in mind, we have evolved as a company, from a chemical business approach to integrating and developing products and services that improve people's quality of life and contribute to building a sustainable future, with solutions that include water resource management, sustainable construction, the digitization process, health, and energy efficiency.

To achieve its purpose, the Company's strategy focuses on four main axes. The first axis is its growth platform. Given its size and global presence, Mexichem offers value-added products in new markets, using its geographic expansion as a platform for the development of new business opportunities.

The second axis is our customers, who are the raison d'être of the Company and who drive our efforts to develop and innovate sustainable products and personalized services, both in their production and their use.

The third axis is our collaborators, who make it possible to reach objectives and whose development is fundamental for the business, which requires high qualification in its labor force, adaptative to change and permanent reinvention.

Finally, the fourth axis refers to responsible management in all areas of our operations; this pillar is based on an exercise in materiality. We have a responsibility to the safety of our employees, to the environment, to neighboring communities, and to society in general for the impacts of its operation and its products.

Materiality

In early 2016, Mexichem completed its first global materiality analysis, through which it identified the most relevant issues for stakeholders based on their economic, social and environmental impacts. This process was carried out in three phases and resulted in the definition of 19 material themes, which were used to define the company's Sustainability Strategy for 2020.

Operations

- Health and safety at work
- Transport of chemicals
- Energy consumption
- Reduction of emissions
- Water management
- Waste management
- Biodiversity and ecosystem protection

Talent

- Culture
- Diversity
- Volunteer Work

Community

- Relationship with the community
- Social investment
- Local economic development
- Accident prevention and response

Product

- Sustainable use
- Design and innovation (R&D)
- Product Transparency
- Use of hazardous materials
- Life Cycle Impact

Corporate Governance

Ethical Behavior and Compliance

Value Generation

Commitments

- Prevent accidents and property damage by emphasizing that safety is everyone's responsibility.
- Preserve people's health, safety and security.
- Create a positive impact on the environment by preventing pollution, reducing the consumption of resources and recycling waste.
- Continuously improve the effectiveness of the Management System, establish performance objectives, measure results, review and improve processes.
- Have open communication with stakeholders; comply with federal and local regulations and other applicable external commitments and requirements.

Success in the above commitments requires the involvement of its staff, suppliers and customers, as well as the allocation of the necessary resources.

Awards, Certifications and Distinctions:

During the year, Mexichem received the following awards, recognitions, and certifications:

- IQNet SR10 Social responsibility management system in Germany.
- Clean Industry Certificate granted by the Environmental Authority of Mexico
- Socially Responsible Company Certificate granted by Cemefi
- Certificate in Self-Management in Health and Safety, Ministry of Labor and Social Welfare (STPS)
- Kosher Certificate, granted by Calidad Kosher, S.C.
- ISO 9001: Quality Management Systems
- ISO 14001: Environmental Management Systems
- ISO 22000: Food Safety Management
- OHSAS 18001: Occupational Health and Safety Management Systems
- NSF: NSF International is an independent, nonprofit, objective product testing and certification agency that sets global performance standards for a wide variety of household and industrial products.
- SARI: Integral Responsibility Administration System granted by the Mexican National Chemical Industry Association.
- ICONTEC: Colombian Institute of Technical Standards

- NORVEN: Mark that certifies the quality of the final product in Venezuela
- SEDAPAL: Potable Water and Sewerage Services of Lima
- INEN Quality Seal
- INASSA Seal
- KALUZ AWARD
- White Cross Medal of Merit in the category of Excellence in Safety, Health and Environmental Protection.
- Recognition of environmental excellence. SEDUMA.
- Gold Ekos
- PREAD District Environmental Excellence Program Award in the Elite category
- GIS Recertification and ISRS Certification.
- Member of the Sustainable IPC of the Mexican Stock Exchange.
- Member of FTSE4Good.

Climate change

Mexichem has performed various analyses to determine the degree of exposure to the possible effects of climate change on its operations.

The effects of climate change identified in the different areas where Mexichem has operations or market presence are desertification and drought, rising sea levels, changes in rainfall patterns, decreased water availability, deforestation and disease. All these phenomena could affect the Company's conditions, operating results and financial condition, due to the need to generate investments for the adaptation of operations, the increase in the price of supplies and energy, the closing of affected operations, and the relocation of suppliers, protection measures against natural phenomena, relocation of facilities to places with more favorable conditions and greater environmental regulatory requirements.

In this regard, the main risks foreseen are the physical risk of current and future installations, as well as the availability of water for their operation. Mexichem conducts risk assessments and detection of opportunities arising from climate change in the regions in which it operates for each site. Preventive actions have been identified and based on this, actions are being taken to mitigate these risks. Operational risks in sea level areas have been identified and mitigated through constant hurricane monitoring, supported by forecasting models from the Miami National Hurricane Center. In this way, it is possible to plan actions corresponding to the supply chain and operation in plants, as well as to prevent difficulties that may be triggered by this type of event.

Extreme weather events can also have a serious impact on the company's logistics as production units could be isolated without the capacity to receive or ship product by land or sea. Likewise, the flow of materials can be interrupted in places outside the company, but strategic for the transport of goods (ports closed in the U.S. by a hurricane or border bridges inaccessible by floods in Europe). Thus, Mexichem's operating sites are exposed to hurricanes, cyclones and tropical storms derived from Climate Change. If affected by these phenomena, the Company could see its results of operations and Financial Condition affected.

As an example of the above, in September 2017, as a consequence of Hurricane Harvey, the subsidiaries of the Vinyl Business Group declared a Force Majeure related to the supply of all their suspensions, copolymers and emulsions of PVC resins produced in Mexico, Colombia and the USA because its main supplier of VCM and other raw materials had declared Force Majeure.

Since the *Intergovernmental Panel on Climate Change* (IPCC) forecasts that extreme weather events will tend to increase in intensity and number, Mexichem designs contingency plans that seek to normalize operations as soon as possible. Redundant transport options, different routes and logistic means or emergency inventories are some examples that are considered in the plans. If almost normal operation is achieved in the face of these events, there will be a clear advantage over the competition, devoid of these measures.

While climate change can have negative impacts on operations, it can also represent interesting business opportunities such as:

- Opening new markets for products that contribute to the adaptation and mitigation of climate change impacts and
- Durability and conditioning as a result of consumer preference for companies committed to caring for the environment and social responsibility.

Opportunities

Water is a fundamental part of our operation, from the consumption of water in the extraction process and in our operations, to the collection, distribution, sanitation, and irrigation solutions and products we provide. Water is an indispensable resource for Mexichem's extraction, transformation and operation activities. For this reason, several of the plants have closed circuits and all have wastewater treatment systems, which recover more than 70% of this resource.

We offer irrigation solutions or systems that include the exploration and production of water sources. In addition, we contemplate business expansion for irrigation systems through the integration of Netafim, the world's leading irrigation company. In this way, it is projected to generate a decisive impact on the productivity and sustainability of agriculture systems of food production.

Our products contribute to the development of many items involved in construction and infrastructure. PVC products have functional attributes that contribute to a more sustainable performance, supporting impact control in project sites, the selection of non-toxic, durable and environmentally preferable materials, as well as thermal comfort and indoor air quality. In addition, PVC contributes to the sustainability of construction through lower consumption of materials and energy and lower CO_2 emissions.

Reports from the United Nations Development Program (UNDP) show that one of the consequences of climate change is extreme temperature changes. These changes may represent an area of opportunity in the growing demand for air conditioning systems, as well as in the consumption and production of increasingly efficient refrigerants.

Failure to comply with past, present or future environmental legislation could result in the condition of sanctions, third party actions and investigations by the regulatory authority. The perceived effects on climate change could result in additional legal and regulatory requirements that seek to reduce or mitigate the effects generated by emissions in production plants. *See Section 1, "General Information", item c, "Risk Factors", sub-item to "Impacts related to climate change may result in additional regulatory or legal requirements, as well as investments not contemplated by us."*

vii. Market Information.

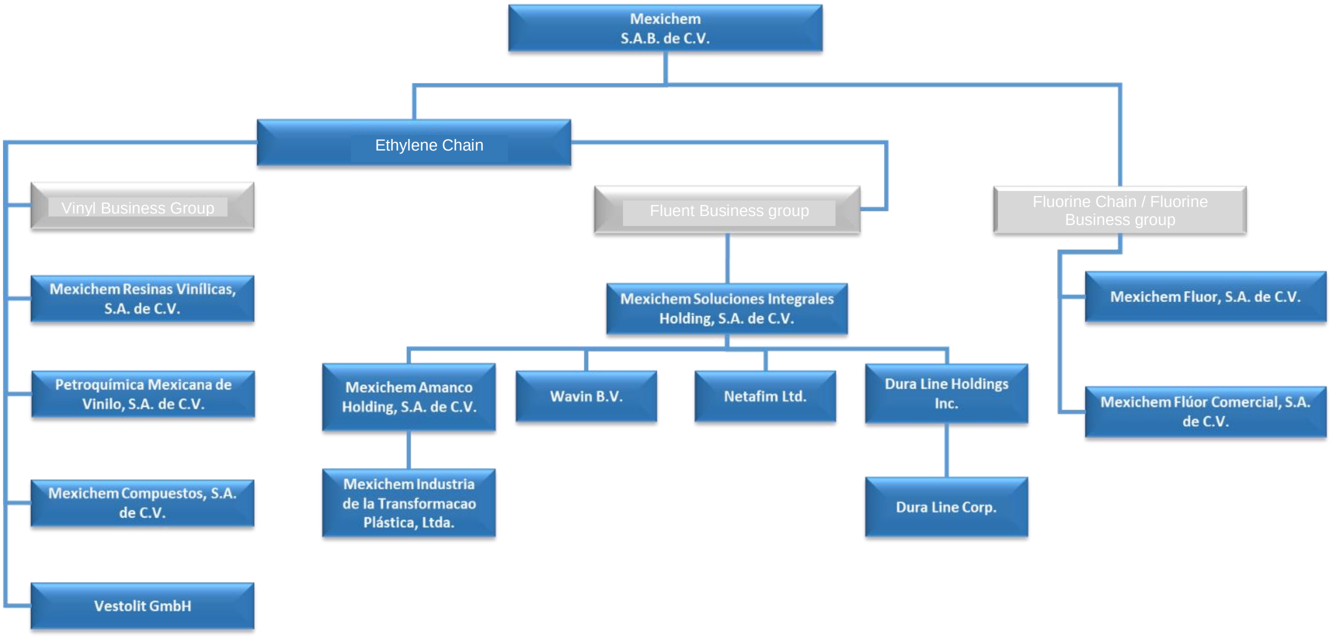
Mexichem is one of the largest producers of pipes in Europe and Latin America; it is a leader in the production of PVC resin in Latin America, and it maintains a leading condition worldwide, according to IHS Markit. The Company believes that the primary markets for such products in the infrastructure and construction industries should experience sustained growth over the next several years.

Mexichem has a strong presence in the Americas, Europe, and Asia due to its unique condition within the Fluor Value Chain. The Issuer holds the concession rights for the exploitation and extraction of the world's largest fluorite mine in Mexico and has modern plants for the production of HF and refrigerant gases, which allows it to forge solid relationships with strategic market participants. In addition, the proximity to the final fluorochemical market in the U.S. gives it a competitive advantage. The Issuer commonly enters into long-term dollar-denominated contracts with reputable international customers for the sale of the fluorite and HF it produces. The Company's global conditioning will allow it to explore opportunities in order to provide more value-added products.

For more information, see Section 2, "The Issuer", item b, "General Business Description", sub-item i) "Principal Activity" for each Business Group in this Annual Report.

viii. Corporate Structure

For practical purposes, the companies representing each process are mentioned. The events, results and operating data described correspond to the corporate structure in force as of December 31, 2018.



Mexichem's main significant subsidiaries are:

Mexichem Resinas Vinílicas, S.A. de C.V. is a subsidiary of the Vinyl Business Group of our Ethylene Chain, which manufactures and sells PVC resins for the plastic industry and owns the shares of Mexichem Ethylene Holding Corp, owner of 50% of the shares of Ingleside Ethylene LLC, a company that represents the joint investment of Mexichem and Oxychem in an ethylene cracker, Mexichem Resinas Colombia, S.A.S. and Vestolit, GmbH, companies that manufacture and market PVC resins.

Mexichem Compuestos, S.A. de C.V. is a Mexican company that manufactures compounds for various niches in the market. It is a subsidiary of the Vinyl Business Group and owns the shares of Mexichem Specialty Compounds, Inc. located in the U.S. and Mexichem Specialty Compounds, Ltd., a company located in the UK that manufactures polyvinyl chloride and special thermoplastic compounds and C.I. Mexichem Compuestos Colombia, S.A.S., which manufactures flexible compounds.

Mexichem Flúor, S.A. de C.V. is a company whose main activity is the extraction and sale of fluorite, as well as the production of hydrofluoric acid and is the owner of the shares of subsidiaries dedicated to the production of refrigerants in the UK and the U.S., mainly. As of January 1, 2011, most of its products are distributed by its subsidiary Mexichem Flúor Comercial, S.A. de C.V. The company is consolidated in the Fluor Chain and Business Group.

Mexichem Soluciones Integrales Holding, S.A. de C.V. is our trading subsidiary for the Fluent Business Group (Building & infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture-Netafim), and is the holding company for: (1) Mexichem Amanco Holding, S.A. de C.V. which owns the shares of the Building & infrastructure business in Latin America; (2) Wavin, B.V. the holding company of the Building & infrastructure business in Europe, (3) Dura-Line Holdings, Inc., which owns the shares of Datacom's business subsidiaries located in India, Oman, South Africa, the Czech Republic and the U.S., which distribute micro ducts, and (4) Netafim Ltd., which is the holding company of the subsidiaries of the Irrigation business.

ix. Description of Major Assets

The main assets of Mexichem's Business Groups are listed below, all of which are free of liens or encumbrances of any kind, since none of them constitute a guarantee of any kind of financing, except for a mortgage on a property owned by the Company in its Building & infrastructure operations in Peru (which guarantees compliance with obligations under a financial lease contract for a total amount of $9 million), and assets that are being acquired through financial lease contracts that serve as natural security for compliance with the obligation to pay the respective lease amount, which represent a total amount of $160.8 million. All assets are insured, in optimum condition and there are no environmental measures affecting their use.

Business Group	Process	Country or Region	Number of Plants	Asset Type	Products	Installed Capacity	% of use in 2018
Vinyl	Chlorine-Soda	Mexico	1	Mine	Salt	157	51%
Vinyl	Chlorine-Soda	Mexico	2	Plants	Chlorine, Caustic Soda, Derivatives	808	66%
Vinyl	Chlorine-Soda	Colombia	1	Plants	Chlorine, Caustic Soda, Derivatives	50	51%
Vinyl	Chlorine-Soda	Germany	2	Plants	Chlorine, Caustic Soda, Derivatives	610	83%
Vinyl	Chlorine-Soda	Mexico	4	Plants	Phosphates	146	29%
Vinyl	Vinyl	Mexico	5	Plants	PVC Resins	781	73%
Vinyl	Vinyl	Colombia	3	Plants	PVC Resins	500	96%
Vinyl	Vinyl	U.S.	2	Plants	PVC Resins	116	81%
Vinyl	Vinyl	Germany	2	Plants	PVC Resins	435	73%
Vinyl	Vinyl	Mexico	2	Plants	Compounds	68	73%
Vinyl	Vinyl	Colombia	1	Plant	Compounds	22	81%
Vinyl	Vinyl	U.S.	3	Plants	Compounds	98	86%
Vinyl	Vinyl	UK	2	Plants	Compounds	118	54%
Vinyl	Vinyl	Mexico	2	Plant	Phthalic Anhydride and Plasticizers	141	51%
Fluent LatAm - Amanco	Fluent	Latin America	27	Plants	Pipes and fittings	561	70%
Fluent Europe - Wavin	Fluent	Europe	25	Plants	Pipes and fittings	758	53%
Fluent US/Canada - Datacom	Fluent	U.S., Canada,	13	Plants	HDPE ducts, micro ducts	258	74%
Fluent AMEA - Datacom	Fluent	India, Oman, South Africa, China	6	Plants	HDPE ducts, micro ducts	93	60%
Fluor	Fluorite	Mexico	2	Mines	Fluorite acid and metallurgical grade	>1,200	100%
Fluor	Fluorite	Mexico	3	Plants	Fluorite acid grade	>600	100%
Fluor	HF	Mexico	2*	Plants	Hydrofluoric acid	154	98%
Fluor	AlF3	Mexico	1	Plant	Aluminum fluoride	60	100%
Fluor[1]	Refrigerant Gases	U.S.	1	Plant	Fluorinated hydrocarbons and refrigerants	39	74%
Fluor[1]	Refrigerant Gases	Japan	1	Plant	Fluorinated hydrocarbons and refrigerants	21	69%

* A productive unit that includes 2 plants
[1] Information as of December 2017.

Mexichem owns and then describes the Issuer's most important fixed assets with the following plants as part of its Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agricluture - Netafim):

- ***Building & infrastructure in Latin America (Fluent LatAm - Amanco)*** owns and operates 27 plants in 12 countries in Latin America, with a combined installed production capacity of 773,000 tons of PVC extracts, PVC and injected polyethylene and polyethylene products, using state-of-the-art transformation technologies.

- ***Building & infrastructure in Europe (Fluent Europe - Wavin)*** owns 25 manufacturing plants and points of sale and distribution in 28 countries in Europe, with a combined installed production capacity of 758,000 tons. It has procedures in place to comply with the standards established by ISO 9000 and

ISO 9001, which are reviewed and certified by independent certifying companies. Fluent Europe (Wavin) plants also operate an improvement program called the Total Management Program (TPM). These plants operate in accordance with regionally established health and safety policies, complying with ISO 12001 and similar standards.

- ***Datacom (Fluent U.S./Canada - Dura-Line)*** owns 13 manufacturing and assembly plants located in the U.S. and Canada, with a combined installed production capacity of 258,000 tons. It has procedures in place to comply with ISO 9001 standards, as well as other standards relevant to competent authorities, which are reviewed and certified by independent companies. Design practices are subject to various customs and regulatory testing to ensure that products meet or exceed customer expectations and applicable regulatory requirements.

- ***Datacom (Fluent AMEA - Dura-line)*** owns six manufacturing and assembly plants located in India, Oman, China and South Africa, with a combined installed production capacity of 100,000 tons. It has procedures in place to comply with ISO 9001, ISO 14001, OHSAS 18001 standards, Underwriters Laboratory and Bureau of India Standards certifications, as well as other standards relevant to competent authorities, which are reviewed and certified by independent companies. Design practices are subject to various customs and regulatory testing to ensure that products meet or exceed customer expectations and applicable regulatory requirements.

- ***Precision Agriculture (Netafim)*** owns 17 manufacturing and assembly plants located in Australia, Brazil, Chile, China, India, Israel, Mexico, the Netherlands, Peru, South Africa, Spain, Turkey and the USA, with a volume of 5,667 million meters sold by 2018.

In the 2016-2018 period, Mexichem announced the acquisitions of: Netafim in Israel in the Precision Agriculture business, Sylvin Technologies in the U.S., Vinyl Compounds Holdings Limited in the UK in the Compounds Business Group (Vinyl Business Group) and Gravenhurst in Canada in the Datacom business (Fluent Business Group). They include the following within their main assets, and which are accounted for in the table above:

Sylvin Technologies (2018): company headquartered in Denver, Pennsylvania, U.S., which has a plant and is a manufacturer specializing in PVC compounds.

Netafim (2017): company headquartered in Israel and present in more than 30 countries with 17 plants. It has a share of approximately 30% in the global market for irrigation solutions for agriculture, greenhouses, landscaping and mining, meeting demand from more than 110 countries.

Gravenhurst (2016): has two manufacturing plants located in Gravenhurst and Timiskaming, Ontario. These plants have an installed production capacity of 16,800 tons.

Vinyl Compounds Holdings Limited (2016): owns a PVC compound manufacturing plant for the production of specialty PVC compounds, located in Derbyshire, UK.

Additionally, in 2018, the Company carried out different investments of a permanent nature that are part of maintenance and organic growth, which added up to $283 million in investment in assets (without including joint ventures), among which are:

- Vinyl - $8.1 million to the VCM process at the Vestolit plant; process improvements in the U.S. of $1.4 million and $4.4 million to produce cables and wires in the Compounds business
- Fluent (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim) - $1.7 million to produce specialized pipe in Colombia and expansion of facilities and production in the U.S. for $3.5 million
- Fluor - $6.6 million for our mine in Mexico for maintenance and business continuity

Mexichem believes that there are currently no environmental measures affecting the use of its assets and guarantees compliance with all environmental requirements at all its facilities.

So that Mexichem's operations are not suddenly affected, its policy is to have predictive preventive maintenance programs applied to its assets, including machinery and diverse equipment, etc. The objective of this is to maintain the facilities in optimal conditions, complying with government rules and regulations according to each country and, if necessary, corrective maintenance will be used, without this being the recurrent case for the Issuer. The Company allocates approximately 2.7% of its sales to preventive, predictive and corrective maintenance. All these resources have been financed through the Company's own cash flow.

Under applicable Mexican law, mineral resources belong to the Mexican nation, and the Federal Government may grant concessions in favor of individuals to explore and exploit mineral reserves. The Company's mining rights derive from concessions granted by the Ministry of Economy, in accordance with the Mining Law, which is regulated by article 27 of the Constitution and its regulations. The current Mining Law, enacted in 1992, simplified procedures for obtaining concessions, extended the term of exploitation of concessions from 25 to 50 years and eliminated direct taxes on mining activities. This law was recently reformed, being its main adjustments to establish a single concession for Exploration and Exploitation.

Mining concessions grant various specific rights to the concessionaire, including: (i) carry out Exploration and Exploitation works within the mining lots covered; (ii) dispose of the mineral products obtained in said lots as a result of the works carried out during their term; (iii) dispose of the lands within the surface they cover, unless they come from another mining concession in force; (iv) obtain the expropriation, temporary occupation or constitution of easement of lands indispensable for carrying out exploration, exploitation and benefit works, as well as for the deposit of lands, tailings, slags and grease, as well as to constitute underground easements of passage through mining lots; (v) make use of the waters coming from the ploughing of the mines for the exploration or exploitation and benefit of the minerals or substances that are obtained and the domestic use of the personnel employed in them; (vi) preferably obtain a concession on the waters of mines for any use other than those indicated in the preceding numeral, under the terms of the law of the matter; (vii) transfer its ownership or the rights established by numeral (i) to (vi) above to persons legally qualified to obtain them; (viii) reduce, divide and identify the area of the lots they cover, or unify it with that of other adjacent concessions; (ix) desist from these concessions and the rights deriving therefrom; (x) group two or more of them for the purpose of checking works provided for by this law and to submit statistical and technical reports; (xi) request administrative corrections or duplicates of their titles; and (xii) obtain the extension of mining concessions for the same period of validity.

Mexichem generally owns the land to which each of its concessions refers, although ownership is not required to operate a concession.

In the Vinyl Business Group, the plants have an average surface area of 33 hectares, as well as an average age of 48 years. 89% of the plants are owned.

Insurance

Mexichem has contracted the following coverage at the controlling company level for all the companies that make up the group, usually required by and according to the standards for the mining, chemical, and petrochemical industries:

A. Multiple business insurance (assets and business interruption), which covers:

- Wide fire coverage, including hydro meteorological risks, earthquake and volcanic eruption covering building, contents (machinery and equipment), inventories and gross profit
- Technical branches, covering machinery breakage, electronic equipment, (underground) mobile equipment without circulation plates
- Diverse branches, covering robbery with violence, money and values and broken glass

The values declared for this insurance have been reported considering the replacement value for fixed assets and the last purchase price for inventories. Gross profit has been determined based on the approved budget for 2017 and the sums insured vary according to the values of each company.

B. Cargo transport insurance that covers all shipments where there is an insurable interest (purchases, sales, inter-warehouses, etc.)

C. Civil liability insurance that covers damages (including pollution) to third parties in their property and persons, as well as damages caused because of such direct damages

D. Civil liability insurance for directors and civil servants, which protects such persons against claims by third parties arising from wrongful acts committed in the exercise of their functions

E. Crime Insurance that covers damages as a result of criminal acts, both internal and external

F. Credit Insurance whose objective is to cover the risk of non-payment or prolonged default by debtors

In addition to the insurance mentioned above, each subsidiary has insurance policies according to its need, or to comply with contractual obligations and/or applicable legislation in the place where it is located.

Although we are convinced that we have is adequate and enough coverage to be compliant with industry practices, and considering our particular operations, there is a possibility that insurance coverage against possible unforeseen losses and other liabilities may not be sufficient in some extremely catastrophic or very unpredictable cases. Likewise, if the losses derived from a loss exceed the insured limit, the result would have an adverse effect on Mexichem's financial result, which is not anticipated or foreseen within the expenses and/or costs.

The following companies and their affiliates and/or subsidiaries that are part of the Mexichem group have independently contracted similar insurance schemes outside of the insurance contracted and controlled at the controlling company level: Netafim Ltd, Dura-line Holdings, Inc., Vestolit GmbH, Wavin B.V, Mexichem Brasil Indústria de Transformação Plástica Ltda and Mexichem Trading Comercio, Importacao e Exportacao S/A.

x. Judicial, Administrative or Arbitral Proceedings

The Company is involved in civil, mercantile, fiscal and labor lawsuits. These processes are generated in the normal course of business and are common in the industry in which the businesses participate, according to the opinion of the Company's internal and external attorneys. Mexican securities law requires Issuers to disclose judicial proceedings that may have a significant impact measured in terms of the total amount of the company's assets. In general, Issuers are obligated to disclose any judicial, administrative or arbitral "relevant" process, considering any process that individually or jointly analyzed with other similar processes could have an effect on their results equivalent to at least 10% of the value of the Issuer's total assets as "relevant". As of December 31, 2018, the Company's total assets amounted to $10.061 billion, therefore, the judicial, administrative or arbitration proceedings that must be disclosed are all those that individually or analyzed together with other similar ones could have an impact of at least $1.006 billion.

In compliance with applicable regulations and internal policies, the Company maintains certain reserves to meet the obligations that may arise as a result of the procedures in which it participates. These reserves are generated in strict compliance with the provisions of the policy called "Litigation Reserves" which was reviewed and approved by the Audit Committee of the Issuer, published on August 1, 2013, which states that:

1. Reserves will be created exclusively for legal proceedings already filed against the company (lawsuits, claims, etc. already filed with courts or fines already notified to the Issuer) in which there is a real risk of being finally condemned to payment of some amount (after having performed Mexichem's legitimate defense), depending on the degree or probability that this will happen in accordance with the legal opinions of the external or internal attorneys who are in charge of representing the Company.

2. If, according to the legal opinion of the lawyer in charge of the case, the probabilities to be finally convicted range between 0 and 30%, it will not be necessary to create any reservation.

3. If, according to the legal opinion of the attorney in charge of the matter, the probabilities to be finally convicted range from 30.1% to 60%, such attorney must fill out a nine-question questionnaire defined by the Company which is designed so that each affirmative answer reduces the possibility of being finally convicted. If the number of affirmative answers is five or more, the Company generates a reserve of 30% of the maximum amount in which the company could be convicted. If the number of affirmative responses is four or less, the reserve should be generated for 60% of that amount.

4. If, according to the legal opinion of the attorney in charge of the matter, the probability of being finally convicted is greater than 60.1%, the Company reserves 100% of the total amount demanded.

Thus, as of December 31, 2018, the Company and all of its subsidiaries are involved in 1,010 lawsuits as a defendant (depending on the type of lawsuit in question, including 34 whose amount cannot be determined), with a total reserve of $25.7 million, which are lawsuits whose monetary risk is determinable and whose total amount claimed is $241.8 million.

The following is significant from these proceedings:

i. Brazil: 823 proceedings are maintained in the country and represent a total claimed amount of $132.5 million, equal to 54.8% of the total determinable amount claimed and which has a total reserve of $6.5 million equal to 25.3% of the Company's total reserve. The most important of these procedures are:

   a. A tax proceeding filed in Sao Paolo, whose total amount claimed is $5.3 million or 2.2% of the total determinable amount claimed from Mexichem, and for which a reserve has been created in the amount of $1.6 million representing 6.2% of the Company's total reserve.

   b. 18 Labor Proceedings, of which 15 were instituted by individuals and three by Unions, against the Company in its great majority in the period 2013 to 2018, representing a risk of $13.1 million or 5.4% of the total determinable amount claimed from Mexichem and which has a reserve of $1.6 million equivalent to 6.2% of the Company's total reserve.

ii. Mexico has 83 administrative, civil and commercial proceedings representing a total amount claimed of $73.3 million or 30.3% of the total determinable amount claimed from Mexichem and has a total reserve of $13.7 million, equivalent to 53.3% of the Company's total reserve.

iii. Peru has 44 administrative, labor, civil and commercial proceedings representing a total amount claimed of $17.3 million or 7.2% of the total determinable amount claimed from Mexichem and has a reserve of $0.3 million, equivalent to 1.2% of the Company's total reserve.

iv. Colombia has 106 administrative, labor, civil and commercial proceedings representing a total amount claimed of $14.1 million or 5.8% of the total determinable amount claimed from Mexichem and has a reserve of $1.3 million, equivalent to 5.1% of the Company's total reserve.

On the other hand, the company is involved in 34 procedures whose monetary risk is not determinable or not completely determinable so there is no amount reserved to guarantee these procedures.

The Company is also involved in the following processes:

European Union: An administrative procedure before the European Commission related to the business of Building & Infrastructure in Europe (Fluent Europe -Wavin), derived from alleged violations of economic competition rules. The investigation began in June 2012, and several investigations were carried out in 2013 by this authority. In October 2015, we were informed that, due to the lack of elements to accredit violations at the international level, the authority left the possibility open for the authorities of the countries to carry out such investigations since, to date, the Company has not been informed of the initiation of any of these local investigation processes.

Building & Infrastructure (Wavin - Hungary): An administrative procedure before the competition authority in Hungary for alleged violations of the competition rules in that country.

Following the investigations, the Hungarian Competition Authority (Gazdasági Versenyhivatal) has determined that Wavin Hungary Kft was in breach of the applicable provisions and imposed a fine of $2.5 million, which has been duly paid and challenged through the appropriate legal channels. However, the condition of the fine does not have a material adverse effect on the Company's consolidated results. In June 2017, the first instance court ruled that it would not review the decision of the Hungarian Competition Authority on the fine, so the Company appealed the Court's decision in mid-March 2018. The judgment of the Court of Appeals was received in favor of the Company, so the case was returned for review to the first Court without a final resolution as of the date of this report.

Brazil: Subsidiary of Compañía Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified during 2016 by the Administrative Council for Economic Defense of Brazil (CADE) of alleged violations of the rules of economic competition of that country, committed by the subsidiary and some of its executives, from 2003 to 2009 (the Company acquired DVG Industria e Comercio de Plásticos Ltda. (Plastubos) in 2008, a company that was later merged into Mexichem Brasil Industria de Transformação Plástica, Ltda).

On March 27, 2018, the Issuer announced that its subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) had reached a cease and desist agreement with the Administrative Council for Economic Defense of Brazil (CADE). Likewise, the Issuer announced that, on that date, such agreement was approved in the session of the CADE Court pursuant to Article 10, paragraph VII, of Law No. 12529, of November 30, 2011, in compliance with the decision of the Court issued in the 116th Ordinary Judgment Session held on December 13, 2017 and that, through this, CADE imposed a compensatory contribution to the Company in the amount of R$95.1 million (approximately $28 million) to be paid within 240 days from the date the agreement is published in the Official Gazette in Brazil. On November 29, 2018, the Company paid the fine ($25 million, less than $28 million due to variation in the exchange rate) and the matter was resolved. In addition, CADE also imposed compensatory contributions to executives who were part of the Company during the period under investigation by CADE. None of the sanctioned executives are currently part of the Company. Derived from the foregoing, as of the date of publication of this report, the foregoing is no longer part of any liability for the company.

Vinyl Business Group (Europe): On May 16, 2017, the European Commission ("EC") initiated a competition inspection against Vestolit GmbH and Vesto PVC Holding GmbH (merged with Vestolit). The background to this inspection against Vestolit is alleged anti-competitive behavior, in interaction with other market players, related to the price fixing mechanism for ethylene in Europe. Ethylene is the raw material acquired by Vestolit to produce PVC. As of the date of issuance of this Annual Report, and given the current phase of this procedure, it is not possible for the Bank's Management to estimate the possible impacts on Mexichem's results. Mexichem is fully cooperating with the EC in its investigation.

Irrigation (Netafim): On September 25, 2018, Netafim's subsidiary in the United States, Netafim Irrigation Inc., was notified that on September 22, 2018, it was sued in the U.S. District Court for the District of California, Fresno Division and the Eastern District of California Division. The lawsuit essentially assumes that Netafim, along with other manufacturers and distributors, participated in a group boycott of alleged violations of state and federal antitrust laws. As of the date of this report, and given the stage of this procedure, it is not possible for the company's management to estimate the possible impacts on its results. Netafim is disputing the accusation of irregularity and continues to defend itself vigorously in this matter.

Colombia: In April 2019, an investigation procedure was initiated in Colombia by the Superintendence of Industry and Commerce against Mexichem Derivados Colombia S.A. for alleged violation of the general prohibition set forth in Article 1 of Law 155 of 1959, by allegedly having entered into an agreement with its competitors to exit the market for the import, distribution, and commercialization of caustic soda in Colombia. This is an ongoing process; therefore, we cannot comment further on this issue. Mexichem is in favor of healthy competition and is a global company that fosters a culture of integrity in strict compliance with existing Colombian laws and regulations, just as it does anywhere in the world where it is present. We trust the institutions and reiterate our willingness to work with the authorities to clarify the situation.

Insolvency or bankruptcy

As can be seen from the Company's audited financial statements, the Company is not subject to any of the assumptions established in articles 9 and 10 of the Mexican Insolvency Law and has not been declared in mercantile insolvency.

Effect of Laws and Government Provisions on Business Development

All Group companies incorporated in Mexico are subject to the Income Tax Law, Value Added Tax Law, among others.

The Fluorite Process is regulated in its operations of Exploration, Exploitation and Benefit of minerals by the Mining Law, which establishes that such activities may only be performed by individuals of Mexican nationality, ejidos and agrarian communities and companies incorporated under Mexican law, through mining concessions granted by the Ministry of Commerce and Industrial Development (now the Ministry of Economy).

In accordance with the provisions of the Mining Law, Mexichem Fluor’s chain is required to register with the Public Mining and Mining Cartography Registry, as well as to periodically report its estimate of ore reserves.

The Company is a prominent player in the chemical industry in Mexico as well as in Latin America and Europe. Mexichem and its subsidiaries participate in the so-called secondary petrochemical industry by obtaining the raw materials required from PEMEX or international suppliers. Through its international expansion strategy, the Issuer could enter the basic petrochemical industry through the acquisition or constitution of companies in countries whose legislation allows this activity to be carried out, as well as in the new activities that derive from the recent energy reform it is possible to participate in, under the terms established in the secondary laws.

The companies that make up the Group do not enjoy special tax benefits. Companies located in the U.S., Colombia, Brazil and other countries in Latin America, Europe and Asia are governed by their respective tax laws.

xi. Shares representing the share capital

As of December 31, 2018, 2017 and 2016, the capital stock is represented by 2,100,000,000 ordinary, nominative shares with voting rights and without par value, which are fully paid. The fixed part of the capital is represented by Class I nominative shares with no right of withdrawal. The variable part of the capital is represented by Class II nominative shares, without expression of par value and may not exceed ten times the minimum fixed capital. As of December 31, 2018, 2017 and 2016, the number of shares and amount of capital stock are summarized as follows:

Concept	Number of shares	Amount (millions of dollars)
Subscribed capital-		
Class I	308,178,735	$ 37.6
Class II	1,791,821,265	$ 218.9
TOTAL	2,100,000,000	$ 256.4

At the end of December 2018, the Company does not hold open conditions in derivative instruments that can be settled in kind whose underlying are Mexichem shares.

Mexichem's capital stock for the years 2018, 2017 and 2016 is represented by 2,100,000,000 common shares outstanding which are fully subscribed and paid.

In the last three fiscal years 2018, 2017, and 2016, Mexichem has not changed the number or number of outstanding shares representing its capital stock.

xii. Dividends

Since 2016, Mexichem has declared cash dividends, as follows:

Dividend table

General Shareholders' Meeting	Dividend Declared in billions of USD	Number of Exhibitions	Date of Exhibitions
07-Dec-16*	105	4 payments	28 Feb, 30 May, 29 Aug, 28 Nov 2017
16-Nov-17	147	4 payments	28 Feb, 30 May, 29 Aug, 28 Nov 2018
20-Aug-18	150		Dec 24 2018 ($50 million), from Apr 23 2019 to Apr 23 2020 ($100 million)
26-Nov-18	168	4 payments	28 Feb, 30 May, 29 Aug, 28 Nov 2019

* In 2016, for the first time, a total amount was distributed instead of a dividend per share. At the Issuer's Shareholders' Meeting held on December 7, 2016, a total amount of $105 million was declared as a dividend to be paid in four installments during 2017, to the outstanding shares (excluding those in the Issuer's repurchase fund at the time of each of the four payments) on each of the payment dates. The disbursement was made in Mexican pesos at the exchange rate published in the Official Federal Gazette on the day of the ex-right of each payment date. In addition to the foregoing, at that same Issuer's Shareholders' Meeting, it was resolved to pay an additional dividend to the $105 million mentioned above, to the shareholders for immediate and forced reinvestment in the Company's shares, at a rate of 0.025 shares for each share outstanding on the date of the Meeting; that is, 1 (one) new share for every 40 (forty) shares outstanding, without settlement of fractions, excluding the shares that are in the Company's repurchase fund on the date of the Meeting, which were authorized to be used to pay said dividend, as appropriate, by means of their delivery as released to the Company's shareholders in the aforementioned proportion. This dividend was fully paid on December 19, 2016.

During the General Ordinary Stockholders' Meeting of Mexichem held on August 20, 2018, it was agreed to pay an extraordinary dividend for the equivalent in Pesos of up to $150 million, to be paid to the shares of the Company that are outstanding on each payment date, excluding the shares that are in the Company's repurchase fund. Such dividend was determined to be payable in four equal installments within 12 months following the holding of such Meeting in accordance with the payment schedule to be determined by the Company's management, applying the published exchange rate determined by the Bank of Mexico for the payment of obligations in Dollars, applicable on each date of the ex-dividend with respect to each payment date. On December 14, 2018, the Issuer announced the payment of the first partial payment of the extraordinary dividend in the amount of $50 million, which was made on December 24, 2018. During the Ordinary and Extraordinary Annual Shareholder Meeting held on April 23, 2019, after the explanations offered by the Secretary of the Meeting on the reasons and effects of the respective proposal, the extension of the payment term of the extraordinary dividend declared in the Ordinary Shareholders' Meeting held on August 21, 2018 for the remaining $100 million was approved, so that the payment may be concluded within the 12 (twelve) months following the Shareholders' Meeting held on April 23, 2019. The above with the objective of aligning the Company's cash flows to the current cycle.

During the General Ordinary Stockholders' Meeting of Mexichem held on November 26, 2018, it was agreed to pay a dividend equivalent to $168 million to be distributed among the outstanding shares, discounting the amount corresponding to the shares that are in the Company's repurchase fund in each partial payment. The dividend will be paid in Mexican pesos in four equal installments, each equivalent to $42 million during the 12 months following such meeting, for outstanding shares, excluding those shares held by the Company as a result of the share repurchase program on each of the payment dates, at the exchange rate published in the Official Federal Gazette by the Bank of Mexico. On November 27, 2018, the Issuer notified that each of the four installments will be paid on each of the following four dates: February 27, May 29, August 28 and November 27, 2019.

The declaration, amount and payment of dividends are approved by the Ordinary General Shareholders' Meetings, upon recommendation of the Board of Directors, and dividends may only be paid from retained earnings of accounts previously approved by the shareholders, provided that a legal reserve has been created and any losses from previous fiscal years have been paid.

The distribution of Mexichem's dividend payment depends on the generation of profits, generation of cash flow, and projected investments in its different Business Groups (*see Section 1, "General Information," item c, "Risk Factors," sub-item c, "Risk Factors Related to Securities Issued by the Company").*

The amount and payment of Mexichem's future dividends, if any, will be subject to applicable law and depend on a variety of factors that may be considered by the Board of Directors or shareholders, including future results of operations, financial condition, capital requirements, investments in possible acquisitions or other growth opportunities, legal and contractual restrictions on current and future debt instruments, and the ability to obtain funds from subsidiaries. Such factors may limit the ability to pay future dividends and may be considered by the Board of Directors in recommending, or by the shareholders in approving, the payment of future dividends.

There is no dividend payment policy; however, until 2017, Mexichem applied a dividend payment criterion of up to 10% of the EBITDA of the corresponding fiscal year when the dividend is actually paid, even though it is not a formally adopted policy and there is no document that establishes it.

For a detailed description of the rights associated with foreign shareholders, *see Section 4, "The Administration", item d, "Bylaws and Other Agreements", of this Annual Report.*

xiii. Exchange controls and other limitations affecting security holders

Mexichem enters into derivative transactions in order to hedge the foreign exchange and interest rate risk to which it is exposed. The conclusion of derivative financial transactions entails certain risks, such as the risk of default by the counterparty, the risk of unusual movements in the underlying assets or reference assets, risks arising from the need to increase the guarantees granted, among others. Should any of these risks arise, Mexichem could suffer a material adverse effect on its results and financial condition.

Market practices and documentation of derivatives in Mexico may differ from those in other countries. The execution and performance of this type of transaction depends on Mexichem's ability to develop adequate control and management systems, as well as to hire and maintain qualified personnel. These factors may further increase the risks associated with these transactions and, consequently, could have a material adverse effect on Mexichem's results of operations and financial condition.

The Company is currently subject to exchange controls in some of the countries in which it operates, such as Venezuela, Brazil, Argentina, India, South Africa, China, among others. These controls restrict access to foreign exchange and limit the ability to transfer funds outside such countries, including funds for interest payments or principal on outstanding debt. In addition, these controls affect the ability to receive dividends and other distributions from subsidiaries in those countries. For example, Pavco de Venezuela, one of the Company's subsidiaries, has encountered some difficulties in obtaining the foreign currency required to conduct business in its day-to-day operations. Additionally, in February 2013, the Venezuelan government significantly devalued its local currency from 4.30 bolivars per U.S. dollar to 6.30 bolivars per U.S. dollar and have made several modifications to its exchange rate regime during 2013 and 2014. Beginning in the fourth quarter of 2014, Mexichem opted for the exchange rate of the Alternative Foreign Exchange System (SICAD) to convert the results of its operation, so the exchange rate used was 12 bolivars per dollar, according to the auction held on September 25, 2014. However, starting in the second quarter of 2015, the Company adopted the Sicad II exchange rate regime, in which it opted to convert the results at an exchange rate of 198.69 bolivars per dollar. In 2016, the exchange rate used was 673 and 3,345.00 in 2017, and 223,090,269 bolivars per dollar in 2018. For the year ended December 31, 2018, the Company's net sales in Venezuela represented less than 0.05% of Mexichem's total consolidated sales, thus significantly reducing the Company's total contribution.

Mexichem is exposed to foreign exchange risk in relation to the U.S. dollar in subsidiaries with operations whose recording and functional currency is different from the U.S. dollar. The currencies to which the Company is principally exposed are the Mexican peso, the Brazilian real, the Colombian peso, the euro, the British pound sterling, the Czech crown, the South African rand, the Turkish lira, the Indian rupee and the Polish zloty, among others.

With respect to the rights associated with the securities that may be exercised by non-resident foreigners, there are no limitations imposed on the exercise of rights derived from the shares of which they are holders, except for the agreement contained in Article Five of Mexichem's Bylaws, which is as follows:

> ***FIVE. - NATIONALITY****. - The Company is of Mexican nationality and is incorporated and will operate under the laws of the United Mexican States. Shareholders may be Mexican or of any other nationality, and the percentages of foreign investment established by applicable law, if any, must be kept.*
>
> *Any foreigner who in the present or future acquires an interest or social participation in the Company formally undertakes with the Ministry of Foreign Affairs to consider themselves as a national with respect to the shares of this Company that they acquire or own, as well as with respect to the goods, rights, concessions, participation or ownership interests derived from the contracts to which this Company is a party with the Mexican authorities, and not to invoke the protection of its government, under the penalty of losing the shares or social participations that they have acquired to the benefit of the Mexican Nation.*
>
> *The pact established in the preceding paragraph shall be deemed to have been agreed upon before the Ministry of Foreign Affairs, simply because the express agreement or pact of reference is included in these Bylaws with respect to current or future foreign shareholders.*

FINANCIAL REPORTING

a) Consolidated Financial Information

The following tables present consolidated financial information of Mexichem for each of the periods indicated. This information should be read in conjunction with and is subject in its entirety to the complete terms of Mexichem's audited financial statements as of December 31, 2018, 2017, and 2016, including the related notes. Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRS), hereinafter IFRS.

The Company publishes its financial statements in Dollars. Unless otherwise specified, references in this Annual Report to "$", "Dollars" or "dollars" shall be construed as references to U.S. dollars and references to "Peso", "Pesos" or "Mexican Pesos" shall be construed as references to Mexican pesos. *See notes to the financial statements set forth in Section 8, "Exhibits", "Consolidated Financial Statements", in this Annual Report.*

The comparability of the financial information presented in the following table, as well as that of the Audited Consolidated Financial Statements, is affected by certain events that occurred in the years 2018, 2017 and 2016. *See notes to the audited financial statements in Section 8, "Exhibits", and "Consolidated Financial Statements" in this Annual Report.*

In addition to the foregoing, there are factors of an uncertain nature that may make Mexichem's past performance, as shown in the financial statements, not indicative of its future performance. Such factors are described in detail in *Section 1, "General Information", item c, "Risk Factors", sub-item c, "Risk Factors Relating to Securities Issued by the Company".*

Set forth below is summarized financial information for the years ended December 31, 2018, 2017 and 2016.

Consolidated income statements	**For the years ended December 31:**		
(Millions of dollars)	**2018**	**2017**	**2016**
Continuous operations:			
Net sales	**$7,198**	**$5,828**	**$5,344**
Cost of sales	5,261	4,375	4,078
Gross profit	**1,937**	**1,453**	**1,266**
Selling and development expenses	526	382	373
Administrative expenses	449	336	327
Other income, net	27	26	(15)
Exchange gain	(84)	(9)	(95)
Exchange loss	132	56	93
Interest expense	251	195	192
Interest income	(20)	(18)	(10)
Change in fair value of redeemable non-controlling interest	19		
Monetary condition gain	(14)	(48)	(18)
Share of results of associates	(4)	(2)	(3)
Income before income taxes	655	535	422
Income taxes	195	178	111
Income from continuing operations	460	357	311
Discontinued operations:			
Income (loss) from discontinued operations, Net	23	(143)	(64)
Consolidated net income for the year	**$483**	**$214**	**$247**
Consolidated net income for the year:			
Controlling interest	$355	$194	$263
Non-controlling interest	128	20	(16)
	$483	$214	$247

Controlling interest earnings per share	$0.17	$0.09	$0.13
Weighted average number of shares outstanding	$2,100,000,000	$2,100,000,000	$2,100,000,000

Consolidated Financial Condition Statements	**For the years ended December 31:**		
(Millions of dollars)	**2018**	**2017**	**2016**
Assets			
Current assets:			
Cash and cash equivalents	$700	$1,900	$714
Accounts Receivable, Net	1,318	1,330	1,181
Accounts receivable from related parties	5	2	3
Inventories, Net	866	675	606
Advance payments	78	36	35
Assets held for sale	10	9	21
Total current assets	**2,977**	**3,952**	**2,560**
Non-current assets:			
Property, plant and equipment, Net	3,507	3,626	3,750
Investment in shares of associated companies	36	31	31
Other assets, Net	100	87	64
Deferred taxes	96	153	66
Intangible Assets, Net	1,852	1,212	1,193
Goodwill	1,493	698	690
Total non-current assets	**7,084**	**5,807**	**5,794**
Total Assets	**$10,061**	**$9,759**	**$8,354**
Liabilities and stockholders' equity			
Current liabilities:			
Bank loans and current portion of debt long-term	$396	$45	$58
Suppliers	794	665	653
Letters of credit to suppliers	619	697	617
Accounts payable to related parties	117	65	51
Other accounts payable and accrued liabilities	474	470	444
Dividends payable	156	84	56
Provisions	21	9	9
Employee Benefits	90	35	32
Short-term finance leases	18	37	52
Derivative financial instruments	16	15	-
Liabilities associated with assets held for sale	7	9	13
Total current liabilities	**2,708**	**2,131**	**1,985**
Non-current liabilities:			
Bank loans and long-term debt	3,175	3,210	2,241
Employee Benefits	182	186	171
Long-term provisions	18	33	17
Other long-term liabilities	44	34	25
Non-controlling redeemable interest	246	-	-
Derivative financial instruments	113	166	99
Deferred taxes	349	231	151
Long-term finance leases	15	39	70
Long-term income tax	41	49	13
Total non-current liabilities	**4,183**	**3,948**	**2,787**
Total liabilities	**6,891**	**6,079**	**4,772**

Stockholders' equity:

Contributed capital			
Share capital	256	256	256
Additional paid-in capital	1,475	1,475	1,475
Update of share capital	24	24	24
	1,755	1,755	1,755
Earned Capital			
Retained earnings	1,053	1,075	855
Non-controlling redeemable interest	(227)	-	-
Reserve for acquisition of own shares	329	380	552
Other comprehensive income	(501)	(408)	(484)
	654	**1,047**	**923**
Total controlling interest	**2,409**	**2,802**	**2,678**
Total non-controlling interest	761	878	904
Total stockholders' equity	**3,170**	**3,680**	**3,582**
Total liabilities and stockholders' equity	**$10,061**	**$9,759**	**$8,354**

Net Debt to EBITDA:

	As of December, 31		
(Millions of dollars)	**2018**	**2017**	**2016**
Liabilities with cost	3,572	3,256	2,300
Current portion	396	45	57
Long-term debt	3,176	3,211	2,243
Cash and cash equivalents	700	1,900	714
Net debt**	2,872	1,356	1,586
EBITDA*	1,397	1,106	895
Net debt to EBITDA ratio	2.06	1.23	1.77

* For purposes of this calculation, the actual EBITDA is considered, which only includes the EBITDA of businesses acquired as of its date of incorporation in the consolidation of Mexichem.

Liabilities with cost	3,572	3,256	2,300
Current portion	396	45	57
Long-term debt	3,176	3,211	2,243
Cash and trading investments available for sale	700	1,900	714
Net debt**	2,872	1,356	1,586
EBITDA Pro Forma (12 months)	1,401	1,106	904
Net debt to EBITDA ratio	2.05	1.23	1.75

** Net debt with cost includes $0.4 in 2018, $0.9 in 2017 and $1.4 in 2016 for letters of credit and suppliers with more than 180 days.

Indicators	**2018**	**2017**	**2016**
Investments in property, plant and equipment	283	254	488
Depreciation and amortization for the year	462	398	313
EBITDA	1,397	1,106	895
Accounts Receivable Rotation (days)	50	50	49
Average term of payment suppliers (days)	118	145	150
Inventory rotation (days)	52	57	57

In view of the fact that the issuance of MEXCHEM 12 Stock Exchange Certificates has the endorsement of its subsidiaries Mexichem Resinas Vinílicas, S.A. de C.V., Mexichem Compuestos, S.A. de C.V., Mexichem Flúor, S.A. de C.V., Mexichem Derivados, S.A. de C.V., Mexichem Amanco Holding, S.A. de C.V., and Mexichem Brasil Industria de Transformacão Plastica, Ltda., this Annual Report includes some of the main financial figures of these companies at the close of 2018:

	As of December 31, 2018				
Subsidiaries that guarantee Mexichem loans	**Sales**	**Operating Income**	**Total assets**	**Total Liabilities**	**Total capital**
Mexichem Brasil Indústria de Transformación Plástica, Ltda.	328	(6)	261	85	176
Mexichem Compuestos, S.A. de C.V.	166	13	315	176	138
Mexichem Derivados, S.A. de C.V.	76	16	118	18	100
Mexichem Ecuador, S.A.	96	19	78	32	47
Mexichem Flúor Comercial, S.A. de C.V.	335	131	176	29	147
Mexichem Flúor, S.A. de C.V.	279	13	778	340	438
Mexichem Resinas Colombia, S.A.S.	466	39	257	126	131
Mexichem Resinas Vinílicas, S.A. de C.V.	845	32	1,830	1,125	706
Mexichem Soluciones Integrales, S.A. de C.V.	151	2	132	103	30
Mexichem UK, Ltd.	135	12	119	30	89
Mexichem Flúor, Inc.	166	34	186	24	163
Mexichem Soluciones Integrales Holding, S.A. de C.V.	146	8	3,756	1,848	1,908
Mexichem Costa Rica	80	14	79	9	70
Quimir, S.A. de C.V.	52	7	34	13	21
Mexichem Colombia, S.A.S.	173	14	151	38	113
Dura-Line Holdings, Inc.	510	76	287	429	(142)
Vestolit, GmbH	728	43	441	298	142

The information in the above table is based on the Audited Financial Statements, which are included as an Exhibit.

b) <u>Financial Information by Business Group, Geographical Area and Export Sales</u>

The main historical indicators of sales by Business Group are shown below:

	As of December 31,		
Millions	**2018**	**2017**	**2016**
Vinyl			
Volume in tons	2.524	2.505	2.454
Sales Amount	2,460	2,317	2,026
Fluent (Building & Infrastructure - Wavin and Amanco or Fluent Europe, Datacom - Dura-line or Fluent US/Canada and Fluent AMEA, and Irrigation -Netafim-, unless otherwise noted)			
Volume in tons (excluding Netafim)	1.082	1.049	1.074
Sales Amount	4,077	3,023	2,892
Fluor			
Volume in tons	1.150	1.098	0.903
Sales Amount	837	681	583

Other Income			
Controller	29	25	22
Mexichem Energy	2	2	2
Eliminations			
Sales Amount	(207)	(220)	(181)
Total consolidated sales	**7,198**	**5,828**	**5,344**

(1) - Information in millions

Sales by :(1)	**2018**	**%**	**2017**	**%**	**2016**	**%**
Vinyl	2,460	34	2,317	40	2,026	38
Fluent (Building & Infrastructure - Wavin and Amanco or Fluent Europe, Datacom - Dura-line or Fluent US/Canada and Fluent AMEA, and Irrigation -Netafim-)	4,077	57	3,023	52	2,892	54
Fluor	837	12	681	12	583	11
Energy	2	-	2	-	2	-
Controller	29	-	25	-	22	-
Eliminations	(207)	(3)	(220)	(4)	(181)	(3)
Total	**7,198**	**100**	**5,828**	**100**	**5,344**	**100**

Operating income (1)	**2018**	**%**	**2017**	**%**	**2016**	**%**
Vinyl	357	38	325	46	171	29
Fluent (Building & Infrastructure - Wavin and Amanco or Fluent Europe, Datacom - Dura-line or Fluent US/Canada and Fluent AMEA, and Irrigation -Netafim-)	318	34	234	33	284	49
Fluor	312	33	206	29	176	30
Energy	-	-	-	-	-	-
Controller	(52)	(5)	(57)	(8)	(49)	(8)
Total	**935**	**100**	**708**	**100**	**582**	**100**

(1) - Information in millions of dollars

In relation to financial information by geographical area and export sales, prepared in accordance with IFRS for 2018, 2017 and 2016. *See "Note 26 - Net Sales to Third Parties by Geographical Area" - included in the Audited Financial Statements under Section 8, "Exhibits", "Consolidated Financial Statements", in this Annual Report.*

c) Relevant Credit Report

The growth strategy through capital investments and, especially, through acquisitions of companies that offer vertical integration synergies and add value to the Issuer's basic raw materials, has been supported by long-term and short-term loans, which have been amortized using the cash flows generated by the subsidiaries' operations.

Mexichem's credit requirements have been driven more by opportunities to acquire new companies than by seasonal factors.

It has been the Company's policy to reduce its leverage levels once it has used new loans to buy companies, as evidenced by the indexes for recent years.

Reasons for Leverage	2018	2017	2016
Total Liabilities/Assets Total	68%	62%	57%
Total Liabilities/Capital Countable (times)	2.17	1.65	1.33
Liabilities with Cost/Capital Countable (times)	1.13	0.88	0.64

To date, Mexichem has defined the application of its positive flows to the payment of debt up to a maximum rate of 2.0 times the net debt to EBITDA as a financial strategy, thus reducing the Group's vulnerability in future recessive or lower growth cycles. At the close of fiscal year 2018, this ratio was 2.05 times, with the deleveraging strategy after the acquisition of Netafim.

Mexichem has access to a revolving credit facility with an undrawn balance as of December 31, 2018 of $1.5 billion with a maturity of five years (June 2019) with a LIBOR rate plus an applicable margin depending on its use and credit rating, which can vary from 95 base points to 135 base points. In this credit, the only restriction on the payment of any dividend or distribution (whether in cash, securities or other assets, except dividends or distributions paid in common shares) with respect to any equity participation, or any payment (whether in cash, securities or other assets, but excluding dividends or distributions paid in common shares), including any amortization fund or similar deposit, on account of purchase, redemption, withdrawing, acquisition, cancellation or termination of any equity interest if it is in default, except that (i) subsidiaries of Mexichem may make dividend payments at any time with respect to its capital stock without any limitation and (ii) any other Subsidiary may make dividend payments proportionally to all shareholders of that class of securities of that Subsidiary in respect of which such payment will be made.

As of December 31, 2018, the Company's long-term debt payment obligations with cost net of related placement expenses were as follows:

To be paid during-	
2020	$157
2021	18
2022	896
2023 onwards	2,104
	$3,175

To date, Mexichem's treasury has maintained, as a policy, the premise of maintaining healthy finances with enough liquidity to guarantee the necessary investments that allow it to have the most efficient and modern production technology at low costs and high quality.

Due to the nature of its operations, Mexichem and its subsidiaries maintain bank and investment accounts in both local currency and U.S. dollars.

The Company and its subsidiaries have no material tax liabilities as of December 31, 2018.

Net debt from available resources at December 31, 2018 was $2.872 billion. The detail of net debt is presented below, based on figures presented in the Financial Statements included in *section 8, "Exhibits", "Consolidated Financial Statements", in this Annual Report*:

	As of December, 31		
(Figures in Millions)	2018	2017	2016
Liabilities with cost	3,572	3,256	2,300
Current portion	396	45	57
Long-term debt	3,176	3,211	2,243
Cash and cash equivalents	700	1,900	714
Net debt**	2,872	1,356	1,586
EBITDA*	1,397	1,106	895
Net debt to EBITDA ratio	2.06	1.23	1.77

* For the purposes of this calculation, the real EBITDA is considered, which only includes the EBITDA of businesses acquired as from the date of incorporation.

	2018	2017	2016
Liabilities with cost	3,572	3,256	2,300
Current portion	396	45	57
Long-term debt	3,176	3,211	2,243
Cash and trading investments available for sale	700	1,900	714
Net debt**	2,872	1,356	1,586
EBITDA Pro Forma (12 months)	1,401	1,106	904
Net debt to EBITDA ratio	2.05	1.23	1.75

** Net debt with cost includes $0.4 in 2018; $0.9 in 2017 and $1.4 in 2016 corresponding to letters of credit and suppliers with more than 180 days, which for purposes of financial restrictions are considered financial debt, although these are not recorded in debt for accounting purposes.

The Company's financing strategy has been to obtain loans for its expansion program through acquisitions, increase capital through new contributions from shareholders to strengthen its Financial Condition, as well as to use the cash flows generated by the operation, including that of the acquired companies, to reduce the contracted debt. Over the past several years, the Company's financing policy has been to maintain adequate liquidity and a debt maturity profile compatible with cash flow generation and working capital investments.

Short-term indebtedness

As of the date of this Annual Report, the Company has uncommitted short-term credit facilities with multiple banks, which are mainly used to improve its working capital. Credit facilities include short-term financing, letters of credit, among others. Most are letters of credit for payment from raw material suppliers. It also has access to a committed revolving line of credit with an undrawn balance of $1.5 billion. In addition, it has a $10 billion Mexican peso Certificate Program (renewed in November 2017), of which it has used $3 billion Mexican pesos, as of the date of this Annual Report, and could issue new debt under the program in the amount of up to an additional $7 billion Mexican pesos.

Financial indebtedness

The table below presents selected information regarding the indebtedness with unpaid cost, description of rates, currencies, amortizations and maturities incurred by the Company as of December 31 of the following years:

1. **Bank loans and current portion of long-term debt**

At the end of the year, they are as follows:

	2018	**2017**	**2016**
Summary of loan agreements in U.S. dollars, euros and other currencies such as Turkish lira, Indian rupees and Argentine pesos:			
Issuance of a $500 million 10-year International Bond that accrues semi-annual interest at a fixed rate of 4.00%. The principal is repaid in a payment when due in October 2027.	$ 500	$ 500	$ -
Issuance of a 30-year International Bond for $500 million that causes semi-annual interest at a fixed rate of 5.50%. The principal is amortized in a payment when due in January 2048.	500	500	-
Issue of a 30-year International Bond for USD 750 million which causes semi-annual interest at a fixed rate of 5.875%. The principal is amortized in a payment when due in September 2044.	750	750	750

	2018	2017	2016
Issuance of a 10-year International Bond for $750 million, bearing semi-annual interest at a fixed rate of 4.875%. The principal is repaid in a payment when due in September 2022.	750	750	750
Issuance of a 30-year International Bond for $400 million that causes semi-annual interest at a fixed rate of 6.75%. Principal is amortized in a payment when due in September 2042.	400	400	400
BBVA Bancomer 1-year bank loan of $200 million bearing quarterly interest at a variable rate of LIBOR 3M + 0.805%. The principal is repaid in a payment due in February 2019.	200	-	-
Issue of a 10-year International Bond for $350 million bearing semi-annual interest at a fixed rate of 8.75%. Principal is amortized in a payment upon maturity in November 2019; in September 2012, $267.1 million was prepaid.	83	83	83
HSBC Line of credit for $51 million bearing quarterly interest at Libor plus 1.50%. Principal is amortized in a payment when due in April 2020.	51	51	44
$75 million Syndicated Loan bearing quarterly interest at a variable rate of LIBOR 3M + 3.96%. The loan had a grace period of 1.5 years and the principal repays 35% semi-annually after the grace period and a final payment at maturity of 65% during March 2020. In March 2017, $20 million was prepaid.	40	-	-
$70.7 million Syndicated loan bearing quarterly interest at a variable rate of EURIBOR 3M + 3.84%. The loan had a grace period of 1.5 years and the principal repays 35% semi-annually after the grace period and a final payment of 65% at maturity during March 2020. In March 2017, $18.6 million was prepaid.	43	-	-
A short-term revolving loan with a line of credit of up to $200 million. The loan rate is variable from LIBOR + 2.30%.	39	-	-
Other	39	15	28

Loans in Mexican pesos:			
A 10-year, $3 billion stock market certificate that earns semi-annual interest at a fixed rate of 8.12%. The principal maturity is a single payment in March 2022.	152	152	145
Bancomext $3 billion unsecured loan bearing quarterly interest at a TIIE rate plus 0.825%. Principal is amortized semi-annually beginning September 5, 2018 and ending March 2021.	77	108	134
Other	-	-	3
	3,624	3,309	2,337
Minus - Bank loans and current portion of long-term debt	(396)	(45)	(58)
Minus - Debt placement expenses	(53)	(54)	(38)
	$3,175	$3,210	$2,241

As of the date of this report, Mexichem and its subsidiaries are up to date in the payment of principal and interest on their respective loans.

As of December 31, 2018, certain financings establish certain do's and don'ts (financial *covenants*), which include maintaining an interest coverage ratio of no less than 3.0x and a leverage ratio of no more than 3.0x. Some of these obligations are shown in the following table. Until December 31, 2018, all the obligations assumed by the Issuer in its financing credit contracts have been complied with, and it is not in any type of default with respect thereto:

Obligations to Do	**Obligations Not to Do**	**Causes of Early Expiration**
Provide periodic financial information and information on relevant events	Do not change the prevailing business line	Failure to pay principal and/or interest
Issue a certificate by the Company signed by a financial officer simultaneously with each delivery of financial statements, certifying that no default has occurred in the contracts.	Not to merge or liquidate or sell "significant assets" unless, at the time of the merger and immediately thereafter, there is no Default and the Issuer subsists as a corporation.	Submitting relevant false or incorrect information
Issue a written statement by the Company signed by a financial officer when it becomes aware of the filing or commencement of any action, lawsuit or proceeding by or before any arbitrator or governmental authority against or affecting a company of the Issuer that is reasonably expected to result in a Material Effect.	Neither the Company nor any of its Subsidiaries may engage in sale and leaseback transactions, except for temporary term leases, including any renewal thereof, of not more than three years, and except for leases between the Company and a Subsidiary or between Subsidiaries) unless the net proceeds of the sale and leaseback are at least equal to the fair value of the property.	If the early maturity of any instrument or contract is declared, evidencing or deriving in a debt of the Issuer (or subsidiaries) that, individually or as a whole, amounts in any currency to at least US$30 million for a period longer than 30 (thirty) Business Days.
Preserve, renew and maintain in full force and effect its legal existence and the necessary permits to carry out its operations	Do not constitute "encumbrances" except for "permitted encumbrances".	If the Company or any of its "major subsidiaries" initiates a bankruptcy proceeding that continues for more than 60 days
Use the funds for the agreed destination	No company will pay dividends when there is a Default Event, or when such payment generates one	Defaulting in an amount greater than $50 million in the payment of principal or interest on a debt
Be up to date with their labor and tax obligations, including payment of taxes.	Do not enter into transactions with "affiliates" unless they are on market terms or in certain exceptions.	Failure to comply with any obligation to do or not to do in the relevant contract or instrument

Obligations to Do	Obligations Not to Do	Causes of Early Expiration
Maintain a pari passu payment priority over other debts contracted	Do not modify its shareholding structure	If the Company does not pay the fees of Mexican Social Security Institute, National Housing Fund Institute for Workers (in Mexico) or Retirement Savings System (in Mexico) in an amount greater than $50 million.
Maintain log and account books with complete and correct entries of all transactions relating to their businesses and activities		If a change of control occurs
Compliance with applicable law		Acceleration of other debt by more than $50 million
The Issuer shall maintain its assets in good condition for the performance of its operations, shall insure it and shall comply with the necessary payments to the different insurance companies.		If a judgment is issued against the Company imposing payment of an amount greater than $50 million and remaining for more than 30 days
		If any of the obligated parties sue the banks for the invalidity of the credit
		If the Company or any material subsidiary is unable to pay its debts
		If the staff designated by the bank is not allowed to conduct inspections of their records to determine compliance with obligations.

All of the above conditions have been met as of the date of this report.

In addition, the financing contracts have certain other financial restrictions (all calculated on Mexichem's consolidated figures) that have also been complied with by the Company, which include market definitions of terms such as EBITDA and consolidated net debt, the most relevant of which are as follows:

- Certain restrictions on the existence of new encumbrances.
- Maintain a consolidated interest coverage ratio (consolidated interest expense with respect to the EBITDA) of not less than 3.0 to 1.0.
- Maintain a leverage ratio (consolidated net debt) with respect to the EBITDA no greater than 3.0 to 1.0.
- Comply with all applicable laws, rules, regulations and provisions.

The Company has assumed the obligations of the companies acquired under the financing transactions as a result of the mergers between them and the Company.

The *Senior Notes* issued in 2009, 2012, 2014 and 2017 establish restrictions on the encumbrance or mortgage of properties, assets or securities of the Issuer or its subsidiaries; they also establish restrictions on the sale and subsequent lease of assets relevant to the operation of the business (except temporarily); likewise, the terms of the *Senior Notes* stipulate limitations on the consolidation, merger or transfer of assets of the Issuer.

Hedging of foreign currency obligations

Mexichem and its subsidiaries are companies with a diversification strategy with a vision and participation in global markets. This definition is expressed in an important export activity around the world generating income in other currencies, especially in U.S. dollars. This generation of income in other currencies gives a natural hedge to the payment of interest and foreign currency debt contracted.

Due to its national and international activities, the Entity is exposed to risks of fluctuation of prices and inputs of the industries in which it operates, as well as financial risks related to the financing of its projects. The Entity's policy is to use, in a timely manner, certain hedges that allow it to mitigate the volatility of the prices of certain raw materials, costs and rate and exchange rate risk in financial operations, all of them related to the business and previously approved by the Audit Committee, as well as by the Board of Directors.

The general objective of hedging interest rates, credit, liquidity and exchange risk is to reduce the exposure of the primary condition to adverse market movements in interest rates and exchange rates that affect it; for which the Entity offers services to businesses through the Corporate Treasury function, coordinating access to domestic and international financial markets, supervising and managing financial risks related to the Company's operations using internal risk reports, which analyze exposures by degree and the magnitude of risks. These risks include market risk (including foreign exchange risk, interest rate risk at fair value and price and cost risk), credit risk, liquidity risk and cash flow interest rate risk.

The Issuer also 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 Company's policies approved by the Board of Directors and the Audit Committee, which provide written principles on currency risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments and the investment of excess liquidity. Compliance with policies and exposure limits is reviewed periodically. Mexichem does not subscribe or trade financial instruments for speculative purposes, including derivative financial instruments. The Board of Directors establishes and monitors policies and procedures to measure and manage these risks, which are mentioned below:

Capital risk management - The Company manages its capital to ensure that it will continue as an ongoing business, while maximizing the return to its shareholders through the optimization of debt and equity balances. Mexichem's capital structure is not exposed to any type of capital requirement. Issuer management reviews net debt and borrowing costs and their relationship with the EBITDA on a monthly basis, presenting its financial projections as part of the business plan to its Board of Directors and Shareholders.

Interest rate risk management - Mexichem is exposed to interest rate risks because it has debt contracted at variable rates. The risk is managed with the use of interest rate swap contracts for certain variations of projected rates. Hedging activities are regularly evaluated to align them with interest rates and their related risk, ensuring that the most profitable hedging strategies are applied.

Mexichem's interest rate risk exposures are mainly in TIIE and Libor interest rates on financial liabilities. The sensitivity analysis determined by the Issuer is prepared based on the interest rate exposure of its total unhedged financial debt held at variable rates, and an analysis is prepared assuming that the amount of the liability outstanding at the end of the reporting period has been the liability outstanding for the entire year. Management reports internally on a regular basis to the Board of Directors and/or its delegated Committees on interest rate risk.

If the TIIE and Libor interest rates had increased by 100 basis points in each reporting period and all other variables had remained constant, pre-tax earnings for 2018, 2017 and 2016 would have decreased by $4 million, $1 million and $2 million, respectively. This is mainly attributable to the fact that the Entity's exposure to Libor and TIIE interest rates on its long-term loans is not significant, since most bank loans and long-term debt bear interest at fixed rates.

Credit risk management - Credit risk refers to the risk that one of the parties to a credit contract defaults on its contractual obligations as a result of a financial loss for the Company and originates principally on accounts receivable from customers and on liquid funds. Credit risk on cash and cash equivalents and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by credit rating agencies. The maximum exposure to credit risk is represented by the balance of each financial asset mainly in trade accounts receivable. Mexichem sells products to customers in different economic environments, mainly in Mexico, South America, Europe, Israel, India, and the United States, which demonstrate its economic solvency.

The total accounts receivable of all business segments are diluted by more than 30,000 customers, which do not represent a concentration of individual risk. Accounts receivable best represent the maximum credit risk exposure. The Company periodically evaluates the financial conditions of its customers and contracts collection insurance for export sales while domestic sales generally require a guarantee. The Issuer does not believe that there is a significant risk of loss from a concentration of credit in its customer base and believes that its potential credit risk is adequately hedged by its allowance for doubtful accounts which represents its estimate of impairment losses incurred with respect to accounts receivable.

Liquidity risk management - The Company's management is ultimately responsible for liquidity management, which has established appropriate policies for liquidity control through the monitoring of working capital, allowing management to manage short-, medium- and long-term financing requirements, maintaining cash reserves, disposing of credit facilities, continuously monitoring projected and actual cash flows, reconciling maturity profiles of financial assets and liabilities.

Mexichem establishes, as a fundamental requirement for a derivative financial instrument to be considered a hedging instrument, that the designation of the hedge is formally documented and the changes in the fair value or cash flows of the derivative financial instrument maintain a high effectiveness in offsetting the changes in the fair value or cash flows of the primary condition, both at the inception and through the designated hedge.

- Instruments

The Company engages in transactions in foreign currency; consequently, it is exposed to fluctuations in exchange rates and interest rates. The Issuer underwrites, on a case-by-case basis, a variety of derivative financial instruments to manage its exposure to currency and interest rate risk and ensures that no derivative instrument can be considered as speculative. Some of the instruments include:

a) Peso-Dollar and Dollar-Euro Cross Currency Swaps to mitigate exposure to debt denominated in Mexican pesos and intercompany debt in euros.
b) Principal Only Foreign Currency Swaps to cover the exchange risk arising on the conversion of the Entity's investment in the foreign operation in Euros, whose functional currency is the Euro.
c) Forward Euro-Turkish Lira exchange rate to mitigate the exposure of an intercompany debt.

Market risk exposures are assessed using sensitivity analysis.

There have been no changes in the Company's exposure to market risks or the way these risks are managed and valued.

Cross Currency Swap Contracts - Under the Cross-Currency Swap contracts, the Issuer agrees to exchange Peso-Dollar flows calculated on the amounts of notional amounts and interest rates established in such contracts, to hedge the exposure of its bank debt and in stock exchange certificates in pesos.

Principal Only Contracts - Swaps - In accordance with the Currency Swap contracts, Mexichem agrees to exchange principal Dollar-Euro cash flows and a fixed rate in dollars, established in said contracts, which allow it to mitigate the risk of variations in exchange rates due to the exposure generated by its investment in euros through the acquisition of its subsidiaries in Europe, Wavin and Vestolit. The fair value of currency swaps at the end of the reporting period is determined by discounting future cash flows using the curves and exchange rates prevailing at the date of determination.

- Hedging or negotiation strategies implemented

These contracts allow the Company to mitigate the risk of variations in exchange rates due to the exposure generated by its debt in Mexican pesos and the investment in euros through the acquisition of its subsidiaries in Europe, Wavin and Vestolit. The fair value of currency swaps at the end of the reporting period is determined by discounting future cash flows using the curves and exchange rates prevailing at the date of determination.

The only swaps that have guarantors are the following:

Instrument	**Bank**	**Notional Amount Millions of US**	**Guarantors**
Principal Only-Swaps EUR/USD	BANCOMER	$228.3	MEXICHEM FLÚOR, S.A. DE C.V. MEXICHEM RESINAS VINILICAS, S.A. DE C.V. MEXICHEM DERIVADOS, S.A. DE C.V. MEXICHEM AMANCO HOLDING, S.A. DE C.V. MEXICHEM COMPUESTOS, S.A. DE C.V. MEXICHEM SOLUCIONES INTEGRALES, S.A. DE C.V.
Principal Only-Swaps EUR/USD	BANAMEX	$121	MEXICHEM DERIVADOS, S.A. DE C.V. MEXICHEM FLÚOR, S.A. DE C.V. MEXICHEM SOLUCIONES INTEGRALES, S.A. DE C.V. MEXICHEM RESINAS VINILICAS, S.A. DE C.V. MEXICHEM COMPUESTOS, S.A. DE C.V. MEXICHEM AMANCO HOLDING, S.A. DE C.V.

Cross Currency Swaps USD/MXN	BANAMEX	$83.9	MEXICHEM DERIVADOS, S.A. DE C.V. MEXICHEM FLÚOR, S.A. DE C.V. MEXICHEM SOLUCIONES INTEGRALES, S.A. DE C.V. MEXICHEM RESINAS VINILICAS, S.A. DE C.V. MEXICHEM COMPUESTOS, S.A. DE C.V. MEXICHEM AMANCO HOLDING, S.A. DE C.V.

In the last three fiscal years, the securities held by the Company have not undergone significant changes in the rights granted to their holders. The only change that has been made to any of these securities was the modification of certain obligations to give, do and not do contained in the title representing the Stock Exchange Certificates, which was authorized by the holders of such securities at a meeting of holders held on October 24, 2016. Said change refers to the precision made to the definition of the term "EBITDA" in said titles, in order to exclude from said concept (i) any "non-recurring" expenses, reserves, charges or costs that do not represent cash outflow, as well as non-recurring expenses that do represent cash outflow that are related to an income referred to in the following paragraph (ii); and (ii) any cash payment or income received by the issuer and/or any of its subsidiaries under insurance policies such as civil liability, property or damage without considering income received from business continuity.

d) Management's Comments and Analysis on the Issuer's Results of Operations and Financial Condition

Recently issued Standard Pronouncements

a. ***Adoption of new and revised International Financial Reporting Standards:***

In the current year, the Entity adopted the following IFRS, which came into force on January 1, 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Customer Contracts

The Entity has determined the impacts on the financial statements associated with the new requirements established in the new standards, as well as the impact on the operation of the business, internal processes for generating information, accounting records, systems and controls, as follows:

IFRS 9 Financial Instruments

a. IFRS 9 issued in November 2009 introduces 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 their derecognition, and in November 2015 to include new general requirements for hedge accounting. Other amendments to IFRS 9 were issued in July 2016 primarily to include a) impairment requirements for financial assets and b) limited modifications to the classification and measurement requirements by introducing the 'fair value through other comprehensive income' (FVTOCI) measurement category for some simple debt instruments. The full version of IFRS 9 "Financial Instruments" was issued in July 2014 and is effective for periods beginning on or after January 1, 2018.

b. At the beginning of 2018, Mexichem adopted the new IFRS 9, in which the following three phases mentioned in paragraph c. of this Note were evaluated.

c. As mentioned in the following paragraphs, the Entity did not have an impact due to the first application of the new IFRS 9 "Financial Instruments", in which the three phases established by the Standard were evaluated as follows:

1. The classification and measurement phase introduces a new model for the classification of all types of financial assets, including those that contain embedded derivative characteristics; with this model, financial assets are classified in their entirety at fair value through profit or loss, rather than being subject to complex bifurcation requirements when they do not meet the criteria to be recognized at amortized cost.

With respect to the classification of financial liabilities, it contemplates that they are related to the recognition of changes in the credit risk itself that is required to be presented as part of other comprehensive income.

The result of the evaluation of the following criteria determined the way the financial asset should be classified and therefore the bases of its subsequent measurement to classification:

a) Definition of Business Model

The Business Model refers to how the Entity manages the activities related to the financial asset to generate cash flows that flow directly to the Entity, either through the collection of contractual cash flows alone, the sale of the financial asset or through both activities.

The definition of the Business Model was made at a level that reflects how a financial asset or group of financial assets are managed to meet a particular objective and not through an instrument by instrument evaluation and does not depend on the intentions of the Administration on the financial asset, but on the actual use that is had on it.

b) Characteristics of Contractual Cash Flows

IFRS 9 requires that contractual cash flows represent only Principal and Interest Payments (SPPI), whose characteristics are consistent with those of a basic loan agreement in which consideration of the time value of money and considerations related to credit risk are the most important elements of the assessment; however, if the contractual terms of the financial asset contemplate risk exposures or volatilities in the contractual cash flows that are not related to those of a basic loan agreement, the cash flows linked to such financial asset do not represent SPPI.

Leverage may be a contractual feature of cash flows in some financial assets that increases the variability of cash flows, resulting in non-interest characteristics.

The Entity concluded that based on the characteristics of its financial assets and, above all, the use that management makes of those financial assets to achieve its objectives, there are two business models used to manage financial assets:

- Financial assets where contractual cash flows primarily represent the recovery of Solo Principal;
- Financial assets where contractual cash flows mainly represent the recovery of Principal and Interest, in accordance with the new standard (IFRS 9, par. 4.1).

The Business Models they apply do not change their current classification or measurement of financial assets, therefore, there were no impacts associated with this criterion.

2. Impairment: this phase describes a "three-step" model ("general model") for impairment based on changes in credit quality since initial recognition.

a) Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that (at the entity's option) have a low credit risk at the reporting date. For these assets, expected credit losses ("ECL") are recognized at 12 months and interest income is calculated on the gross carrying amount of the asset (i.e. without impairment deduction). 12-month ECL are those resulting from default events that are possible within 12 months of the report date. It is not the expected cash deficit during the 12-month period, but the total credit loss of an asset, weighted by the probability that the loss will occur in the next 12 months.

b) Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have a low credit risk at the reporting date and this option is adopted by the entity) but have no objective evidence of impairment. For these assets, ECL are recognized for life, but interest income is still calculated on the gross carrying amount of the asset. Lifetime ECL are those resulting from all possible events of default during the maximum contractual period in which the Entity is exposed to credit risk. ECL are weighted average credit losses, with the respective risks of default weighted.

c) Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, ECL are recognized for life and interest income is calculated on the net carrying amount (i.e. net of the impairment estimate).

The Entity developed a methodology for estimating credit impairment for short-term accounts receivable related to the business line by adopting the simplified model without a significant financing component, which consisted of estimating reserves for the entire life of the accounts receivable, and which avoids the approach of classifying assets by stages of risk. Applying this new methodology under IFRS 9, the Entity concluded that it had no impact on the amount of the impairment reserve determined and the previous methodology; therefore, the Entity has only modified its accounting policy for the estimation of credit impairment of its accounts receivable based on this new methodology.

3. The Hedge Accounting phase established in IFRS 9 will be adopted by the Entity as of January 1, 2019. As a result of its analysis, it has concluded that the derivative financial instruments it holds at the date of adoption will not generate an economic accounting impact as a result of the transition from accounting standards. However, in order to comply with the new requirements established by the standard, the current formal documentation will be supplemented by the new requirements to hold derivative financial instruments designated as hedging instruments.

During the years ended December 31, 2018, 2017 and 2016, the recognized impairment loss (IFRS 9) on accounts receivable amounted to $5,239, $11,889 and $10,156, respectively.

d. As a result of the analysis carried out by the Entity, it has concluded that the application of the three phases mentioned in paragraph c. above did not generate any economic accounting impact as a result of the transition from the new IFRS 9 "Financial Instruments".

e. Effective January 1, 2018, for all new financial instruments arising after the adoption date, the Entity will follow the corresponding classification, measurement and impairment assessment in accordance with the new IFRS 9 "Financial Instruments" guidelines.

IFRS 15 Revenue from Customer Contracts

a. IFRS 15, "Revenue from Customer Contracts", was issued in May 2014 and was effective for periods beginning on or after January 1, 2018.

b. At the beginning of 2018, Mexichem adopted the new IFRS 15, using the modified retrospective method established in IFRS 15.C3 b), under which the adjustments for the effect of applying the new standard are recognized in retained earnings on the date of initial application (January 1, 2018).

c. Under this standard, revenue recognition is based on the transfer of control; that is, it uses the notion of control to determine when a good or service is transferred to the customer, as well as to identify whether there are one or more performance obligations in the different contracts with customers. In addition, the Entity needs to disclose sufficient information to enable users of the financial statements to understand the nature, amount and timing of recognition of revenue from customer contracts.

d. As mentioned in paragraph b. above, the Entity opted to apply the modified retrospective method. Under this transition method, Mexichem applied this standard retroactively only to contracts that had not been completed at the date of initial application.

In addition, the Entity made use of the following practical solutions and exemptions available in the transition to IFRS 15:

- Commissions on sales and other costs to comply with contracts are recognized in income as incurred, since the amortization period is less than one year. These commissions are recorded under selling and development expenses.

- No financial component is recognized in contracts with customers when the financing period is less than one year.

No disclosure about performance obligations for: (i) contracts with a duration of less than one year that have not yet been satisfied, as well as (ii) contracts for which we recognize revenues in the amount to which we are entitled to invoice for product sales.

e. Beginning January 1, 2019, the Entity will continue to use the notion of control to determine when a good or service is transferred to the customer, as well as to identify if there are one or more performance obligations in the different contracts with customers as described below:

Revenue recognition - Revenue from ordinary activities is recognized to represent the transfer of control of goods or services committed to customers for an amount that reflects the compensation to which the entity expects to be entitled in exchange for those goods or services.

Warranties related to sales of goods cannot be purchased separately and serve to ensure that products sold meet agreed specifications. Consequently, Mexichem accounts for guarantees in accordance with IAS 37 Provisions, Liabilities and Contingent Assets, consistent with its previous accounting treatment.

1) ***Sale of goods***

Mexichem derives revenues from the disposal of assets at one point in time and over time in the following Business Groups:

i. ***Vinyl*** - This Business Group consists of five manufacturing processes: (i) the caustic soda process, which produces chlorine, caustic soda, sodium hypochlorite, hydrochloric acid and phosphates, (ii) the vinyl process, which produces PVC resins, (iii) the plasticizer process that produces phthalic anhydride and plasticizers used in the processing of PVC resin, (iv) the compound process, which produces PVC and non-PVC compounds used in different production processes such as pipes, connectors, cables, medical applications, synthetic leather and window frames, and (v) specialty resins used for flooring, wallpaper, coatings, among others.

ii. ***Fluor*** - This Business Group is divided into 3 processes: (i) the fluorite process, which consists of the extraction of fluorite, used for the production of hydrofluoric acid, in the cement, steel, ceramic and glass industries, (ii) the process of hydrofluoric acid and aluminum fluoride, and (iii) the process of refrigerant gases.

For the Business Groups described in the two preceding paragraphs, revenue is recognized at a point in time, once control of the product has been transferred to the customer, which generally occurs at the time of shipment or delivery, depending on the terms and conditions of the contracts with customers.

iii. ***Fluent*** - This Business Group produces PVC, polyethylene and polypropylene pipe and fittings, geosynthetics and geotextiles, as well as the development, production and distribution of advanced irrigation solutions. The products of this Business Group are used for: i) water management for irrigation, ii) drinking water, iii) agriculture, iv) greenhouses, v) landscaping, vi) mining, vii) drinking water, viii) sewerage, ix) heating, x) surface cooling, xii) water treatment including soil applications and waste, xiii) gas, and xiv) telecommunications.

Revenues are recognized in this Business Group:

- At one point in time by transferring control over the sale of pipes and fittings, at the time the product is delivered to the customer, once control over the product has been transferred to the customer, which generally occurs at the time of shipment or delivery, depending on the terms and conditions of contracts with customers.

- Through time using the results achieved by selling the different systems described in item iii. above, as Mexichem's performance creates or improves an asset controlled by the customer.

In relation to the income mentioned in the preceding paragraphs, Mexichem recognizes an account receivable when the goods are delivered to the customer, since it represents the moment in which the right to compensation becomes unconditional, assuming that only the passage of time before the payment is due is required.

2) ***Variable Compensation***

In all the Business Groups described above, the amount of compensation may vary due to discounts, reimbursements, etc. which are recognized based on an appropriate estimate using all available customer information. With these estimates, net sales reflect the actual consideration expected to be received from customers.

Under the terms of Mexichem's contracts, customers have the right to a 30-day refund. At the time of sale, a repayment liability and a corresponding adjustment are recognized for income from products that are expected to be returned. Mexichem uses its historical experience to estimate the number of returns using the expected value method. Mexichem considers it probable that there will not be a significant reversal in cumulative recognized revenues given the consistent level of returns in prior years.

Net sales

The following table represents a breakdown of net sales revenue by Business Group, which is grouped according to the vertical integration of its raw materials; this breakdown is used to make the Entity's operating decisions for the purpose of allocating resources and evaluating the performance of each Business Group:

	Segment	**As of December 31, 2018**	**As of December 31, 2017**	**As of December 31, 2016**
PVC resin and paste, compounds, chlorine and caustic soda	Vinyl	$2,460	$2,317	$2,026
Fluorite, fluorocarbons and hydrofluoric acid	Fluor	837	681	583
Pipelines, natural gas and high-pressure water telecommunication /Datacom pipelines, (i)	Fluent	4,077	3,022	2,892
Revenue from services	Holding	31	27	21
Eliminations and others	Other	(207)	(219)	(178)
		$7,198	$5,828	$5,344

(i) Includes other minor related revenues, mainly from service provision, property leases and royalty income related to products and technologies.

f. Using practical solutions and some exemptions, Mexichem concluded that the application of this new IFRS had no impact, except for certain more detailed disclosure requirements such as disclosing sufficient information to allow users of the financial statements to understand the nature, amount, and timing of recognition of revenues derived from contracts with customers.

The adoption of IFRS 16 did not affect the calculation of basic or diluted earnings per share of the Entity.

g. As mentioned in paragraph b. above, the Entity elected modified retrospective application in accordance with IFRS 15 C3 paragraph (b) under which adjustments for the effect of applying the new standard are recognized in retained earnings on the date of initial application (January 1, 2018).

h. The Entity accounted for the change in accounting policy arising from the initial application of IFRS 16 in accordance with its transitional provisions, where it elected the modified retrospective method mentioned in paragraph C3(b) of this Standard; therefore, it should not modify prior periods, applying the change in accounting policy from January 1, 2018.

New and revised IFRS standards that are not yet effective

At the date of authorization of these financial statements, the Entity has not applied the following new and revised IFRS that have been issued but are not yet in force:

IFRS 16	*Leasing*
IFRS 17	*Insurance Contracts*
Amendments to IFRS 9	*Negative Compensation Prepaid Features*
Annual improvements to the IFRS standards for the 2015-2017 cycle	*Amendments to* IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes and* IAS 23 *Borrowing Costs*
Amendments to IAS 19 *Employee Benefits*	*Modification, reduction or settlement of the plan*
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or contribution of assets between an investor and its associate or joint venture*
IFRIC 23	*Uncertainty about the treatment of income taxes*

Management does not expect the adoption of the Standards mentioned above to have a material impact on the Entity's financial statements in future periods, except as indicated in the following paragraphs.

<u>IFRS 16 Leases</u>

General Impact of IFRS Enforcement 16 Leases

IFRS 16 provides a comprehensive model for identifying lease arrangements and their treatment in financial statements for both lessors and lessees. IFRS 16 shall replace the current leasing guidance included in IAS 17 Leases and related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. The date of initial application of IFRS 16 for the Entity shall be January 1, 2019.

The Entity has chosen the modified retrospective application of IFRS 16, in accordance with IFRS 16: C5 item (b).

The Entity will make use of the practical record available in the transition to IFRS 16 to avoid reevaluating whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to leases entered or modified before January 1, 2019.

The change in the definition of a lease relates primarily to the concept of control. IFRS 16 distinguishes between leases and service contracts based on whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

-The right to substantially obtain all the economic benefits from the use of an identified asset; and
-The right to direct the use of that asset.

The Entity shall apply the definition of a lease and the guidance set forth in IFRS 16 to all leases registered or modified on or after January 1, 2019 (whether a lessor or a lessee in the lease). For the first time application of IFRS 16, the Entity has carried out an implementation project. The project has demonstrated that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Entity.

Operating Leases

IFRS 16 will change the way the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance.

In the initial application of IFRS 16, for all leases (except as indicated below), the Entity shall:

(a) recognize right-of-use assets and lease liabilities in the consolidated statement of financial condition, initially measured at the present value of future lease payments
(b) recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of income
c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows

Lease incentives (e.g. a free period) are recognized as part of the measurement of right-of-use assets and lease liabilities, whereas under IAS 17, a lease liability incentive is recognized, which is amortized as a reduction of straight-line leasing expenses.

Under IFRS 16, assets for right-of-use will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous leases.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Entity will elect to recognize a straight-line lease expense as permitted by IFRS 16.

As of December 31, 2018, the Entity has non-cancelable operating lease commitments of $306,991.

A preliminary evaluation indicates that $26,700 of these agreements relate to short-term leases and low-value asset leases. Therefore, the commitments that qualify to be recognized as assets for right of use are $280,291, which at present value represent $221,812; this amount added to the options to extend such commitments for $15,476, as well as to the reclassification of financial leases that as of December 31, 2018 are presented in the fixed assets caption for $33,049, the Entity will recognize an asset for right of use of $270,337 and a corresponding lease liability of $267,336 of which $33,049 were already presented within the liability as financial lease. The estimated impact on 2019 results is a decrease in operating expenses of $55,000, a net increase in depreciation of $43,000 and an increase in interest expense of $14,000.

According to IAS 17, all lease payments under operating leases are presented as part of the cash flows from operating activities. The impact of the changes under IFRS 16 would be to reduce cash provided by operating activities by $55,000 and increase net cash used in financing activities by the same amount.

Financial Leases

The main differences between IFRS 16 and IAS 17 with respect to assets previously held under a finance lease are the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires the Entity to recognize only the amount expected to be paid with a residual value guarantee as part of its lease liability, rather than the maximum amount guaranteed as required by IAS 17. In the initial application, the Entity will present the equipment previously included in the property, plant and equipment under the heading for assets for right of use and the lease liability previously presented under the loan; these will be presented in a separate line for lease liabilities.

Based on the analysis of the Entity's financial leases as of December 31, 2018 based on the facts and circumstances existing at that date, the Entity's Management has evaluated that the impact of this change will not have an effect on the amounts recognized in the Entity's consolidated financial statements.

Impact on Landlord Accounting

Under IFRS 16, a lessor continues to classify leases as finance or operating leases and considers these two types of leases differently. However, IFRS 16 has changed and expanded the required disclosures, particularly with respect to how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the main lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the asset by right of use arising from the host lease (and not by reference to the underlying asset, as was the case under IAS 17).

Due to this change, the Entity will reclassify some of its sublease agreements as financial leases. As required by IFRS 9, a provision for expected credit losses is recognized in the finance lease receivables. Leased assets are derecognized, and finance lease receivables are recognized. This change in accounting will change the timing of recognition of the related income (recognized in finance income).

Impact

The Issuer has evaluated and applied and will continue to evaluate the potential impact that these and other standards that have already been issued and modified or may be issued in the future may have on its Financial Statements as a result of the proposed modifications, including those that have had an effect on the Financial Condition as of December 31, 2018, in accordance with the corresponding transitional provisions and effective dates of entry into force. For further information on this topic, see *"Risk Factors - The adoption of new accounting pronouncements in the future could have a material adverse effect on our results of operations"* in this Annual Report.

The following discussion is based on our audited financial statements and notes thereto, which have been prepared in accordance with IFRS, and should be read in conjunction with them.

Operating Results

In recent years, our main strategies have focused primarily on: 1) vertical integration as a producer of PVC commodities, 2) the strategy of increasing the share of specialty products within our portfolio by continuing our focus on expanding the product portfolio to include those with significant growth potential, given their relationship to long-term global trends, and moving from a history of mergers and acquisitions to a return-driven model, and from a production-focused company to a much more customer-focused one. These efforts should continue to drive Return on Invested Capital (ROIC) and Return on Equity (ROE). Some examples of the trends referred to are water scarcity, increasing food requirements, urban growth and development, connectivity, and medical and health needs. By improving the cost structure of the commodity business, focusing on specialty products and high-growth markets, we will be able to improve our ROIC and ROE and build a favorable reputation. During this time, we have also taken steps to develop the talent, processes and structures to provide the necessary infrastructure to continue growing.

Continuing its strategic focus on Business Groups and markets, Mexichem is committed to remaining disciplined and focused on execution.

During the full year of 2018, Mexichem began a transformation that will increasingly turn it into a more human-centered company. This change will be an important component of Mexichem's business operations in subsequent years. Mexichem continues its focus on the needs and relationships of its customers by creating global synergies and best-for-the-world solutions, while becoming a purpose-driven, future fit organization.

Throughout 2018, Mexichem shared many examples of how its more than 22,000 employees collaborate with its customers to address some of the world's most difficult challenges. In 2018, Mexichem continued to build on this momentum by expanding the company's purpose, growing the business, and improving the quality of life of millions of people around the world.

The Company is proud to contribute to better surface and groundwater management and distribution in cities, reducing leaks and improving the sustainability of buildings. As a world leader in fire-resistant solutions for wires and cables, Mexichem favors the construction of buildings that are safer from the risk of fire. Likewise, its optic fiber cable conducting pipes allow for the expansive deployment of 5G data to homes in the U.S.. It is also developing a new generation of flexible PVC resins that are safer, more durable and use less energy to produce end products.

In support of health, the fluoride propellants in medical inhalers produced by the Company enable around 100 million people with asthma to have a better quality of life.

On February 7, 2019, Mexichem and its subsidiary Netafim celebrated the first anniversary of this acquisition and continue to demonstrate the value of this acquisition, which changed the Company's profile. Today, Netafim is an integral part of Mexichem's Precision Agriculture business, helping farmers maximize crop yields while reducing overall resource consumption with its digital farming solutions. Increasingly, the Company's solutions incorporate real-time data. Launched in May, Netafim's NetBeat™ is an all-in-one platform that allows farmers to optimize their irrigation and fertigation, based on sophisticated analysis of real-time data from field sensors, external sources and dynamic crop models. All this is done via an intuitive interface from the farmer's smartphone or tablet.

Mexichem's Irrigation business also collaborates with governments to help improve the quality of life of rural farmers with the latest in intelligent drip irrigation and precision irrigation technologies. Netafim is completing a large community irrigation project in India spanning four different regions, covering more than 135,000 hectares and benefiting nearly 60,000 rural farmers.

In 2018, the Building & Infrastructure business in Europe (Wavin -Fluent Europe-), launched the world's first metal and plastic pipe fittings that emit a hiss after detecting a water leak. The acoustic feature of the leak alert emerged through customer feedback to resolve the installer's challenge in tracking leaks in pipelines. The Wavin Tigris K5/M5 is another clear example of how Mexichem focuses on customer needs and then innovates solutions that solve them. PlasticRoad is the world's first cycle path made of recycled plastic. Piloted in September last year in Holland, the road has sensors that monitor for temperature, use and durability. While testing has been done for cycling, the Company is considering much wider commercial applications, such as parking lots. This innovative material is expected to be three times more durable than asphalt and 70% faster to install.

In addition, our Datacom business (DuraLine - Fluent U.S./Canada and Fluent AMEA) continues its supply alliance with leading telecommunications companies in the U.S. The Company has a close relationship with these companies to supply the necessary pipe for 5G fiber installations. During the second half of 2018, the Issuer signed a supply agreement with a leading global e-commerce company for its pipeline needs.

In addition, during the fourth quarter of 2018, the Compounds business completed the installation of the new Megolon® production line in the United Kingdom, increasing capacity up to 10,000MT per year for halogen-free flame-retardant compounds (HFFR) for the wire and cable industry. The project was completed in less than six months and allows Mexichem's Megolon® brand to meet growing customer demand for products that achieve higher levels of fire safety as required in the European Union.

Mexichem continues to be strongly committed to its investment-grade debt rating and, due to its continuous effort to strengthen its balance sheet, it has been executing its deleveraging strategy, reaching a net debt/EBITDA ratio of 2.05x at the close of 2018.

On our way to becoming an organization inspired by purpose and fit for the future, Mexichem is also contributing to the world in many other ways. Sustainability is a fundamental objective, and the Company is working with governments, the private sector and local non-profit organizations around the world to build a more livable future. As an example, Mexichem reuses a percentage of the water in its plants, and its goal is to increase these savings to 87% by 2020. In 2018, Mexichem joined the United Nations Global Compact, which encourages companies around the world to adopt sustainable and socially responsible policies and report on their implementation process.

Likewise, the safety of all Mexichem employees is fundamental. For this reason, Mexichem works worldwide in all its businesses to ensure that its more than 22,000 employees return home safe and sound every day.

Mexichem has a strong commitment to a strong culture of integrity, transparency, and compliance. For this reason, during 2018, it launched an improved hotline for the effective management of all concerns and complaints within the Company at a global level. We also invest in resources to train all employees on global compliance issues such as data protection, anti-bribery and antitrust. This training aims not only to reduce the risks of non-compliance, but also to provide your employees with tools to correctly manage possible ethical dilemmas.

This management's analysis of the Company's results of operations and financial condition should be read in conjunction with the Issuer's audited consolidated financial statements for the years ended December 31, 2018, 2017 and 2016, and their respective explanatory notes included in this Annual Report, as well as with the information included in the sections *"See Section 3, "Financial Information", item a, "Selected Financial Information" of this Annual Report.*

This section contains statements regarding future or anticipated events, which are subject to various risks. Actual results could differ materially from the results discussed in this section in the context of future events for various reasons, including those factors indicated in *"See Section 1, "General Information, item c, "Risk Factors" of this Annual Report.*

Consolidated Operating Results 2018

Clarifications:

- On July 6, 2018, Mexichem announced that, in line with its strategy of consolidation in key businesses, it reached an agreement for the acquisition of 44.09% of the shares representing the capital stock held by Pemex in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of comparable companies and precedent transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, so that, as of that date, PMV is exclusively a subsidiary of Mexichem and its activity consists, from that date and until the date of this Annual Report, only of the operation of the caustic soda plant. In May 2018, $267.5 million was collected from the insurance companies covering the property damage, assembly and business interruption policy in connection with the accident that occurred at our PMV strategic partnership complex on April 20, 2016.

- On February 7, 2018, Mexichem completed the acquisition of 80% of the shares of Netafim LTD (Netafim), an Israeli company leader in precision irrigation solutions, after obtaining all government authorizations and meeting the preceding conditions required in the Share Purchase Agreement signed in August 2017.

- On December 20, 2017, Mexichem announced the decision not to rebuild its VCM production capacity and discontinue this business, as well as all assets and liabilities associated with Ethylene and auxiliary services associated with VCM and Ethylene, treating these businesses as discontinued operations in its consolidated financial statements for the years 2017, 2016, and 2015. Thus, all recognized impacts and revenues related to the incident at the VCM plant are presented as discontinued operations and will continue to be classified as such. As a result, in 4Q17, we reclassified our 2017 results as discontinued operations with a net effect of $3 million in sales and $9 million in EBITDA: Accordingly, to have a comparable basis, 2016 figures were also reclassified as discontinued operations with a net effect of $6 million in sales and an addition of $11 million in EBITDA.

- As part of the Company's strategy to migrate to higher margin products in our Fluent Business Group, Mexichem decided at the end of 1Q16 to leave the pressure pipes business in the United States, which impacts Datacom's business (Dura-line -Fluent US/AMEA). The decision was made in order to focus the Company's capacity on pressure pipes, which is a low-margin product, to natural gas pipelines where margins are higher. As a result, in 4Q16 we reclassified our 2016 results as discontinued operations with a net effect of $18 million in sales and $6 million in EBITDA: Accordingly, to have a comparable basis, the 2015 figures were also reclassified as discontinued operations with a net effect of $96 million in sales and $5 million in EBITDA.

- During 2016, Mexichem performed an analysis to define whether the company was an "agent" or "principal" in terms of IAS18 "Revenues from Ordinary Activities", with the objective of determining how freight costs should be recognized and reported in the Income Statement. The conclusion is that the company is "principal" and, therefore, the cost of freight should be presented in Cost of Sales instead of Administrative and Selling Expenses, as reported in previous years. As a result, during the fourth quarter of 2016, the full year 2016 costs were reclassified from Administrative and Selling Expenses to Cost of Sales, so the annual figures for 2016 and 2015 contain such reclassification.

  Freight costs in the Q1, Q2, Q3 and Q4 in 2016 were $73 million, $79 million, $78 million and $70 million, respectively. For Q1, Q2 and Q3 in 2016, freight costs impacted 4Q16 Cost of Sales. This reclassification has no impact on the EBITDA but does have an effect on reported gross profit.
- During 2016, the Company performed an analysis that led it to present the elimination of investment

in its subsidiaries under "Other Assets" by Business Groups instead of under "Eliminations in Consolidation".

Income

We receive revenue from the production and sale of PVC and PE pipes and fittings, PVC resins and compounds, as well as Fluorite and HF through our subsidiaries, which are organized into Business Groups and whose activities range from the extraction of basic raw materials to the production of intermediate and final consumer products. We are also increasingly providing engineering and installation services. The products that contribute most significantly to our sales are:

- PVC and PE pipes and fittings and integral solutions, which are produced by the Fluent Business Group in: i) Building & Infrastructure in several regions, including Latin America through Amanco (Fluent LatAm) under the Amanco, Plastigama and Pavco brands and in Europe through Wavin (Fluent Europe) under the Wavin brand; ii) Datacom in the U.S., Asia, Middle East and Africa through Dura-Line (Fluent U.S./Canada) under the Dura-Line brand; and iii) Irrigation mainly in Israel, U.S., Latin America and India, through Netafim under the Netafim brand. These products and solutions are mainly used in the construction, infrastructure, housing, water management, heating and cooling, irrigation and data communication industries through more than 70 thousand points of sale.

- PVC resin, which is produced through the Vinyl Business Group, produced in Mexico, Germany and Colombia, and sold to several companies for the subsequent production of pipes, containers, PVC medical equipment and other applications.

- Fluorite and HF that are extracted from the former and produce the latter through the Fluor Business Group. Fluorite is extracted from our mines: in its metallurgical grade, it is sold to the cement and glass industries, among others, and in its acid grade, it is used to produce hydrofluoric acid. HF is used in the production of refrigerant gases and other fluorinated products.

The following table shows the percentage contribution to our net sales of each of our Business Groups at the dates indicated (without the elimination of operations between Business Groups):

Business Group	**Year ended December 31:**		
(%)	**2018**	**2017**	**2016**
Vinyl Business Group	33	39	37
Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line, and Precision Agriculture - Netafim)	55	50	53
Fluor Business Group	11	11	10

Expenses

Cost of sales

The main components of our cost of sales are our raw materials and freight, and the depreciation of our industrial plants and equipment. In 2018, our cost of sales, as a percentage of sales, decreased to 73% compared to 75% in 2017 and 76% in 2016.

Operating Expenses

Our main operating expenses consist of:

- Selling and development expenses, including selling, marketing and advertising expenses, sales commissions and costs related to our research and development center
- Depreciation and amortization of assets other than plants and industrial equipment
- Employee labor expenses and executive pay, including wages, salaries, social security benefits and bonuses
- General administrative expenses, including office and per diem expenses, fees for legal advice and auditing, advertising and other related expenses

- Living expenses related to our production facilities and
- Other operating expenses, which also include employee profit sharing expenses

Results of operations by Business Group

The following tables present the results of each of our Business Groups and a comparison thereof to our consolidated results of operations for the periods presented below.

	Year ended December 31, 2018				
	Net Sales	**Cost of Sales**	**Gross Profit**	**Operating Expenses (1)**	**EBITDA**
	(Figures in Millions)				
Vinyl Business Group	2,460.5	1,941.1	519.3	162.4	557.1
Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture - Netafim)	4,077.5	3,051.0	1,026.5	708.9	527.1
Fluor Business Group	837.4	445.0	392.4	79.9	362.4
Energy Business Group	1.6	1.5	0.2	0.1	1.1
Controller	29.0	-	29.0	81.2	(51.3)
Eliminations (2)	(207.8)	(177.3)	(30.5)	(30.5)	-
Consolidated	**7,198.1**	**5,261.3**	**1,936.8**	**1,002.0**	**1,396.5**

(1) Operating expenses include 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 and the remaining $29 million is service revenue, which corresponds to the operating expenses of the operating company.

	Year ended December 31, 2017				
	Net Sales	**Cost of Sales**	**Gross Profit**	**Operating Expenses (1)**	**EBITDA**
	(Figures in Millions)				
Vinyl Business Group	2,316.8	1,852.8	464	139.2	507.3
Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line- and Precision Agriculture - Netafim)	3,022.7	2,300.6	722.1	488.2	384.9
Fluor Business Group	680.9	411.7	269.2	63.5	259.3
Energy Business Group	1.6	1.5	0.1	(0.3)	1.2
Controller	25.5	-	25.5	82.6	(46.7)
Eliminations (2)	(219.0)	(191.1)	(27.9)	(28.6)	-
Consolidated	**5,828.3**	**4,375.4**	**1,452.9**	**744.7**	**1,106.0**

(1) Operating expenses include 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 and the remaining $25 million is service revenue, which corresponds to the operating expenses of the operating company.

	Year ended December 31, 2016				
	Net Sales	Cost of Sales	Gross Profit	Operating Expenses (1)	EBITDA
	(Figures in Millions)				
Vinyl Business Group	2,025.8	1,721.5	304.3	134.5	283.6
Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture - Netafim)	2,892.1	2,169.8	722.3	437.3	421.3
Fluor Business Group	582.9	344.5	238.3	62.1	227.8
Energy Business Group	1.6	1.5	0.1	0.2	0.9
Controller	21.5	3.4	18.1	67.5	(38.4)
Eliminations (2)	(180.1)	(163.0)	(17.1)	(17.1)	-
Consolidated	**5,343.8**	**4,077.6**	**1,266.2**	**684.7**	**895.3**

(1) Operating expenses include 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 and the remaining $22 million is service revenue, which corresponds to the operating expenses of the operating company.

Year ended December 31, 2018, compared to year ended December 31, 2017

Consolidated results of operations

The following table sets forth our results of operations for the years ended December 31, 2018 and 2017.

	Year ended December 31	
	2018	2017
	(Figures in Millions)	
Net sales	7,198.1	5,828.3
Cost of sales	5,261.3	4,375.4
Gross profit	1,936.8	1,452.9
Operating expenses (1)	1,002.0	744.7
Net financial expenses and exchange rate changes	284.3	175.5
Income equity of affiliates	(4.3)	(2.2)
Income taxes (loss)	194.7	177.7
Revenue (loss) from ongoing operations	460.1	357.1
Net discontinued operations	22.8	(143.2)
Consolidated net income (loss)	482.9	213.9

(1) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).
(2) Net financial expenses and foreign exchange variation include the loss of monetary condition of $13 million and $49 million for the first semester of the year ended December 31, 2018 and 2017, respectively.

Net sales

In 2018, consolidated sales increased 24% compared to the same period in 2017 to $7,198 million. This increase was mainly the result of (1) the integration of Netafim to the consolidated results, (2) higher refrigerant gas prices and (3) healthy sales growth in the Fluent Business Group in the U.S./Canada regions.

Cost of sales

Our cost of sales increased 20%, from $4.375 billion in 2017 to $5.261 billion by 2018. This increase was mainly the result of the integration of Netafim into Mexichem's consolidated figures, as well as higher sales volumes in our Fluor Business Group and our Fluent USA/Canada (Datacom) and Fluent Europe (Wavin) Business Groups.

Gross profit

For the reasons described above, our gross profit increased 33% from $1.453 billion in 2017 to $1.937 billion in 2018. Our gross margin, which is calculated by dividing gross profit by net sales, increased from 25% in 2017 to 27% during 2018. This expansion was mainly generated in our Fluor Downstream Business Group.

Operating Expenses

Our operating expenses increased 35% from $745 million in 2017 to $1.002 billion in 2018. This increase is the result of (1) the integration of Netafim into Mexichem's consolidated figures, (2) the provision of CADE, and (3) expenses related to the acquisition of Netafim Ltd. Our operating expenses represented 14% of our net sales in 2018, compared to 13% in 2017.

Net financial expense and foreign exchange variation

Our net financial expense and foreign exchange variation increased 62%, from $176 million in 2017 to $284 million in 2018. The increase is due to (1) an increase in interest primarily related to the issuance of the $1 billion bond in September 2017 for the acquisition of Netafim, as well as consolidated interest in 2018, (2) the integration of Netafim into Mexichem's consolidated numbers, (3) a negative effect on monetary condition from our Venezuelan operation, and (4) an impact related to the valuation at market prices of a financial instrument associated with the acquisition of Netafim.

Income tax

Our income tax expense was $195 million in 2018, compared with $178 million in 2017. This increase was primarily due to a change in the mix of Mexichem's subsidiaries that generate profits and those that generate tax losses. This effect was offset by the deferred tax benefit primarily caused by the reduction in local tax rates in our most relevant markets.

Consolidated net income

Consolidated net income increased 126% to $483 million in 2018 from $214 million in 2017 due to the factors described above. When we make the adjustment to discontinued operations in PMV's operation, net income would have grown 29% from $357 million in 2017 to $460 million in 2018. Majority interest net income increased 83% to $355 million in 2018 from $194 million in 2017. When we adjusted for Mexichem's interest (55.91%) in the discontinued operation in PMV, majority interest net income would have grown 25% from $274 million in 2017 to $342 million in 2018.

Results of operations by division

Vinyl Business Group

	Year ended December 31	
	2018	**2017**
	(Figures in Millions)	
Net sales	2,460.5	2,316.8
Cost of sales	1,941.1	1,852.8
Gross profit	519.3	464.0
Operating expenses (1)	162.4	139.2

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

In 2018, Vinyl Business Group increased sales by 6% from $2.317 billion in 2017 to $2.460 billion by 2018, reflecting favorable market price conditions during the first nine months of the year in both PVC and caustic soda, primarily due to higher oil prices and market supply restrictions associated with environmental restrictions in Europe and Asia when comparing 2018 and 2017.

Cost of sales

Cost of sales for our Vinyl Business Group increased 5%, from $1.853 billion in 2017 to $1.941 billion in 2018. This increase was mainly the result of sales growth in the Resins and Compounds Business Groups and the impact of the force majeure declared on November 12, 2018 by our subsidiary Vestolit in Germany.

Gross profit

As a result, our Vinyl Business Group's gross profit increased 12% to $519 million in 2018 from $464 million in 2017.

Operating expenses

Operating expenses for our Vinyl Business Group increased 17% from $139 million in 2017 to $162 million in 2018. This variation is mainly explained by the increase in selling expenses derived from an increase in selling expenses, such as commissions on sales, as well as the recognition in 2017 of part of the business interruption policy derived from the incident at PMV's Clorados III plant.

Fluent Business Group (Building & Infrastructure - Wavin and Amanco, Datacom - Dura-Line and Precision Agriculture - Netafim)

	Year ended December 31	
	2018	2017
	(Figures in Millions)	
Net sales	4,077.5	3,022.7
Cost of sales	3,051.0	2,300.6
Gross profit	1,026.5	722.1
Operating expenses (1)	708.9	488.1

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

In 2018, revenues increased 35% from $3.023 billion in 2017 to $4.077 billion in 2017. Key factors contributing to this growth included the consolidation of Netafim, double-digit growth in Fluent U.S./Canada and AMEA (Dura-Line), while Europe grew to a medium digit.

Cost of sales

Our Fluent Business Group's cost of sales increased 33% to $3.051 billion in 2018 from $2.301 billion in 2017. This increase was mainly due to the inclusion of Netafim figures in Mexichem's consolidated figures, as well as increased sales in our Fluent U.S./Canada (Datacom) and Fluent Europe (Wavin) Business Groups.

Gross profit

As a result, our Fluent Business Group's gross profit increased 42% to $1.026 billion in 2018, while in 2017 it was $722 million.

Operating expenses

Operating expenses for our Fluent Business Group increased 45% from $488 million in 2017 to $709 million in 2018. This increase was mainly due to the inclusion of Netafim figures in Mexichem's consolidated figures, the recognition of expenses for the acquisition of Netafim, and the provision associated with CADE's research.

Fluor Business Group

	Year ended December 31	
	2018	2017
	(Figures in Millions)	
Net sales	837.4	680.9
Cost of sales	445.0	411.7
Gross profit	392.4	269.1
Operating expenses (1)	79.9	63.5

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include 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 23% to $837 million in 2018 compared with $681 million in 2017. This increase was mainly the result of higher refrigerant gas prices in the United States and Europe. For more information, see "Changes in the Fluor Business Group".

Cost of sales

Our Fluor Business Group's cost of sales increased 8%, from $412 million in 2017 to $445 million in 2018. This increase was primarily the result of higher sales volume in our upstream operation.

Gross profit

As a result, our Fluor Business Group's gross earnings increased 46% to $392 million in 2018 from $269 million in 2017.

Operating expenses

Operating expenses for our Fluor Business Group increased 26% to $80 million in 2018 from $64 million in 2017. This increase was mainly the result of higher investment in research and development and higher selling expenses due to the increase in research and development, such as sales commissions.

Year ended December 31, 2017, compared to year ended December 31, 2016

Consolidated results of operations

The following table sets forth our results of operations for the years ended December 31, 2017 and 2016.

	Year ended December 31	
	2017	2016
	(Millions of U.S. dollars)	
Net sales	5,828.3	5,343.8
Cost of sales	4,375.4	4,077.6
Gross profit	1,452.9	1,266.2
Operating expenses (1)	744.7	684.7
Net financial expenses and exchange rate changes	175.5	162.3
Equity in income of affiliates	(2.1)	(2.9)
Income taxes	177.7	110.7
Revenue (loss) from ongoing operations	357.1	311.4
Loss on net discontinued operations	(143.2)	(64.1)
Consolidated net income	214.0	247.3

(1) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).
(2) Net financial expenses and foreign exchange variation include the loss of monetary condition of $49 million and $17 million for the first semester of the year ended December 31, 2017 and 2016, respectively.

Net sales

In 2017, consolidated sales increased 9% compared to the same period in 2016 to $5.828 billion. This increase was mainly the result of (1) favorable dynamics in the PVC industry, (2) healthy sales growth in the Fluent Business Group in the US/Canada, Europe and LatAm regions and (3) higher refrigerant gas prices.

Cost of sales

Our cost of sales increased 7% from $4.078 billion in 2016 to $4.375 billion by 2017. This increase was primarily 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 15% from $1.266 billion in 2016 to $1.453 billion in 2017. Our gross margin, which is calculated by dividing gross profit by net sales, increased from 24% in 2016 to 25% during 2017. This decrease was mainly the result of the start of operations of our Ethylene Cracker in Ingleside and higher sales prices in the Vinyl and Fluor chains.

Operating Expenses

Our operating expenses increased 9% from $685 million in 2016 to $745 million in 2017. This increase was mainly due to expenses related to the acquisition of Netafim and the provision of a potential liability related to alleged violations of our subsidiary in Brazil and some of its executives, to the Brazilian competition regulations between 2003 and 2009, an investigation that is still ongoing by CADE (Administrative Council for Economic Defense) and that was reported by Mexichem in Q2 2016 (See Selected Financial Information, *Significant Events*). Our operating expenses represented 13% of our net sales in 2017, compared to 13% in 2016.

Net financial expense and foreign exchange variation

Our net financial expense and foreign exchange variation increased 9% from $159 million in 2016 to $173 million in 2017. The increase is mainly due to the appreciation of the peso against the U.S. dollar, which led to a loss derived from foreign currency operations in 2017 compared to a gain derived from foreign currency operations in 2016, which had resulted from long-term debt denominated in Mexican pesos; this was partially offset by the effects of inflation in Venezuela of $49 million, while in 2016 the effect was $17 million.

Income tax

Our income taxes increased to an expense of $178 million in 2017 compared with $111 million in 2016. This change was primarily due to an increase in deferred tax from a benefit of $79 million in 2016 to an expense of $66 million. This is mainly explained by the fact that exchange losses occurred in 2016, which in turn generated a deferred tax asset that benefited the company's result, while exchange rate gains decreased tax losses in 2017, which caused the deferred tax asset to decrease, which in turn increased deferred tax expense.

Consolidated net income

Consolidated net income decreased 13% to $214 million in 2017 from $247 million in 2016, due to the factors described above and the decision of PMV's shareholders not to rebuild VCM's production capacity, announced by Mexichem on December 20, 2017. Therefore, the association's VCM production, the assets and liabilities associated with ethylene production, as well as the auxiliary services associated with VCM and ethylene were reclassified on that date as discontinued operations in Mexichem's financial statements for the years 2015, 2016 and 2017, to the extent that the foregoing implies the exit of PMV from the VCM and ethylene businesses in Mexico (See Selected Financial Information, *Significant Events*), but not from the caustic soda business, whose plant will continue to be operated by PMV, and consequently the alliance between PPQC, a subsidiary of PEMEX Etileno, and Mexichem remains.

Results of operations by division

Vinyl Business Group

	Year ended December 31	
	2017	**2016**
	(Millions of U.S. dollars)	
Net sales	2,316.8	2,025.8
Cost of sales	1,852.8	1,721.5
Gross profit	464.0	304.3
Operating expenses (1)	139.2	134.5

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

In 2017, Vinyl Business Group's sales increased 14% from $2.026 billion in 2016 to $2.317 billion by 2017, mainly driven by better market conditions for PVC, both in volumes and prices, and by the integration of Vinyl Compounds Holdings Ltd.

Cost of sales
Cost of sales for our Vinyl Business Group increased 8% from $1.721 billion in 2016 to $1.853 billion in 2017. This increase was mainly the result of a growth in volumes and sales of the Resins and Compounds Business Groups and the start of operations of the Ethylene Cracker from Ingleside, Texas.

Gross profit
As a result, our Vinyl Business Group's gross earnings increased 53% to $464 million in 2017 from $304 million in 2016.

Operating expenses

Operating expenses for our Vinyl Business Group increased 3.7% from $134 million in 2016 to $139 million in 2017. This variation is mainly explained by the benefit generated by the recognition of the account receivable in 2016 of our Resins Business Group of the business interruption policy derived from the incident in the Clorados III plant of PMV.

Fluent Business Group

	Year ended December 31	
	2017	**2016**
	(Millions of U.S. dollars)	
Net sales	3,022.7	2,892.1
Cost of sales	2,300.6	2,169.8
Gross profit	722.1	722.3
Operating expenses (1)	488.1	437.4

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include selling and development expenses, administrative expenses, depreciation and amortization (not included in cost of sales) and other expenses (income).

Net sales

In 2017, revenues increased 5% from $3.023 billion in 2017 to $2.892 billion in 2016. This increase was primarily the result of sales growth in most regions except for AMEA.

Cost of sales

Our Fluent Business Group's cost of sales increased 6% to $2.301 billion in 2017 from $2.170 billion in 2016. This increase was mainly due to an increase in the prices of raw materials used by the Fluent Business Group.

Gross profit

As a result, the gross earnings of our Fluent Business Group remained stable in 2017 at $722 million.

Operating expenses

Operating expenses for our Fluent Business Group increased 12% from $437 million in 2016 to $488 million in 2017. This increase was mainly due to reorganization costs related to the streamlining of our structure, expenses for the acquisition of Netafim and the provision associated with CADE's research.

Fluor Business Group

	Year ended December 31	
	2017	**2016**
	(Millions of U.S. dollars)	
Net sales	680.9	582.9
Cost of sales	411.7	344.5
Gross profit	269.2	238.3
Operating expenses (1)	63.5	62.1

(1) The amounts shown have only been adjusted to eliminate operations within each Business Group (but not between Business Groups).
(2) Operating expenses include 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 17% to $681 million in 2017 compared with $583 million in 2016. This increase was primarily the result of higher refrigerant gas prices in the U.S. and Europe, in part as a result of the United States ITC legal proceeding resolved on March 23, 2017. For more information, see "Changes in the Fluor Business Group".

Cost of sales

Our Fluor Business Group's cost of sales increased 19%, from $344 million in 2016 to $412 million in 2017. This increase was primarily the result of higher sales volume and higher freight rates in our *upstream* operation.

Gross profit

As a result, our Fluor Business Group's gross earnings increased 13% to $269 million in 2017 from $238 million in 2016.

Operating expenses

Operating expenses for our Fluor Business Group increased 2% to $63 million in 2017 from $62 million in 2016. This increase was primarily the result of the cancellation of certain provisions in 2016.

Liquidity and capital resources

Liquidity

We were able to meet our liquidity needs by generating cash flows from ordinary business operations, financing through loans, and issuing debt securities listed on the Mexican Stock Exchange (BMV) or in international markets.

Liquidity Reasons	2018	2017	2016
Current assets / short-term liabilities	1.10	1.85	1.29
Current assets - inventories / short-term liabilities	0.78	1.54	0.98
Current assets / total liabilities	0.43	0.65	0.54

We have financing needs related primarily to the following objectives:

- Working capital
- Occasional payment of interest, related to current debt
- Capital investments related to our operations, construction of new plants, maintenance of facilities and plant expansion
- Funds required for the possible acquisition of companies that align with our strategy
- Payment of dividends

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

- Cash generated from the Company's operations
- Cash from short-, medium- and long-term financing
- Capital increases
- Disposals of assets, property or business of the Company

Planned sources and uses of cash

As of the date of this report, we have access to a revolving credit facility committed to an available balance of $1.5 billion with a consortium of Mexican and international banks. Additionally, on November 3, 2017, the $10 billion pesos CEBURES Program was renewed, of which we used $3 billion pesos in 2012 (maturing in 2022). With this renewal, we have the option to issue a new debt in the amount of up to an additional $7 billion pesos.

In 2018 and 2017, our operating cash flows were primarily used for acquisitions, capital expenditures (CAPEX), working capital and our debt repayment requirements. As of December 31, 2018, we had $700 million worth of cash, cash equivalents and other investments and $602 million of net working capital.

Cash Flows

Cash flows generated by (used in) operating activities

In 2018, 2017 and 2016, cash flows derived from our operating activities amounted to $1.293 billion, $1.024 billion and $718 million, respectively.

In 2018, cash flows generated by our operating activities were primarily derived from:

- $1.116 billion of income before income taxes, depreciation and amortization
- A decrease of $(98) million due to net changes in working capital
- $251 million in interest paid
- A $24 million increase in other items

In 2017, cash flows generated by our operating activities were primarily derived from:

- $933 million of income before income taxes, depreciation and amortization
- A decrease of $(129) million due to net changes in working capital
- $194 million in interest paid
- A $26 million increase in other items

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

- $736 million of income before income taxes, depreciation and amortization
- A decrease of $(166) million due to net changes in working capital
- $192 million in interest paid
- A decrease of ($44) million in other items

Cash flows generated by (used in) financing activities

In 2018, 2017 and 2016, cash flows generated by (used in) our financing activities were $(642) million, $589 million and $(219) million for 2018, 2017 and 2016, respectively.

In 2018, our principal uses of cash flows generated by (used in) financing activities consisted of:

- $(242) million in interest payments
- $(342) million in dividend payments
- $(67) million for the purchase of shares
- $168 million in net credit amounts
- $(159) million in the purchase of minority interest

In 2017, our principal uses of cash flows generated by (used in) financing activities were as follows:

- $(168) million in interest payments
- $(106) million in dividend payments
- $(5) million for the purchase of shares
- $956 million in net credit amounts

In 2016, our principal sources of cash flows generated by (used in) financing activities were as follows:

- $(190) million in interest payments
- $(54) million in dividend payments
- $9 million for the sale of shares
- $17 million in net loan amounts

Cash flows generated by (used in) investing activities

In 2018, 2017 and 2016, cash flows used in our investing activities were $(1.777) billion, $(283) million and $(508) million, respectively.

In 2018, our cash flows generated by (used in) investing activities consisted of:

- Acquisition of subsidiaries, net of cash acquired for $(1.427) billion
- The acquisition of machinery and equipment in the amount of $(283) million
- Investment in other assets and intangibles $(71) million
- The sale of machinery and equipment in the amount of $4 million.

In 2017, our cash flows generated by (used in) investing activities consisted of:

- The acquisition of machinery and equipment in the amount of $(289) million
- The sale of machinery and equipment in the amount of $6 million

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

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

Effect of gain (loss) on the exchange rate of our cash and cash equivalents.
In 2018, 2017 and 2016, the effect of the gain (loss) on the exchange rate of our cash and cash equivalents was $74 million, $(145) million and $69 million, respectively.

<u>Financial assets</u>

- On April 20, 2016, an explosion occurred at the Pajaritos Petrochemical Complex, where two of the three plants of the PMV subsidiary are located; these two plants are VCM and Ethylene. The VCM plant (Clorados III) is the one that sustained the greatest damage, with the greatest economic impact being the recognition of the loss of assets and the closure of the plant. PMV has the chlorine and soda production plant in a separate site, which did not suffer any damage to its facilities, but it did suffer a business interruption since it supplied raw material (chlorine) to the VCM plant (Clorados III) within the Pajaritos Petrochemical Complex. The direct economic impacts of this regrettable incident amounted to $320 million, itemized as follows: (i) loss of VCM plant assets of $276 million (property damage), and (ii) costs related to plant closure (third party damages/civil damages), civil liability, environmental liability, attorneys, advisors, partial dismantling, etc. for $44 million.

  In 2016, PMV obtained enough information and elements to decide to recognize accounts receivable related to insurance policies and their coverage. During 2017 and 2016, associated with the VCM plant incident, PMV recognized $283 million in revenues and accounts receivable related to property damage, damages to third parties (civil liability) and coverage of directors and officers. Of the $283 million, $260 million is related to the property damage policy which includes the following coverages: (i) damage to the VCM plant, (ii) assembly, (iii) other expenses, and

(iv) expenses that are covered by the policy related to damage control. The remaining $23 million relates to damages to third parties (civil liability) and coverage for directors and officers, which as of the date of this report have been fully recovered. In addition, PMV recognized resources from the business interruption policy for $48 million related to the VCM and ethylene plants (also covered in the property damage policy), $23 million from the chlorine and caustic soda plant and the Mexichem Resins, Compounds and Derivatives Business Group recognized $18 million for our PVC plants.

During 1Q18 PMV, an additional $2 million were recognized in its accounts receivable related to the assembly policy; therefore, the account receivable increased to $285 million and, as a result, $262 million is related to the property damage insurance policy mentioned above.

In the period between December 2016 and November 2017, PMV recovered the $23 million related to the business interruption coverage of the chlorine and soda plant, while between July 2017 and July 2018, the Resins, Compounds and Derivatives Business Group did the same with respect to the $18 million recognized for the same coverage, but in relation to the PVC plants of Altamira and Colombia.

On April 16, 2018, PMV signed an agreement with the insurance company for a total payment amount of $323 million related to: (i) $262 million related to damage to the VCM plant, assembly and other expenses covered by the damage control policy, (ii) $48 million related to the business interruption policy of the VCM and ethylene plants, mentioned above, (iii) $13 million related to other plant expenses, the latter recorded in 2Q18. During 2017 and 2018, the Company recovered $48 million and $13 million related to the items mentioned above, whereas in May 2018, the Company recovered the last tranche of the agreement signed with the related insurance companies for property damage, assembly and business interruption, which covered the assets owned by PMV within the Pajaritos Petrochemical Complex in the amount of $267.5 million and, as a result these accounts receivable, ceased to be a Financial Asset and became part of the Issuer's cash and cash equivalents.

As of December 31, 2018, all the above amounts were already covered by insurance companies.

In connection with the aforementioned agreement, the difference between the $320 million economic impact recognized in 2016 and the $285 million of accounts receivable recognized and mentioned above is mainly related to assets that were not covered by the insurance policy, since according to the adjustments made by the insurers, the difference is related to assets that were not damaged and are owned by PMV. Derived from the above, this difference is no longer part of the contingent asset.

On December 20, 2017, Mexichem announced the decision of PMV's shareholders not to rebuild its VCM production capacity. Consequently, the VCM business and the assets and liabilities associated with the production of ethylene and the ancillary services associated with VCM and ethylene were classified at that date as discontinued operations in their consolidated financial statements of income and other comprehensive income retroactively to those businesses for the years 2017, 2016 and 2015. In addition, PMV's decision not to rebuild the VCM plant resulted in the additional cancellation of $196 million related to the assets of the Ethylene plant and ancillary services related to the VCM and Ethylene plants, which are also presented as discontinued operations. Thus, all impacts and recognized revenues related to the incident at the VCM plant are presented as discontinued operations. This represents PMV's exit from the VCM and Ethylene businesses in Mexico, but not from the caustic soda business, whose plant will continue to be operated by PMV.

On July 6, 2018, Mexichem announced that in line with its strategy of consolidation in key businesses, it reached an agreement to acquire 44.09% of the shares representing Pemex's capital stock in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The amount of the operation was approximately $159.3 million, which is within the valuation ranges of comparable companies and precedent transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, which means that, as of that date, PMV is exclusively a subsidiary of Mexichem and its activity consists, as of that date, only of the operation of the caustic soda plant.

At 31 December 2018, there were no relevant Financial Assets except for those corresponding to the normal business cycle.

Contingent assets

As of December 31, 2018, there are no relevant Contingent Assets.

Contingent liabilities

- Because of the incident at the VCM plant (Clorados III), PMV conducted an environmental assessment to determine if any contaminant was deposited in surrounding areas of the plant. This assessment was submitted to the environmental authorities and work is underway to determine whether environmental damage exists. PMV may also be liable to pay damages to third parties, if any. With the information available at the date of these consolidated financial statements, there is no evidence that these liabilities are material.

- On May 16, 2017, the European Commission ("EC") initiated an inspection against Vestolit GmbH and Vesto PVC Holding GmbH (the latter merged with Vestolit GmbH), subsidiaries of the Company. The background to this inspection against Vestolit is alleged anti-competitive behavior, in interaction with other market players, related to the price fixing mechanism for ethylene in Europe. Ethylene is the raw material acquired by Vestolit to produce PVC. As of the date of issuance of this Annual Report, and given the stage of this procedure, it is not possible for the Company's management to estimate the possible impacts on its results. Mexichem is fully cooperating with the EC in its investigation.

- On September 25, 2018, Netafim's subsidiary in the United States, Netafim Irrigation Inc., was notified that on September 22, 2018, a lawsuit was filed against it in the U.S. District Court for the District of California, Fresno Division and the Eastern District of California Division. The lawsuit essentially assumes that Netafim, along with other manufacturers and distributors, participated in a group boycott of alleged violations of state and federal antitrust laws. As of the date of issuance of this Annual Report, and given the stage of this procedure, it is not possible for the Company's management to estimate the possible impacts on its results. Netafim is disputing the allegation of irregularity and continues to defend itself vigorously in this matter.

- The subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) was notified in 2016 by the Administrative Council for Economic Defense of Brazil (CADE) of alleged violations of the rules of economic competition in Brazil, committed by the subsidiary and some of its executives, from 2003 to 2009. Mexichem is fully committed to complying with local regulations in all the countries in which it operates. As of the date of the Company's consolidated financial statements included in this Annual Report, Mexichem recognized the amount of the liability that it was able to estimate reliably on that date.

  On March 27, 2018, the Issuer announced that its subsidiary Mexichem Brasil Industria de Transformação Plástica, Ltda. (formerly Amanco Brasil, Ltda.) had reached a cease and desist agreement with the Administrative Council for Economic Defense of Brazil (CADE). Likewise, the Issuer announced that such agreement was approved on that date in the session of the CADE Court pursuant to Article 10, paragraph VII, of Law No. 12529, of November 30, 2011, in compliance with the decision of the Court issued in the 116th Ordinary Judgment Session held on December 13, 2017 and, through this, CADE imposed a compensatory contribution to the Company in the amount of R$95.1 million (approximately $28 million) to be paid within 240 days from the date the agreement is published in the official gazette in Brazil. On November 29, 2018, the Company paid the fine ($25 million, less than $28 million due to variation in the exchange rate) and the matter was resolved. In addition, CADE also imposed compensatory contributions to executives who were part of the Company during the period under investigation by CADE. None of the sanctioned executives are currently part of the Company. Derived from the foregoing, as of the date of publication of this report, the foregoing is no longer part of any liability for the company.

Liquidity

Mexichem has resorted to the generation of cash flows through its normal business operation, the sale of assets, property or businesses that, for strategic reasons, it has decided to stop holding or attending, the contracting of credits and issuance of debt securities that are placed and listed on the BMV or in international markets, and capital increases from its shareholders, either through the subscription of current shareholders or through a public offering of shares in the stock market.

Liquidity Reasons	2018	2017	2016
Current assets / short-term liabilities	1.10	1.85	1.29
Current assets - inventories / short-term liabilities	0.78	1.54	0.98
Current assets / total liabilities	0.43	0.65	0.54

The Company's principal cash requirements are:

- Working capital
- Occasional payment of interest related to current debt
- Capital expenditures related to the Company's operations, construction of new plants, facility maintenance and plant expansion
- Funds required for potential acquisitions of companies that add value to the Company's strategy
- Payment of dividends

The main sources of liquidity historically have been the following:

- Cash provided by the Company's operations
- Cash from short-, medium- and long-term financing
- Capital increases
- Disposals of Company assets, property or business

Projected sources and use of cash

As of the date of this Annual Report, the Company has uncommitted short-term credit facilities with multiple banks, which are mainly used to improve its working capital. Credit facilities include short-term financing, letters of credit, factoring, among others. As of the date of this report, most of them are letters of credit for payment to raw material suppliers. It also has access to a revolving credit facility with an undrawn balance of $1.5 billion. Additionally, it has a $10 billion Mexican peso Certificate Program (renewed in November 2017 for 5 years), of which it has used $3 billion Mexican pesos, as of the date of this Annual Report, and could dispose of $7 billion Mexican pesos.

1. Obligations under finance leases

a. Lease agreements

The Entity leases some manufacturing equipment under a financial lease, with an average lease term of five years, with options to purchase the equipment for a nominal amount at the end of the lease. The obligations of the Entity derived from financial leases are guaranteed by the title of the lessors to the leased assets.

The interest rates underlying all financial lease obligations are 5.41%, 5.32% and 5.36% annual average in 2018, 2017 and 2016, respectively.

b. Financial liabilities under leases

	Minimum lease payments			Present value of minimum lease payments		
	2018	2017	2016	2018	2017	2016
Up to one year	$ 19	$ 40	$ 60	$ 18	$ 37	$ 52
Between one and three years	9	37	69	7	31	57
More than three years	12	32	23	8	8	12
	40	109	152	33	76	121
Minus future finance charges	7	33	31			
Present value of minimum lease payments	$ 33	$ 76	$ 121	$ 33	$ 76	$121

	2018	2017	2016
Included in the financial statements as:			
Short-term finance leases	$ 18	$ 37	$ 52
Long-term finance leases	15	39	69
	$ 33	$ 76	$ 121

	Present value of minimum lease payments per item 2018	Present value of minimum lease payments per item 2017	Present value of minimum lease payments per item 2016
Building	$ 8	$ 11	$ 13
Machinery and equipment	18	54	105
Office furniture and equipment	7	11	2
Transport equipment			1
	$ 33	$ 76	$ 121

Treasury Policies

Mexichem's Treasury policy is to maintain healthy finances with enough liquidity to guarantee the necessary investments in its operations that allow it to have the most efficient and modern production technology at low costs and high quality.

Due to the nature of its operations, Mexichem and its subsidiaries maintain bank and investment accounts both in local currency according to the countries it operates and in U.S. dollars.

The Company maintains its cash conditions – in the various currencies of the economies in which it operates – deposited or invested in short-term financial instruments (less than one month) and in financial institutions that meet the characteristics of high credit quality, level of liquidity and profitability. The selection of counterparties and investment instruments follows the principles of diversification, prudence, non-speculation, and the guidelines contained in the company's Code of Ethics and those established by the agreement of the Finance Committee and the Audit Committee.

Tax debts

The Company and its subsidiaries do not have any material tax liabilities in addition to those disclosed in its Financial Statements as of December 31, 2018.

Investments in capital goods

Recently, Mexichem has made and plans to continue making significant capital investments related to production capacities, environmental care, efficiency, and modernization. For example, during the years 2018, 2017 and 2016, the Company invested $283 million, $289 million and $414 million, all of which included investments made through the Company's partnerships with Oxy in Ingleside, with Kibbutz Hatzerim in Netafim and the one it held until November 16, 2018, and with PEMEX in PMV. Expansion and improvement works are also planned for other existing facilities. Additionally, during 2018, 2017 and 2016, the Company has made capital investments through the acquisition of other companies. The investments made, including those of 2018, were:

2018

- Acquisition of Sylvin Technologies Ltd. On January 22, 2018, Mexichem announced the acquisition of Sylvin Technologies Inc., a PVC compound manufacturer based in Denver, Pennsylvania, for $39 million free cash flow and debt. Sylvin recorded total sales of $29 million in 2017. The company has a 30-year history serving a wide range of industries including: cable, electrical, industrial, automotive, medical, and food products. Mexichem consolidates Sylvin in the Vinyl Business Group, under the Compounds Business Group.

- Completion of Netafim acquisition - On February 7, 2018, Mexichem announced that it completed the acquisition of an 80% interest in Netafim, Ltd. (Netafim), a company backed by the Permira Fund, after all governmental authorizations and prior conditions required by the Share Purchase Agreement had been obtained. Netafim is a privately-owned Israeli company, leader in micro irrigation solutions. The total value of the company in the transaction was $1.895 billion. Kibbutz Hatzerim will retain the remaining 20% of Netafim's share capital. Mexichem financed the acquisition with a combination of cash and debt. The completion of this transaction represents a significant step forward in Mexichem's long-term strategy to condition itself as a world leader in specialized products and solutions serving high-growth markets. As of this date, the financial statements of Netafim will be consolidated in the financial statements of Mexichem. The acquisition was primarily financed as follows: (i) cash for $241 million, (ii) new short-term loan for $200 million, and (iii) cash flows from the issuance of a long-term bond for $985 million. Mexichem consolidates the financial statements of Netafim in the Fluent Business Group.

- Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV) - On July 6, 2018, Mexichem announced that in line with its key business consolidation strategy, it reached an agreement to acquire 44.09% of the shares representing Pemex's capital stock in Petroquímica Mexicana de Vinilo, S.A. de C.V. (PMV), through its subsidiary PPQ Cadena Productiva S.L., after approval by the Boards of Directors of both Pemex and Mexichem. The transaction amount is approximately $159.3 million, which is within the valuation ranges of comparable companies and precedent transactions in the petrochemical sector. Mexichem completed the acquisition on November 16, 2018, which means that, as of that date, PMV is exclusively a subsidiary of Mexichem and its activity consists only of the operation of the caustic sodaplant.

2017

- Acquisition of Netafim - In August 2017, Mexichem Soluciones Integrales Holding, S.A. de C.V. (MSIH), a subsidiary of Mexichem, reached an agreement to acquire: i) voting shares representing 80% of the subscribed and paid-in capital stock, ii) all non-voting shares representing approximately 0.4% of the subscribed and paid-in capital, both of Netafim, and iii) certain loans granted by some of the shareholders of Netafim, Bluedrip S.ar.l, and Netafim Hatzerim Holdings, Cooperative Association Limited, in favor of Netafim.

2016

- Purchase of Vinyl Compounds Holdings Ltd. On November 25, 2016, Mexichem announced the acquisition in the UK of Vinyl Compounds Holdings Ltd. (VCHL), a leading supplier of PVC compounds serving a wide range of industries including building and construction, pipe and profile manufacturing, footwear and consumer goods. Derbyshire-based PVC composite manufacturer VCHL generates annual revenues of approximately $40 million. Mexichem consolidated VCHL's operations under its Compounds Business Group, a leading supplier of PVC compounds that serves the global market and is part of the Vinyl Business Group. This acquisition had a value of £24 million paid in cash.

- Acquisition of Gravenhurst Plastics Ltd. (GPL). On October 18, 2016, the Company announced the acquisition of Gravenhurst Plastics Ltd. (GPL) in Timiskaming, Ontario, Canada, to reinforce the global growth model in value-added specialty products. GPL provides conducting high density polyethylene (HDPE) and for inner ducts for fiber optics, as well as construction products in the Canadian market. The GPL financial statements are consolidated in the Fluent Business (Datacom - DuraLine or Fluent U.S/Canada and Fluent AMEA,). This acquisition had a value of $13 million paid in cash.

Acquisition Financing

The acquisitions carried out during 2018, 2017 and 2016 were financed by:

- **Sylvin Technologies (2018).** The acquisition was financed with our own resources.

- **Netafim (2018).** The acquisition was primarily financed as follows: (i) cash for $241 million, (ii) new short-term loan for $200 million, and (iii) cash flows from the issuance of a long-term bond for $985 million. On September 27, 2017, Mexichem successfully completed the $1.0 billion 144A / Reg S bond offering. The offering consists of two tranches: $500 million of 4.00% fixed rate bonds due October 2027 and $500 million of 5.50% fixed rate bonds due January 2048. The proceeds of the offering were used primarily to finance the acquisition of Netafim, L.T.D. (Netafim). On December 20, 2017, Mexichem announced that it has signed a credit facility with BBVA Bancomer of up to $200 million at a rate of Libor plus 80.5 bps at 12 months. The resources from this credit facility were used to complete the acquisition of Netafim.

- **PMV (2018).** The acquisition was financed with our own resources.

- **Vinyl Compounds Holdings:** The purchase price was £24 million, equivalent to $30 million, and was financed with our own resources.

- **Gravenhurst Plastics:** The acquisition price was $13 million and was financed with our own resources.

See Section 2, "The Issuer", item 4, "Historical Events", of this Annual Report. Public Offers for more information on other financing of the Issuer.

Research and development

The Company's ability to compete in the Mexican and foreign markets depends on its ability to integrate new production processes and new products acquired and developed by third parties prior to their acquisition in order to reduce costs and increase the profitability of business acquisitions. Mexichem has 19 development and research centers, as well as eight training centers for the development of these activities.

Relevant Transactions not recorded in the Balance Sheet and Income Statement

As of the date of this Annual Report, the Company has no material transactions not recorded in the Balance Sheet or Income Statement. As has happened in the case of the purchase of companies whose final acquisition is subject to the approval of competition authorities, in the future it may be possible to verify whether the Company has signed and made payments by companies or groups of companies, some of which cannot be consolidated until the relevant approvals have been obtained.

For further information on the restriction agreed with the subsidiaries to transfer resources to the issuer, level of indebtedness, financial ratios, among other information on the profile of the debt contracted, *see Section 3, "Financial Information", paragraph c, "Relevant Credit Report", as well as paragraph "d) Management's Comments and Analysis of the Issuer's Operating Results and Financial Condition".*

i) Operating Results

For further information, see Section 3, "Financial Information", paragraph c, "Report on Significant Credits", as well as paragraph d, "Management's Comments and Analysis on the Issuer's Results of Operations and Financial Condition" of this Annual Report.

i. Internal control

Mexichem's bylaws provide for the existence of the Audit and Corporate Practices Committees, intermediate corporate bodies constituted in accordance with Applicable Legislation in order to assist the Board of Directors in the performance of its duties. Through the aforementioned committees and the External Auditor, reasonable assurance is given that the transactions and acts performed by the Company are executed and recorded in accordance with the terms and parameters established by the Board of Directors and the governing bodies of Mexichem, by Applicable Legislation, and by the different general guidelines, criteria, and applicable financial reporting standards (IFRS).

Corporate Governance

Mexichem is governed by corporate governance principles that frame its operations and sustain its results. As a public company listed on the Mexican Stock Exchange (BMV), we adhere to Mexican law and, specifically, to the Securities Market Law. We also adhere to the principles set forth in the Best Corporate Practices Code, endorsed by the Business Coordinating Council.

The Board of Directors relies on the Audit and Corporate Practices Committees, whose members, including its Chair, must be independent directors, to determine its corporate strategy, define and supervise the implementation of the values and vision that identify us, as well as to approve transactions between related parties and those carried out in the ordinary course of business, and in accordance with its by-laws.

For more information, see Sustainability Report.

Audit Committee

The functions of the Audit Committee include the following: evaluate the company's internal control and internal audit systems to identify any material deficiencies; follow up on corrective or preventive actions taken in the event of non-compliance with operational and accounting guidelines and policies; evaluate the performance of external auditors; describe and evaluate the non-audit services of external auditors; review the company's financial statements; evaluate the effects of any changes in accounting policies approved during the fiscal year; follow up on actions taken in relation to observations by shareholders, directors, relevant executives, employees or third parties on accounting, internal control systems and internal and external auditing, as well as on any complaints related to irregularities in management, including anonymous and confidential methods for handling reports expressed by employees; monitor compliance with the resolutions of the general meetings of shareholders and the Board of Directors.

Corporate Practices Committee

The Corporate Practices Committee is responsible for evaluating the performance of the relevant directors and reviewing the compensation granted to them; reviewing transactions between related parties; evaluating any dispensation granted to the directors or relevant directors to take advantage of business opportunities; and carrying out the activities provided for in the Securities Market Law.

Information for investors

The fundamental objective is to ensure that shareholders and investors have sufficient information to be able to evaluate the performance and progress of the organization; to this end, there is an area in charge of maintaining open and transparent communication with them. That is why we have a defined contact; there is a section in Mexichem's website with all the information that the investing public requires to make investment decisions. Likewise, the Bank's shareholders have various mechanisms for communicating their opinions, doubts or concerns to the Board of Directors through:

1) Shareholders' Meeting
2) Investor Relations Area
3) Conferences in which the Company participates, the presentation of which can be found on Mexichem's website.
4) Meetings with analysts, banks, shareholders, investors, rating agencies and financial market participants

The Company has several subsidiaries that are required to comply with all the provisions established for each of its different areas of operation. These guidelines pursue the following purposes:

- Protect and increase the wealth of investors
- Issuing reliable, timely and reasonable information
- Delegate authority and assign responsibilities for the achievement of goals and objectives
- Detail the business practices in the organization
- Provide administrative control methods that help to supervise and monitor compliance with policies and procedures

There are defined controls for the following areas:

Marketing: policies related to marketing

Operation: guidelines for the human resources, treasury, accounting, legal, tax, and information technology departments, among others.

The following is a brief description of some of the most important Internal Control Policies and Procedures:

Human Resources

The Company relies on the knowledge, experience, motivation, aptitudes, attitudes and skills of its human resources to achieve its objectives. In this regard, it has policies and procedures that regulate the recruitment, selection, hiring and induction of all personnel, as well as their training, promotion, compensation and assistance. It also includes aspects relating to the control of leave, benefits and payment of salaries. These guidelines comply with current legal provisions and seek to increase the Company's efficiency and productivity.

Treasury

It includes the procedures and mechanisms to capture, protect and disburse the financial resources necessary for the optimal operation of the Company, including credits, loans, leases, debt issues, financial and market risk hedging, sales, payment and transfer collections, intercompany financing, etc. It also deals with the procedures and policies for the control of credit to our customers and accounts receivable generated by forward sales, i.e., the origin, management and recording of collection. These policies also include procedures for the administration and recording of accounts payable from suppliers of goods and services purchased by the Company. The procedures include regulations for the various means of payment and collection (checks, electronic transfers, etc.) defining the necessary internal authorization schemes and supporting documentation. Finally, the Treasury is also primarily responsible for relations with all credit institutions, banking institutions and financial creditors.

Mexichem's Treasury policy is to maintain sound finances with sufficient liquidity to guarantee the continuity of day-to-day operations, as well as the necessary investments in the acquisition, improvement, or maintenance of assets that allow it to have the most efficient and modern production technology at low costs and high quality.

Due to the nature of its operations, Mexichem and its subsidiaries maintain bank and investment accounts both in local currency -according to the countries it operates- and in U.S. dollars.

Suppliers

The acquisition of raw materials related to operating processes is carried out on the basis of authorized budgets and programs. These policies allow the Company's purchases to be made at a competitive price and favorable conditions of quality, timeliness of delivery and service, quoting at least three different options. Authorization and responsibility levels are defined for each purchase transaction.

Systems

Mexichem has information systems in the different regions and countries in which it operates, mainly supported by Enterprise Resource Planning (ERP) systems that support the different operational processes of each business. Mexichem's Systems area is responsible for operating these information platforms, with the principles of operational continuity and information security, which determines local and corporate policies and procedures in the different countries in which the organization operates.

Mexichem has policies and procedures that promote the correct use and safeguarding of systems, computer programs, and information relevant to the organization. The organization has support staff and / or a help desk for the attention of reports on failures or service requirements to equipment and systems which allows the staff to perform their daily activities with minimum setbacks.

e) Critical accounting estimates, provisions or reserves

In applying accounting policies, the Company's management must make judgments, estimates and assumptions about certain amounts of assets and liabilities in the consolidated financial statements. The estimates and associated assumptions are based on experience and other factors that are relevant. Actual results could differ from those estimates.

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

The critical accounting judgments and key sources of uncertainty in applying the estimates made at the date of the consolidated financial statements, and which have a significant risk of resulting in an adjustment to the carrying amounts of assets and liabilities during the subsequent financial period are as follows:

a. The Company reviews the estimated useful lives of property, machinery and equipment at the end of each annual period. Based on detailed analyses, Mexichem's management makes modifications to the useful life of certain components of property, machinery, and equipment. The degree of uncertainty related to estimates of useful lives is related to changes in the market and the use of assets for production volumes and technological developments.

b. In performing impairment tests on assets, the Issuer requires estimates of the value in use assigned to its property, machinery and equipment and, in the case of certain assets, to cash-generating units. The value in use calculations require the Company to determine the future cash flows that should arise from the cash-generating units and an appropriate discount rate to calculate the present value. The Issuer uses projections of revenue cash flows using estimates of market conditions, pricing, and production and sales volumes.

c. Mexichem uses estimates to determine inventory and accounts receivable reserves. The factors considered in inventory reserves are production and sales volumes and movements in demand for certain products. The factors considered in the estimation of credit impairment for accounts receivable is mainly the estimation of expected losses of unsecured accounts, which consists of observing the growth of the client's total exposure within its credit facility.

d. The Company periodically evaluates estimates of its ore reserves (fluorite and salt), which represent the estimate with respect to the unexploited amount remaining in the mines it owns, which can be produced and sold at a profit. These estimates are based on engineering evaluations derived from samples and combined with assumptions about market prices and production costs at each of the respective mines. The Company updates the ore reserve estimate at the beginning of each year.

e. Discount rate used to determine the carrying value of Mexichem's defined benefit obligation. The defined benefit obligation is discounted at an established rate in the market rates of high-quality government and corporate bonds at the end of the reporting period. Professional judgement is required when establishing the criteria for the bonds to be included over the population from which the yield curve is derived. The most important criteria they consider for bond selection include the size of the issue of government and corporate bonds, their rating, and the identification of the atypical bonds that are excluded.

f. The Company is subject to contingent transactions or events upon which it uses professional judgment in the development of estimates of probability of occurrence. The factors 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 Ingleside Ethylene LLC - Note 4c mentions that Ingleside Ethylene LLC is a 50%-owned subsidiary of Mexichem. Based on the agreements with the other investor, Mexichem makes decisions regarding control of its production and sale.

h. The Issuer makes financial projections of each legal entity in which it has control in order to determine whether the tax assets may be used in the future, the tax loss carryforwards. Based on these projections, tax losses are capitalized or reserved in each jurisdiction where the Entity operates.

Summary of significant accounting policies

a. *Statement of Compliance*

Mexichem's consolidated financial statements have been prepared in accordance with the IFRS issued by the International Accounting Standards Board. The standards comprise various provisions known as IFRS, IAS, IFRIC and SIC.

b. *Basis of measurement*

The Issuer's consolidated financial statements have been prepared on a historical cost basis, except for certain long-term assets and financial instruments valued at their fair values at the end of each period, as explained in the accounting policies included below.

i. Historical cost

The 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 defined as the price that would be received for selling an asset or that would be paid for transferring a liability in an orderly transaction between market participants at the valuation date regardless of whether that price is observable or estimated using another valuation technique directly.

When estimating the fair value of an asset or liability, the Company considers the characteristics of the asset or liability as if market participants took those characteristics at the time of pricing the asset or liability at the measurement date.

The fair value for measurement and/or disclosure purposes of these consolidated financial statements is determined such that, except for share-based payment transactions that are within the scope of IFRS 2, lease transactions that are within the scope of IAS 17 and modifications that have some similarities to fair value, but are not fair value, such as the net realizable value of IAS 2 or the value in use of IAS 36. [Translator's note: as in original]

In addition, for financial reporting purposes, fair value measurements are classified as Level 1, 2 or 3 based on the extent to which the inputs to the measurements are observable and their importance in determining fair value in its entirety, which are described as follows:

- Level 1 Quoted prices in an active market are considered for identical assets or liabilities that the Issuer can obtain at the valuation date;
- Level 2 Observable input data other than quoted prices in Level 1, either directly or indirectly,
- Level 3 Considers unobservable input data.

c. ***Basis of the consolidated financial statements***

The consolidated financial statements include those of Mexichem, S.A.B. de C.V. and those of its direct and indirect subsidiaries in which it has control. Control is obtained when Mexichem:

- Has power over investment
- Is exposed to, or has the rights to, the variable returns arising from its ownership interest in the entity and
- Has the ability to affect such returns through its power over the entity in which it invests

Mexichem reassesses whether it has control over an entity in cases where facts and circumstances indicate that there are changes to one or more of the three control elements listed above.

When Mexichem has less than most of the voting rights of an investee, it considers that it has power over the investee when the voting rights are enough to grant it the practical capacity to unilaterally direct its relevant activities. Mexichem considers all relevant facts and circumstances to evaluate whether Mexichem's voting rights in an investee are enough to grant it power, including:

- The percentage of Mexichem's interest in the voting rights in relation to the percentage and the dispersion of the voting rights of the other holders thereof
- Potential voting rights held by Mexichem, other shareholders, or third parties
- Rights under other contractual agreements and
- All additional facts and circumstances that indicate that Mexichem has, or does not have, the current ability to direct the relevant activities at the time decisions are to be made, including voting trends of shareholders at previous meetings

Subsidiaries are consolidated from the date on which control is transferred to Mexichem and cease to be consolidated from the date on which control is lost. Gains and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of income and other comprehensive income from the date of acquisition or until the date of sale.

Profit and each component of other comprehensive income are attributed to controlling and non-controlling interests. Comprehensive income is attributed to controlling and non-controlling interests even if it results in a deficit in the latter.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with Mexichem's accounting policies.

All balances and transactions between Mexichem’s entities have been eliminated in the consolidation.

Changes in Mexichem's interests in existing subsidiaries

Changes in investments in Mexichem's subsidiaries that do not result in a loss of control are recorded as equity transactions. The carrying value of the Company's investments and non-controlling interests is adjusted to reflect changes in the related investments in 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 stockholders' equity and is attributed to the owners of Mexichem.

When the Issuer loses control of a subsidiary, the gain or loss on disposal is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any retained interests and (ii) the prior carrying amount of the subsidiary's assets (including goodwill) and liabilities and any non-controlling interest. Amounts previously recognized in other comprehensive income items relating to the subsidiary are recorded (i.e., reclassified under income or transferred directly to other stockholders' equity items as specified/allowed by applicable IFRS) in the same manner as established for the disposal of the relevant assets or liabilities. The fair value of any investment retained in the subsidiary at the date control is lost is the fair value for initial recognition under IAS 39 or, as the case may be, the cost at initial recognition of an investment in an associate or joint venture.

d. ***Recognition of the effects of inflation -***

The Company recognizes the effects of inflation in hyperinflationary economies; that is, where the compound inflation of the last three years is greater than 100%. In 2018, 2017 and 2016. Mexichem recognized the effects of inflation on its Venezuelan operation. During 2018, Argentina's operation became a hyperinflationary economy.

e. ***Transactions in foreign currency -***

The individual financial statements of each subsidiary of Mexichem are presented in the currency of the primary economic environment in which the subsidiary operates (its functional currency). In order to consolidate the financial statements of foreign subsidiaries, they are converted from the functional currency into U.S. dollars (reporting currency), considering the following methodology:

Transactions whose recording and functional currency is other than the U.S. dollar convert their financial statements using the following exchange rates: (i) closing rates for assets and liabilities and (ii) historical rates for stockholders' equity and (iii) monthly average for revenues, costs and expenses. Translation effects are recorded in other comprehensive income. Exchange rate differences arising from financial instrument items that are initially recognized in other comprehensive income are reclassified from stockholders' equity under gains or losses when selling all or part of the net investment. Non-monetary items carried at fair value denominated in a foreign currency are converted at the exchange rates prevailing at the date the fair value was determined. Non-monetary items calculated in terms of historical cost, in foreign currency, are not reconverted.

When the foreign entity operates in a hyperinflationary environment, it first restates its financial statements in relation to the purchasing power of the local currency at year-end using the consumer price index of the country of origin, and then converts them using the official closing exchange rate for all items. The Venezuelan operation has been restated at the official annual inflation rate of 1,698,484%, 2,616% and 499.5% for the years 2018, 2017 and 2016, respectively. In order to convert the 2018 figures, the Company determined a theoretical exchange rate that is related to the effects of inflation and that allows balancing them. As of December 31, 2017, and 2016, the official exchange rate of 3,345.00 and 673.76 bolivars per dollar, respectively, was used. A summary of the principal items in the financial statements of this operation is shown below:

Venezuela

	2018	2017	2016
Total Assets	$ 17	$104	$ 26
Stockholders' equity	$ 11	$ 69	$ 16
Net sales	$ 3	$ 31	$15
Net income	$5	$ 40	$ 9

During 2018, Argentina's operation became a hyperinflationary economy since its compound inflation of the last three years is higher than 100% and therefore has been restated with the official annual inflation rate of 47.86%. As of December 31, 2018, 2017 and 2016, the official exchange rate of 37.70, 18.65 and 15.89 Argentine pesos per dollar, respectively, was used to convert their figures. A summary of the principal items in the financial statements of this operation is shown below:

Argentina

	2018	2017	2016
Total Assets	$ 21	$ 26	$ 43
Stockholders' equity	$ -	$ 4	$ 19
Net sales	$ 34	$ 45	$ 36
Net loss	$ (5)	$(3)	$(1)

Exchange rate differences are recognized in the profit or loss for the period, except for exchange rate differences arising from loans denominated in foreign currencies related to construction assets eligible for capitalizing interest, which are included in the cost of such assets when considered as an adjustment to interest costs on such loans denominated in foreign currencies.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of that operation and are converted at the closing exchange rate.

Transactions in foreign currency are recorded at the exchange rate prevailing on the date of the transaction. Monetary assets and liabilities in foreign currency are valued in functional currency at the exchange rate in effect at the date of the financial statements. Exchange rate fluctuations are recorded in the results of operations.

When several exchange rates are available, the exchange rate at which future cash flows can be settled is used.

f. ***Cash and cash equivalents -***

These consist primarily of bank deposits in checking accounts and investments in short-term, highly liquid securities, easily convertible into cash. Cash is presented at nominal value and equivalents are valued at fair value.

g. ***Inventories*** -

These are stated at the lower of their acquisition cost or net realizable value (estimated selling price less all costs necessary for the sale). They are valued through average costs including the cost of materials, direct expenses and an appropriate portion of fixed and variable indirect costs, which are incurred in their transformation. Reductions to the value of inventories are composed of reserves representing inventory impairment.

h. ***Assets held for sale*** -

Long-lived assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale rather than through continuing use. This condition is considered to have been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its current condition subject only to common terms of sale of those assets. Management must be committed to the sale, which must qualify for recognition as a sale completed within one year from the date of classification.

When the Company is committed to a sale plan that involves the loss of control in a subsidiary, all assets and liabilities of that subsidiary are classified as available 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 Mexichem is committed to a sale plan that involves the decondition of an investment: on the one hand, of an investment in an associate or joint venture, the investment or part of the investment that will be disposed of is classified as held for sale, when the criteria described above are met, and the Issuer discontinues the use of the equity method with respect to the part that is classified as held for sale. Any retained interest in an investment in an associate or joint venture that has not been classified as held for sale continues to be recognized using the equity method. The Company discontinues the equity method at the time of disposal, when as a result of the disposal it loses significant influence over the associate or joint venture (see definition of significant influence in Note 4l).

After disposal, it accounts for any retained interest in the associate or joint venture in accordance with IAS 39, unless the retained interest remains an associate or joint venture, in which case it uses the equity method (see accounting policy for investments in associates or joint ventures).

Long-lived assets (and disposal groups) classified as held for sale are valued at the lower of their carrying amount and the fair value of the assets less costs to sell.

i. ***Property, machinery and equipment***

These are recorded at acquisition cost less cumulative depreciation or cumulative impairment losses.

Borrowing costs 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 resources received from sales and the book value of the asset and is recognized in the income statement.

Properties under construction for production purposes are recorded at cost less any recognized impairment loss. The cost includes professional fees, and, in the case of qualifying assets, loan costs capitalized in accordance with Mexichem's accounting policy. Depreciation of these assets, as in other properties, begins when the assets are ready for their planned use.

Depreciation is recognized and recorded under income considering the cost of the same, other than land and projects in process, over their useful lives using the straight-line method. The estimated useful life, residual value and depreciation method are reviewed at the end of each year, and the effect of any change in the recorded estimate is recognized on a prospective basis.

The average remaining useful lives of real estate, machinery and equipment are:

	Years
Building and constructions	19
Machinery and equipment	9
Office furniture and equipment	4
Transport equipment	4 to 16

j. ***Leases –***

Until 31 December 2018, leases are classified as finance leases when the terms of the lease substantially transfer all the risks and benefits of ownership to the lessees, these assets are of such a specific nature that only the lessee can use them without making substantial modifications, or the lease has most of the economic life of the asset. All other leases are classified as operating.

Assets held under finance leases are recognized as assets of the Company at their fair value at the inception of the lease or, if less, at the present value of the minimum lease payments.

The lease payments are apportioned between the financial charges and the reduction of lease obligations in order to achieve a constant interest rate on the remaining balance of the liability. Financial expenses are charged directly to income, unless they can be directly attributed to qualifying assets, in which case they are capitalized in accordance with the Issuer's general policy for borrowing costs. Contingent rent is recognized as an expense in the periods in which it is incurred.

Rental payments for operating leases are recorded under income using the straight-line method over the lease term, unless another systematic basis for distribution is more representative because it more appropriately reflects the pattern of the benefits of the lease to the user. Contingent rent is recognized as an expense in the periods in which it is incurred.

k. ***Borrowing costs -***

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that require a substantial period of time until they are ready for use, are added to the cost of those assets during that time until they are ready for use. Income obtained from the temporary investment of specific loan funds pending use in qualifying assets is deducted from the cost of the qualifying assets to be capitalized. All other borrowing costs are recognized in earnings during the period in which they are incurred.

l. ***Investment in shares of associates and others -***

An associate is an entity over which significant influence is exercised and is initially recognized at the fair value of the entity's identifiable assets and liabilities at the date of incorporation or acquisition. In the event of indications of impairment, investments in associates are tested for impairment.

Significant influence is the power to participate in decisions regarding the financial and operating policies of the investee but does not imply joint control or joint control over those policies.

After initial recognition, the comprehensive income of associates, as well as the distribution of earnings or capital reimbursements are incorporated into the consolidated financial statements using the equity method, except if the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations. When Mexichem's share of the associate's losses exceeds the value of the investment, recognition of its share of such losses is discontinued. Additional losses are recognized until Mexichem has the legal obligation to cover payments on behalf of its associate.

An investment in an associate or joint venture is accounted for using the equity method from the date on which the investee becomes an associate or joint venture. In the acquisition of an investment in an associate or joint venture, the excess of the acquisition cost over Mexichem's interest in the net fair value of the identifiable assets and liabilities in the investment is recognized as goodwill, which is included in the carrying value of the investment. Any excess of the Issuer's interest in the net fair value of the identifiable assets and liabilities in the acquisition cost of the investment, after revaluation, after revaluation, is immediately recognized in the results of the period in which the investment was acquired.

The requirements of IAS 39 apply to determine whether it is necessary to recognize an impairment loss with respect to the Company's investment in an associate or joint venture. When necessary, the total carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset, comparing its recoverable amount (higher of value in use and fair value less cost to sell) against it carrying amount. Any recognized impairment loss is part of the carrying amount of the investment. Any reversal of such impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Issuer discontinues the use of the equity method from the date on which the investment ceases to be an associate or joint venture, or when the investment is classified as held for sale. When the Company holds an interest in a former associate or joint venture, the retained investment is measured at fair value at that date and is considered fair value at the time of initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date when the equity method was discontinued and the fair value attributable to the retained interest and the gain on the sale of a portion of the 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, it 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 such associate or joint venture would have been reclassified to the income statement upon decondition of the related assets or liabilities, the Company reclassifies the gain or loss from equity to the income statement (as a reclassification adjustment) when the equity method is discontinued.

Investments in associates in 2018, 2017 and 2016 correspond to 40% of GF Wavin AG (Switzerland) and 25% of Salzg. Westfalen GmbH (Germany) equivalent to $35 million, $31 million and $31 million in those years and an associate's share of $4 million, $2 million and $3 million, respectively.

Interests in joint ventures

A joint venture is an arrangement whereby the parties have joint control of the arrangement and thus have the right to the assets and liabilities for the liabilities related to the arrangement. Joint control is the contractual agreement to share control of a business, which exists only when decisions about relevant activities require the unanimous approval of the parties sharing control.

When a Company entity carries out its activities in a framework of joint operations, the Entity as a joint operator acknowledges in connection with its participation in a joint operation:

-Its assets, including its share of the assets held jointly
-Its liabilities, including its share of the liabilities incurred jointly
-Its revenues from the sale of its share of the production derived from the joint venture
-Its share of the proceeds from the sale of the production in the joint venture
-Its expenses, including its share of the expenses incurred jointly

The Issuer accounts for assets, liabilities, income and expenses related to its participation in a joint venture in accordance with the IFRS applicable to assets, liabilities, income and expenses.

When a Company entity enters into transactions with a joint venture in which it participates (such as a sale or contribution of assets), Mexichem is considered to be entering into the transaction with the other parties to the joint venture, and the gains and losses resulting from the transactions are recorded in the consolidated financial statements only to the extent of the interests of the other parties to the joint venture.

When an entity of the Issuer enters into transactions with a joint venture in which a Mexichem entity is a joint operator (e.g., a purchase of assets), the Company does not recognize its share of the results until it resells those assets to a third party.

m. ***Intangible assets -***

Corresponds to non-competition contracts, use of trademarks, intellectual property and client portfolio. Intangible assets with finite useful lives are depreciated using the straight-line method over the estimated economic life of each asset, those with indefinite useful lives are not depreciated, but are tested for impairment annually, or more frequently if there is any indication that their value might have been impaired. The estimated useful life, residual value and amortization method are reviewed at the end of each year, and the effect of any change in the recorded estimate is recognized on a prospective basis.

Intangible assets acquired in a business combination are recognized separately from goodwill; their cost is their fair value at the acquisition date. Subsequently, an intangible asset acquired in a business combination is recognized at cost, which is the fair value at the acquisition date less any cumulative amortization and any cumulative impairment losses, on the same basis as separately acquired intangible assets.

n. ***Government grants -***

Government subsidies are not recognized until there is reasonable assurance that the Issuer will comply with the relevant conditions, and that the subsidies will be received.

Government grants whose principal condition is that the Company purchase, build or otherwise acquire long-term assets are recognized as a deduction from the carrying amount of the assets to which they relate.

o. ***Goodwill -***

Goodwill arising from the acquisition of a business is recognized at cost as determined at the date of acquisition of the business less cumulative impairment losses, if any.

For purposes of assessing impairment, goodwill is allocated to each cash-generating unit (or groups of cash-generating units) of the Issuer, which is expected to benefit from the synergies of the combination.

Cash generating units to which goodwill has been assigned are tested for impairment annually or more frequently when there are indications that the unit may be impaired. If the recoverable amount of a cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill assigned to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset within the unit. Any impairment loss on goodwill is recognized directly in earnings. A goodwill impairment loss is not reversed in subsequent periods.

Upon decondition of the relevant cash-generating unit, the amount of goodwill attributable is included in the determination of the gain or loss at the time of decondition.

Mexichem's policy for goodwill arising from the acquisition of an associate is described in Note 4l.

p. ***Impairment of property, plant and equipment and intangible assets excluding goodwill -***

At the end of each period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that these assets have sustained any impairment loss. If there is any indication is found, the recoverable amount of the asset is calculated to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, Mexichem estimates the recoverable amount of the cash-generating unit to which that asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to the individual cash-generating units, or otherwise they are allocated to the smaller group of cash-generating units for which a reasonable and consistent basis of allocation can be identified. Intangible assets with an indefinite useful life are tested for impairment at least annually, provided there is an indication that the asset may have been impaired.

The recoverable amount is the greater of fair value less cost to sell and value in use. In assessing value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the specific risks of the asset for which 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. Impairment losses are recognized in income.

Subsequently, when an impairment loss is reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimated fair value at its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for that asset (or cash-generating unit) in prior years. The reversal of an impairment loss is immediately recognized in earnings.

q. ***Business combinations*** -

These are the transactions or other events by means of which assets are acquired and liabilities that constitute a business are assumed. Business acquisition is posted using the acquisition method. The consideration transferred for each acquisition is measured at fair value at the acquisition date and the net assets and liabilities acquired. Acquisition-related costs are recognized in earnings as incurred.

The identifiable assets, liabilities and contingent liabilities of the acquire that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognized at fair value at the acquisition date, except that:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and valued in accordance with IAS 12 Income Tax and IAS 19 Employee Benefits, respectively,
- The liabilities or equity instruments related to the Issuer's replacement of the acquirer's share-based payment incentives are valued in accordance with IFRS 2 Share-based Payment, and
- Assets (group of assets for sale) that are classified as held for sale in accordance with IFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations" are valued in accordance with such Standard.

Goodwill is measured as the excess of the sum of the transferred consideration, the amount of any non-controlling interest in the acquired company, and the fair value of the acquirer's previous ownership interest in the acquired company (if any) over the net amount of identifiable assets acquired and liabilities assumed at the acquisition date. If, after a revaluation, the net amount of identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquired company and the fair value of the acquirer's previous shareholding in the acquired company (if any), the excess is immediately recognized in the consolidated statement of income as a gain on purchase at bargain price.

Non-controlling interests that are equity interests and give their holders a pro rata share of the net assets of the Company in the event of liquidation may be measured initially either at fair value or at the value of the pro rata share of the non-controlling interest in the recognized amounts of the identifiable net assets of the acquired company. The measurement basis option is performed on each transaction. Other types of non-controlling interests are measured at fair value or, when applicable, based on what is specified by another IFRS.

If initial recognition of a business combination has not been completed by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for items for which recognition is incomplete. During the valuation period, the acquirer recognizes adjustments to provisional amounts or recognizes additional assets or liabilities necessary to reflect new information obtained about events and circumstances that existed at the acquisition date and, if known, would have affected the valuation of amounts recognized at that date.

The valuation period runs from the acquisition date until full information is obtained on the facts and circumstances that existed at the acquisition date, which is subject to a maximum of one year.

If the acquisition consideration includes any asset or liability arising from a contingent consideration arrangement, valued at its fair value at the acquisition date, subsequent changes in such fair value are adjusted against the acquisition cost when these are classified as valuation period adjustments. All other changes in the fair value of the contingent consideration classified as an asset or liability are re-measured at subsequent reporting dates in accordance with IAS 39, or IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the related gain or loss recognized in the income statement. Changes in the fair value of the contingent consideration classified as equity are not recognized.

In the case of a phased purchase business combination, the Entity's prior investment in the acquirer's capital is written off at fair value at the acquisition date (i.e., the date on which the Company obtains control) and the resulting gain and/or loss, if any, is recognized in earnings. Amounts resulting from an equity interest in the acquire prior to the acquisition date that had previously been recognized in earnings are reclassified to profit or loss, provided that such treatment would be appropriate if the equity interest is sold.

r. ***Financial instruments -***

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability (other than financial assets and financial liabilities that are recognized at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, if any, at initial recognition. Transaction costs directly attributable to the acquisition of financial assets or liabilities that are recognized at fair value through profit or loss are recognized immediately in the income statement for the year.

s. ***Financial assets -***

All regular purchases or sales of financial assets are recognized and derecognized on a trading date. Regular purchases or sales are purchases or sales of financial assets that require the delivery of assets within the timeframe established by regulation or normal market practices.

All recognized financial assets are subsequently measured in full, either at amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are subsequently measured at amortized cost:

- if the financial asset is held in a business model whose objective is to hold financial assets with the objective of obtaining contractual cash flows, and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are only payments of principal and interest on the principal amount.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income:

- the financial asset is maintained within a business model whose objective is met by obtaining contractual cash flows and selling financial assets, and
- the contractual terms of the financial asset give rise, on specific dates, to cash flows that are only payments of principal and interest on the outstanding amount of principal.

By default, all other financial assets are subsequently measured at fair value through profit or loss.

Amortized cost and effective interest method

The effective interest method is a method for calculating the amortized cost of a debt instrument and allocating interest income during the relevant period.

For financial assets that were not purchased or originated by credit-impaired financial assets (for example, assets that have credit impairment on initial recognition), the effective interest rate is the rate that exactly discounts expected future cash inflows (including all commissions and points paid or received that are an integral part of the effective interest rate), transaction costs and other premiums or discounts) excluding expected credit losses over the expected life of the debt instrument or, as appropriate, a shorter period, the gross carrying amount of the debt instrument at initial recognition. For financial assets with credit impairment purchased or originated, an effective credit-adjusted interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument at initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition fewer principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss. The gross carrying value of a financial asset is the amortized cost of a financial asset before any provision for losses is adjusted.

Interest income is recognized using the effective interest effect for debt instruments subsequently measured at amortized cost and fair value through other comprehensive income. For financial assets purchased or originated other than impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that are subsequently impaired (see below). For financial assets that have subsequently been impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the impaired financial instrument improves so that the financial asset is no longer impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For acquired or originated financial assets with credit impairment, the Company recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from its initial recognition. The calculation does not return to the gross basis, even if the credit risk of the financial asset subsequently improves, so that the financial asset no longer has credit impairment.

Interest income is recognized as income (gain/loss) and is included in interest income.

A financial asset is held for trading if:

- it has been obtained with the primary objective of being sold in the short term, or
- the initial recognition is part of a portfolio of identified financial instruments that Mexichem manages together and has evidence of a recent pattern of short-term earnings, or
- it is a derivative (except for derivatives that are contractual financial guarantees or an effective hedging instrument).

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and cumulative in the investment revaluation reserve. Cumulative gain or loss cannot be reclassified to profit or loss in the disposal of equity investments but is transferred to retained earnings.

Dividends from these equity investments are recognized in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at fair value through profit or loss

- Investments in equity instruments are classified as fair value through profit or loss, unless the Issuer designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as fair value through other comprehensive income on initial recognition.
- Debt instruments that do not meet amortized cost criteria or fair value criteria through other comprehensive income are classified at fair value through profit or loss. In addition, debt instruments that meet amortized cost criteria or fair value criteria through

other comprehensive income may be designated as fair value through profit or loss at initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (referred to as an "accounting disparity") that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Company has not designated any debt instruments with fair value through profit or loss.

Exchange gains and losses

The carrying amount of financial assets denominated in a foreign currency is determined in that foreign currency and converted at the exchange rate at the end of each reporting period.

Impairment of financial assets

The Issuer recognizes expected lifetime credit losses for accounts receivable, contract assets and lease accounts receivable. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, general economic conditions and an assessment of both current management and anticipated conditions at the reporting date, including the time value of money where appropriate.

For all other financial instruments, Mexichem recognizes the lifetime expected credit loss when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the provision for losses for that financial instrument in an amount equal to the expected 12-month credit loss.

The lifetime expected credit loss represents the expected credit losses that will result from all possible events of default during the expected useful life of a financial instrument. In contrast, the 12-month expected credit loss represents the portion of the lifetime expected loss that is expected to result from predetermined events in a financial instrument that are possible within 12 months after the reporting date.

i. Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Issuer compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the recognition date. In making this evaluation, the Company considers both quantitative and qualitative information to be reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The forward-looking information considered includes the future prospects of the industries in which the Issuer's borrowers operate, obtained from reports by economic experts, financial analysts, government agencies, relevant expert groups, and other similar organizations, as well as the consideration of various external sources of real and projected economic information related to Mexichem's central operations.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- An actual or expected deterioration in the external (if available) or internal rating of the financial instrument;
- Significant deterioration in external market indicators of credit risk for a specific financial instrument, for example, a significant increase in the credit spread, credit default swap for the borrower, or the period of time or extent to which the fair value of a financial asset has been less than its amortized cost;
- An actual or expected adverse changes in economic, financial or business conditions that are expected to cause a significant decrease in the borrower's

ability to meet its debt obligation;

- An actual or expected significant deterioration in the borrower's operating results;
- Significant increases in credit risk on other financial instruments of the same borrower; and
- An actual or expected adverse change in the borrower's regulatory, economic or technological conditions that results in a significant decrease in the borrower's ability to meet its obligations.

ii. Definition of default

The Company considers the following to be an event of default for internal credit risk management purposes, as historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- When the borrower breaches the financial covenants
- information developed internally or obtained from external sources indicates that the borrower is unlikely to pay its creditors, including the Issuer, in full (without regard to any collateral held by the Issuer).

Irrespective of the above analysis, the Company considers a default to have occurred when a financial asset is more than 90 days past due, unless the Entity has reasonable and reliable information to demonstrate that a more lagging default criterion is more appropriate.

iii. Credit Impaired Financial Assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data on the following events:

- significant financial difficulty on the part of the issuer or borrower
- a breach of a contract, such as a breach or a losing event
- the lenders of the borrower, for economic or contractual reasons related to the borrower's financial difficulty, grant the borrower a concession that the lenders would not otherwise consider
- it is becoming probable that the borrower will enter bankruptcy or some other financial reorganization or
- the extinction of an active market for the financial asset due to financial difficulties

iv. Write-off policy

The Company writes-off a financial asset when there is information indicating that the borrower is in serious financial difficulty and there is no realistic prospect of recovery, for example, when the borrower has been placed under liquidation or has filed for bankruptcy, or in the case of trade receivables, when the amounts are more than two years overdue, whichever occurs first. Financial assets written-off may still be subject to compliance activities under the Entity's recovery procedures, considering legal advice where appropriate. Any recovery made is recognized in profit or loss.

v. Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, the loss given default (i.e. the magnitude of the loss if a default exists) and the exposure at default. The assessment of the probability of default and the loss given default is based on historical data adjusted by prospective information as described above. For financial guarantee contracts, the exposure includes the amount established at the reporting date, together with any additional amounts expected to be obtained in the future by default date determined based on historical trend, the Issuer's understanding of the specific financial needs of borrowers, and other relevant future information.

Derecognition of financial assets

The Company ceases to recognize a financial asset only when the contractual rights over the cash flows of the financial asset expire, and substantially transfers the risks and rewards of ownership of the financial asset. If the Issuer neither transfers nor retains substantially all the risks and rewards of ownership and continues to retain control of the transferred asset, it recognizes it interest in the asset and the associated obligation for the amounts it may have to pay. If it retains substantially all the risks and rewards of ownership of a transferred financial asset, it continues to recognize the financial asset and recognizes a collateral loan for the proceeds received.

When a financial asset is derecognized in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and retained earnings is recognized in profit or loss.

When a financial asset is derecognized other than in its entirety (for example, when the Company retains an option to repurchase part of a transferred asset), the Issuer allocates the previous carrying amount of the financial asset between the part it continues to recognize by virtue of its continuing involvement and the part it no longer recognizes on the basis of the relative fair values of those parts at 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 that is no longer recognized and any cumulative gain or loss allocated to it that has been recognized in other comprehensive income is recognized in profit or loss. The cumulative gain or loss that has been recognized in other comprehensive income shall be allocated between the part that continues to be recognized and the part that is no longer recognized based on the relative fair values of those parts.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified at fair value through profit or loss when the financial liability is (i) the contingent consideration that would be paid by the acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) designated at fair value through profit or loss.

A financial liability is classified as held for trading purposes if:

- If It has been incurred primarily for the purpose of repurchasing it in the near term, or
- It is part of a portfolio of identified financial instruments that are jointly managed, and for which there is evidence of a recent pattern of short-term profit taking, or
- It is a derivative that has not been designated as a hedging instrument and meets the conditions to be effective.

A financial liability other than a financial liability for trading purposes or contingent consideration that would be paid by the acquirer as part of a business combination may be designated as at fair value through profit or loss upon initial recognition if:

- This eliminates or significantly reduces any inconsistencies in valuation or recognition that would otherwise arise, or
- The performance of a group of financial assets, financial liabilities, or both, is managed and evaluated on the basis of fair value, in accordance with an investment strategy or risk management strategy that the Company has documented, and information about the grouping is provided internally, on the basis of fair value, or
- It forms part of a contract that contains one or more embedded derivative instruments, and IAS 39 Financial Instruments: Recognition and Measurement allows the entire combined contract (asset or liability) to be designated at fair value.

Financial liabilities at fair value with changes through results are stated at fair value, recognizing any gain or loss arising from the remeasurement in profit or loss. The net gain or loss recognized in the income statement includes any dividend or interest paid on the financial liability and is included in "other comprehensive income" in the consolidated statements of income and other comprehensive income and the fair value is determined as described in Note 12.

Other financial liabilities

Other financial liabilities (including loans and accounts payable) are subsequently valued at amortized cost using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial liability and allocating the financial expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated cash flows over the expected life of the financial liability or (when appropriate) in a shorter period with the net carrying amount of the financial liability on initial recognition.

Derecognition of financial liabilities

The Issuer derecognizes financial liabilities when, and only when, the Company's obligations are met, cancelled or have expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments – Due to its domestic and international activities, Mexichem is exposed to the risks of fluctuations of prices in raw materials in the chemical industry, as well as financial risks related to the financing of its projects.

The Company's policy is to use certain hedges to mitigate the volatility of the prices of certain raw materials and interest rate and foreign exchange risks in its financial transactions, all of which are related to the Company's business.

Derivatives are initially recognized at fair value at the date the derivative contract is entered and are subsequently measured at fair value at the end of the reporting period. The Issuer designates certain derivatives as either fair value hedges, recognized assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecasted transactions, or foreign currency hedges of firm commitments (cash flow hedges), or hedges of a net investment in a foreign operation.

Implicit derivatives

Mexichem reviews contracts entered into to identify implicit derivatives that must be separated from the host contract for purposes of valuation and accounting records.

When a derivative implicit in other financial instruments or in other contracts (host contracts) is identified, it is treated as a separate derivative when its risks and characteristics are not closely related to those of the host contracts and when such contracts are not recorded at fair value through profit or loss.

a. ***Hedge Accounting*** - Mexichem designates certain hedging instruments, which include foreign currency derivatives, interest rates, and commodities and non-derivatives with respect to foreign currency risk, either as fair value hedges, cash flow hedges, or hedges of the net investment in a foreign operation. The foreign currency hedge of a firm commitment is accounted for as a cash flow hedge.

At the inception of the hedge, the Issuer documents the relationship between the hedging instrument and the hedged item, as well as the objectives of risk management and its management strategy for undertaking various hedging transactions. In addition, at the inception of the hedge and on a continuing basis, the Company documents whether the hedging instrument is highly effective in offsetting the exposure to changes in fair value or changes in cash flows of the hedged item.

Note 13 includes details of the fair value of derivative instruments used for hedging purposes.

Cash flow hedges

At the inception of the hedge, the Company documents the relationship of the hedge and the entity's risk management objective and strategy, including how the effectiveness of the hedging instrument will be measured to offset the value of changes in fair value in the hedged item or changes in cash flows attributable to the hedged risk.

Mexichem recognizes all assets or liabilities arising from transactions with derivative financial instruments in the consolidated statements of financial condition at fair value, regardless of the purpose for which they are held. Fair value is determined based on recognized market prices and when they are not quoted on a market, on the basis of valuation techniques accepted in the financial sector. The decision to take an economic or accounting hedge obeys the market conditions and expectations in the national and international economic context.

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. Gains and losses related to the ineffective portion of the hedging instrument are recognized in the income statement and included in "Other income".

Amounts previously recognized in other comprehensive income and cumulative in stockholders' equity are reclassified to profit or loss in the periods in which the hedged item is recognized in profit or loss, in the same line item of the consolidated statements of income and other comprehensive income of the hedged item recognized. However, when a forecasted transaction that is hedged results in the recognition of a non-financial asset or non-financial liability, the gains or losses previously cumulative in stockholders' equity are transferred and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the hedging relationship is revoked, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. Any cumulative gain or loss on the hedging instrument that has been recognized in equity will continue in equity until the forecasted transaction is finally recognized in profit or loss. When the forecasted transaction is no longer expected to occur, the cumulative gain or loss in stockholders' equity is immediately reclassified to 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, together with any changes in the fair value of the hedged asset or liability 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 income statement item related to the hedged item.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer meets the criteria for hedge accounting. The adjustment to fair value of 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 a foreign operation

Hedges of a net investment in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relative to the effective portion of the hedge is recognized in other comprehensive income and accrued in the translation effect of foreign operations. The gain or loss related to the ineffective portion is recognized in the income statement and is included under "Other income".

Gains and losses on the hedging instrument, relating to the effective portion of the hedge cumulative in the foreign currency translation reserve, are reclassified to income in the same way as the exchange rate differences relating to the foreign transaction.

Provisions - Provisions are recognized when the Issuer has a present obligation (whether legal or assumed) as a result of a past event, it is probable that it will have to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the outlay required to settle the present obligation at the end of the reporting period, considering the risks and uncertainties surrounding the obligation. When a provision is valued using the estimated cash flows to settle the present obligation, it carrying amount represents the present value of those cash flows (when the effect of the time value of money is material).

When a third party is expected to recover some or all of the economic benefits required to settle a provision, a receivable is recognized as an asset if it is virtually certain that cash will be received, and the amount of the receivable can be reliably valued.

Restructuring - A restructuring provision is recognized when the Company has developed a detailed formal plan for the restructuring, and a valid expectation has been raised among those affected that the restructuring will be carried out, either because the implementation of the plan has commenced or because its main characteristics have been announced to those directly affected by the plan. The provision for restructuring must include only the direct disbursements derived therefrom, which include the amounts necessarily arising from the restructuring; and which are not associated with the Issuer's continuing activities.

Contingent liabilities acquired in a business combination - These are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are valued at the higher of the amount that would have been 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.*

Short-term employee benefit - All employee benefits expected to be settled within 12 months after the end of the reported annual period in which the employees render related services to:

(a) Wages and salaries and social security contributions
(b) Entitlements for paid leave and paid absence due to sickness
(c) Profit sharing and incentives and
(d) Non-monetary benefits to current employees

Share Repurchase Reserve - Purchases and sales of shares are recorded directly in the share repurchase reserve at acquisition cost. Any gain or loss generated is recorded in retained earnings.

Income taxes - Income tax expense represents the sum of current income tax and deferred income tax.

i. Current income tax - The calculated current income tax corresponds to the income tax (ISR) and is recorded in the results of the year in which it is incurred.

ii. Deferred income tax - Deferred income tax is recognized on temporary differences between the carrying amounts of assets and liabilities included in the consolidated financial statements and the corresponding tax bases used to determine taxable income, the tax rate corresponding to these differences and, if applicable, the tax loss carryforwards and certain tax credits are included. The deferred income tax asset or liability is generally recognized for all temporary tax differences. A deferred tax asset will be recognized for all deductible temporary differences to the extent that it is probable that the Company will have future taxable income against which it can apply those deductible temporary differences. These assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than that of the business combination) of other assets and liabilities in a transaction that does not affect taxable or accounting profit.

A deferred tax liability is recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except when the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from temporary differences associated with such investments and interests are recognized only to the extent that it is probable that there will be enough future taxable income against which the temporary differences will be utilized and are expected to be reversed in the near future.

The carrying amount of a deferred tax asset should be reviewed at the end of each reporting period and reduced to the extent that it is considered probable that there will not be enough taxable profit to permit the recovery of all or part of the asset.

Deferred tax assets and liabilities are valued at the tax rates expected to apply in the period in which the liability is paid or the asset is realized, based on the tax rates (and tax laws) that have been approved or substantially approved at the end of the reporting period. The valuation of deferred tax liabilities and deferred tax assets reflects the tax consequences that would result from the way the Entity expects, at the end of the reporting period, to recover or settle the carrying value of its assets and liabilities.

Employee benefits - Direct benefit costs and contributions to defined contribution retirement benefit plans are recognized as expenses at the time employees render the services that entitle them to the contributions.

In the case of defined benefit plans, which include seniority premium and pensions, their cost is determined using the projected unit credit method, with actuarial valuations performed at the end of each reporting period. The remediation, which includes actuarial gains and losses, the effect of changes in the asset floor (if any) and the return on the asset plan (excluding interest), is immediately reflected in the consolidated statement of financial condition with charge or credit that is recognized in other comprehensive income in the period in which it is incurred. Remediations recognized in other comprehensive income are recognized immediately in retained earnings and are not reclassified to profit or loss. Past service cost is recognized in earnings in the period of the plan amendment. Net interest is calculated by applying the discount rate at the beginning of the defined benefit obligation period.

Defined benefit costs are classified as follows:

- Cost per service (including current service cost, cost of past services, as well as gains and losses from reductions or settlements)
- Net interest expense or income
- Remediations

The Issuer presents the first two components of benefit costs defined as an expense or income according to the item. Service reduction gains and losses are recognized as past service costs.

Retirement benefit obligations recognized in the consolidated statement of financial condition represent the current gains and losses in the Entity's defined benefit plans. Any gain arising from this calculation is limited to the present value of any available economic benefit from future reimbursements and reductions in contributions to the plan.

Any indemnity obligation is recognized when the Entity can no longer withdraw the indemnity offer and/or when the Entity recognizes the related restructuring costs.

<u>Employee or third-party contributions to defined benefit plans</u>

Discretionary contributions made by employees or third parties reduce the cost of service by paying these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, accounting depends on whether the contributions are linked to the service, as follows:

- If contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or actuarial losses), these are reflected in the remeasurement of the net defined benefit (asset) liability.

- If contributions are linked to services, they reduce service costs. For the contribution that depends on the number of years of service, the entity reduces the service cost by attributing contributions to periods of service, using the attribution method required by IAS 19 paragraph 70 for gross profit.

Share-based payments

Mexichem has a compensation program called the Long-Term Incentive Plan (LTIP) to a group of executives, which has the objective of aligning executive compensation with the interests of the shareholders, conditioning the payment of this incentive to the financial performance of the Company. Under this program, Mexichem annually grants a certain number of ghost shares aligned with the value of the real shares of the Issuer, and does so through two vehicles: payments based on restricted ghost shares and payments based on ghost shares for performance, which may be exercised for payment as long as Mexichem's financial objectives are achieved under the conditions established in the plan.

The LTIP value is awarded annually to selected active executives who have a continuous service of at least six months at the time of assignment. The amount of the allocation will be made with the value of the share calculated based on the average price of the daily closing of the period from July 1 to December 31 of the year immediately preceding the allocation.

Payments based on restricted phantom shares: of the total assigned value, 40% is paid in three equal proportional parts per year only if Mexichem's annual performance conditions established in the plan are met and the eligible personnel are active at the time of payment. The amount payable will be calculated from the average daily closing price of the month immediately preceding the month in which the Restricted Phantom Shares are paid.

Performance-based phantom share payments: 60% of the total value will be paid in the third year of the assignment, only if Mexichem's cumulative financial performance conditions for the three years set forth in the plan are met. The amount payable is calculated from the average daily closing price of the month immediately preceding the month in which the ghost shares are paid for performance.

Recognition of the liability accrues as employees render their services during the period of employment. Payments are only made to employees who are active in the payroll at the time the exercise of phantom actions is approved.

The methodology used to project share prices is in accordance with the Black & Scholes methodology, calculated in Mexican pesos and payable in each entity's local currency at the exchange rate prevailing on the settlement date.

The outstanding options represent liability instruments. The stock option plan information is as follows:

	LTIP restricted	LTIP performance	Total
Balance as of December 31, 2015	$1	$ 2	$3
Charge to results and adjustments	1	1	1
Balance as of December 31, 2016	2	3	4
Charge to results and adjustments		9	9
Balance as of December 31, 2017	2	12	14
Charge to results and adjustments	7	5	13
Balance as of December 31, 2018	$ 9	$ 17	$ 26

Valuation of options at fair value and accounting recognition

Current options qualify as liability instruments and are valued at their estimated fair value at the date of the consolidated financial statements, recognizing changes in valuation in the consolidated statement of income and other comprehensive income. The fair value of the options was determined considering the remaining life of the instruments and assumptions of expected dividend, volatility and interest rate based on reasonable market conditions, in accordance with the Black & Scholes methodology.

Earnings per share - (i) Basic earnings per common share are calculated by dividing the consolidated net income for the year of the controlling interest by the weighted average number of common shares outstanding during the year, and (ii) Basic earnings (loss) per common share from discontinued operations is calculated by dividing earnings from discontinued operations by the weighted average number of common shares outstanding during the year.

4. MANAGEMENT

a) External Auditors

The independent external auditors are Deloitte Touche Tohmatsu Limited; Galaz, Yamazaki, Ruiz Urquiza, S.C. ("Deloitte"), with offices in Mexico City, Mexico. Deloitte has provided audit services to Mexichem for at least the last six fiscal years.

Deloitte has confirmed that it is an independent firm with respect to Mexichem, within the meaning of the stock exchange regulations applicable to the latter (Article 343 of the LMV and Article 83 of the Sole Issuers Circular and under the code of ethics issued by the International Federation of Accountants and the local regulations of each country in which Mexichem has operations.

As of the date of this Annual Report, the independent external auditors have not issued qualified opinions, negative opinions or refrained from issuing any opinion on the Company's financial statements.

Fees paid by Mexichem do not represent 10% of Deloitte's annual revenues. The amount that the external auditors have charged related to the audit as of December 31, 2018, for audit and transfer pricing services amounts to $4.3, while other non-audit services amount to approximately $0.4, among the principal services are reviews of analyses performed by Mexichem regarding legal and tax services, which represent 8.5% of the total fees paid.

b) Related Party Transactions (as defined in the LMV) and Conflicts of Interest

In the past, the Company has entered into and intends to continue to enter into certain transactions with its directors, officers, principal shareholders and other persons or companies related thereto, including, but not limited to, the transactions described in this section. The terms of these transactions are negotiated by one or more Mexichem employees who are not related parties, taking into consideration the same model contracts and business parameters applicable to transactions entered into with unrelated third parties, and are only performed if they comply with the corresponding market price for the transaction, which is reported and verified by the Audit Committee, the Corporate Practices Committee, which render their opinion on the transactions and follow up on them, and by the auditors at the end of each year. The Company believes that these transactions are entered into under conditions similar to those it could obtain from unrelated third parties if there were third parties capable of providing the same services.

Relationships and transactions with related parties

Mexichem has several securities investment, trust, and bank and investment contracts with Banco Ve por Más, S.A., and Casa de Bolsa Ve por Más, S.A. de C.V. (affiliated companies of Mexichem), which generate interest at rates like market rates.

Mexichem and Kaluz, the Company's main shareholder, maintain an advisory services contract, which establishes that Mexichem will pay Kaluz monthly the amount equivalent to the total costs and expenses incurred by Kaluz as a result of providing such services, to which a market margin is added.
All transactions with related persons or parties are carried out under conditions like market conditions.

Below is a comparative table for the years 2018, 2017 and 2016 that details the amounts receivable and payable, as well as transactions carried out with persons or related parties:

Figures in millions of dollars

a. Balances with related parties are:

	2018	**2017**	**2016**
Receivable:			
Pochteca Materias Primas, S.A. de C.V.	$ 3	$ 1	$ 1
Eternit Colombiana, S.A.	-	-	-
Mexalit Industrial S.A. de C.V.	-	-	1
Elementia Servicios Administrativos, S.A. de C.V.	2	-	-

Elementia, S.A. de C.V.	-	-	1
Other		1	
	$ 5	$ 2	$ 3
Payable:			
Kaluz, S.A. de C.V.	$117	$64	$ 49
Pochteca Materias Primas, S.A. de C.V.	-	-	1
Other			1
	$117	$65	$51

Figures in millions of dollars

b. Transactions with related parties are:

	2018	2017	2016
Income from			
Sales	$ 6	$ 6	$ 7
Administrative services	3	1	1
	$ 9	$ 7	$ 8
Expenses for			
Administrative services	$10	$10	$11
Shopping	3	2	1
Donations	1	-	-
Other	1	1	1
	$15	$ 12	$ 13

Figures in millions of dollars

c) Directors and Shareholders

In accordance with the Bylaws, the management of the Company is tasked to a Board of Directors and a Chief Executive Officer who will carry out the functions established in the LMV. The Board of Directors shall be made up of a maximum of 21 Proprietary Directors, as determined by the Ordinary General Shareholders' Meeting that appoints them and, if applicable, their respective alternates. Of these members, both proprietary and alternate, at least 25% must be independent. It should be noted that notwithstanding the foregoing, 50% of the Company's Board of Directors is currently made up of independent directors.

Furthermore, in terms of Article 24 of the LMV, the Alternate Directors for Independent Directors have the same capacity. The members of the Board of Directors may be shareholders or persons external to the Company.

The General Shareholders' Meeting at which the members of the Board of Directors are appointed or ratified decides on the independence of the Directors.

The Independent Directors and, where applicable, their respective alternates, are chosen for their experience, capacity and professional prestige, considering their business and/or professional career and that as a result due to the above they can perform their functions free from conflicts of interest, with freedom of judgment and without being subject to personal, financial or economic interests.

During fiscal year 2018, the Board of Directors met four times:

- February 20. At that meeting, the attendance ("quorum") was 83.33%
- April 24. That meeting was attended (*"quorum"*) by 75 per cent
- July 24. That meeting was attended (*"quorum"*) by 91.66%
- October 23. That meeting was attended (*"quorum"*) by 91.66%.

In addition, the Board of Directors adopted unanimous resolutions for its members, outside of the face-to-face meeting, dated February 7 and June 28, 2018. These resolutions were issued in reference to, in the first case, the appointment of the Company's Chief Executive Officer and the to the approval of the final terms and conditions for the transfer of various assets owned by its subsidiary Petroquímica Mexicana de Vinilo, S.A. de C.V. and termination of the association agreement with PEMEX.

The Board of Directors, in its annual activity report presented to the Annual General Shareholders' Meeting on April 23, 2018, reported on the performance of its functions in accordance with the law and the Company's bylaws.

In order for the members of the Board of Directors to fully understand the responsibility involved in the performance of their duties, the Secretary of the Board of Directors provides them with a yearly report containing the main obligations, responsibilities and recommendations applicable to the Company as an issuer of securities listed on the BMV derived from the LMV, the Sole Issuers Circular and other applicable regulations. This report also describes the main considerations (duties, responsibilities, and powers) applicable to the members of Mexichem's Board of Directors.

The Board of Directors for fiscal year 2018 as designated by the Annual General Shareholders' Meeting held on April 23, 2018, is as follows, it is worth noting that it is made up solely of Proprietary Directors:

Name	Condition	Type of Director
Juan Pablo del Valle Perochena	Chairman	Patrimonial Related
Antonio del Valle Ruiz	Honorary Life President	Patrimonial Related
Antonio del Valle Perochena	Director	Patrimonial
María de Guadalupe del Valle Perochena	Director	Patrimonial
Adolfo del Valle Ruiz	Director	Patrimonial
Ignacio del Valle Ruiz	Director	Patrimonial
Jaime Ruiz Sacristán	Director	Patrimonial
Divo Milan Haddad	Director	Independent
Fernando Ruiz Sahagún	Director	Independent
Guillermo Ortiz Martinez	Director	Independent
Eduardo Tricio Haro	Director	Independent
Eugenio Santiago Clariond Reyes	Director	Independent
Alma Rosa Moreno Razo	Director	Independent

Secretary	
Juan Pablo del Río Benítez	Not a member of the Board
Vice Secretary	
Francisco Ramon Hernandez	Not a member of the Board

The following are the names of the Company directors appointed at the Annual Shareholders' Meeting held on April 23, 2018, their professional experience and the year in which they were first appointed.

Name: Antonio del Valle Ruíz
Condition and type of director: Honorary Chairman for life Board of Directors, Patrimonial Related
Member of the Board of Directors since 2000
Professional Experience: Private Accountant, a graduate of Escuela Bancaria y Comercial, he is a certified Executive Business Director by the Instituto Panamericano de Alta Dirección de Empresas (IPADE). He is Honorary Life Chairman of Kaluz, S.A. de C.V., Mexichem, S.A.B. de C.V. Elementia, S.A.B. de C.V. and Grupo Financiero BX+ and has been a member of several boards of directors, including Teléfonos de México, S.A. de C.V. Industrias Monterrey, S.A. de C.V., Escuela Bancaria y Comercial and Fundación ProEmpleo.
Mr. Antonio del Valle Ruíz is the brother of Messrs. Adolfo and Ignacio del Valle Ruíz; and the father of Messrs. María de Guadalupe, Antonio and Juan Pablo del Valle Perochena.

Name: Juan Pablo del Valle Perochena
Condition and type of director: Chairman of the Board of Directors, Patrimonial Related
Member of the Board of Directors since 2002
Professional Experience: An Industrial Engineer from the Universidad Anáhuac, with a Master of Business Administration from Harvard Business School. Chairman of the Board of Mexichem, S.A.B. de C.V. since 2011. Member of the Board of Directors of JCI Inc. in the United States and Elementia, S.A.B. de C.V. Participates in the following associations: Harvard's David Rockefeller Center for Latin American Studies, Kaluz Foundation, Chairman's International Advisory Board of the Americas Society, as well as the Latin American Conservation Board of The Nature Conservancy.

Juan Pablo del Valle Perochena is son of Mr. Antonio del Valle Ruíz, brother of Mr. María de Guadalupe, Antonio and Francisco Javier del Valle Perochena; and nephew of Mr. Jaime Ruiz Sacristán, Adolfo and Ignacio del Valle Ruíz.

Name: Antonio del Valle Perochena
Condition and type of director: Patrimonial
Member of the Board of Directors since 2002
Professional Experience: a graduate of the Business Administration program at Universidad Anáhuac where he also studied an MBA. In addition, he has a postgraduate degree in Senior Management from the Instituto Panamericano de Alta Dirección de Empresas (IPADE) and a specialization in literature from Universidad Iberoamericana.
He is Chairman of the Board of Directors of Grupo Financiero Ve por Más, S.A. de C.V. and de Kaluz, S.A. de C.V., holding company of Mexichem, S.A.B. de C.V.
He is Member of the Board of Directors of Banco Ve por Más, 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. and Afianzadora Sofimex, S.A. and Byline Bank. In addition, he is part of the Patronages of the Salvador Zubirán National Institute of Medical Sciences and Nutrition, Fideicomiso Probosque de Chapultepec, Patronato Fundación Colmex, Fideicomiso Fuerza México, Instituto Mexicano para la Competitividad, A.C. and from February 2018 he has presided over the Consejo Mexicano de Negocios, a business organization that groups together the 60 most important companies with Mexican capital.
Antonio del Valle Perochena is the son of Mr. Antonio del Valle Ruiz; brother of Messrs. Juan Pablo, María de Guadalupe and Antonio del Valle Perochena and is also nephew of Messrs. Jaime Ruiz Sacristán, Adolfo and Ignacio del Valle Ruíz.

Name: María de Guadalupe del Valle Perochena
Condition and type of director: Patrimonial
Member of the Board of Directors since 2005
Professional Experience: She holds a bachelor’s degree in Economics from Universidad Anáhuac. She also holds a postgraduate degree in Senior Management from the Instituto Panamericano de Alta Dirección de Empresas (IPADE).
She is a member of the Board of Directors of Mexichem, Kaluz, Banco Ve por Más, and Controladora GEK. She worked in the area of finance and marketing in Banco de Santander and Bital, today she is in charge of the investments of the family office.

Mrs. María de Guadalupe del Valle Perochena is daughter of Mr. Antonio del Valle Ruíz; sister of Mr. Antonio and Mr. Juan Pablo del Valle Perochena; and she is also niece of Mr. Jaime Ruiz Sacristán, Adolfo and Ignacio del Valle Ruíz.

Name: Adolfo del Valle Ruíz
Condition and type of director: Patrimonial
Member of the Board of Directors since 1993
Professional Experience: A Private Accountant from the Escuela Bancaria y Comercial, he is a certified Executive Business Director by the Instituto Panamericano de Alta Dirección de Empresas (IPADE). Chairman of the Board of Directors of Grupo Creática, S.A. de C.V. since 2002.
Mr. Adolfo del Valle Ruíz is the brother of Messrs. Antonio and Ignacio del Valle Ruíz; and uncle of Messrs. María Guadalupe, Antonio and Juan Pablo del Valle Perochena.

Name: Ignacio del Valle Ruíz
Condition and type of director: Patrimonial
Member of the Board of Directors since 2000
Professional Experience: A Certified Public Accountant, he graduated from the Escuela Bancaria y Comercial. In addition, he is a certified Executive Business Director by the Instituto Panamericano de Alta Dirección de Empresas (IPADE). He is Chairman of the Board of Directors of Vialcoma, S.A. de C.V. and director of several companies, including Fincomún Servicios Financieros, S.A. de C.V., Grupo Institución, S.A. de C.V., Grupo Bepana, S.A. de C.V. and Inmobiliaria Pabellón Altavista, S.A. de C.V.
Mr. Ignacio del Valle Ruíz is brother of Mr. Antonio and Adolfo del Valle Ruíz; and uncle of Mr. María de Guadalupe, Antonio and Juan Pablo del Valle Perochena.

Name: Jaime Ruíz Sacristán
Condition and type of director: Patrimonial
Member of the Board of Directors since 2000
Professional Experience: He holds a bachelor’s degree in Business Administration from Universidad Anáhuac, and MBA from Northwestern University, Evanston, Illinois.
He is Founder and Chairman of the Board of Directors of Banco Ve por Más, a condition he has held since July 2003. Mr. Ruíz Sacristán served as President of the Mexican Bankers Association from March 2011 to

March 2013 where he stood out for his efficient dialogue with all sectors involved in the banking business and actively promoted the unity of the sector. He serves as Chairman of the Board of Directors of Bolsa Mexicana de Valores, S.A.B. de C.V. as of January 1, 2015.
In addition, he is a member of several boards of directors of financial, industrial and commercial companies, including, among others, Mexichem, S.A.B. de C.V., Elementia, S.A.B. de C.V., Grupo Financiero Ve por Más, S.A. de C.V., Byline Bank, Controladora Comercial e Industrial, S.A. de C.V., and its subsidiaries.
Jaime Ruiz Sacristán is cousin of Antonio, Adolfo and Ignacio del Valle Ruíz and uncle of María de Guadalupe, Antonio and Juan Pablo del Valle Perochena.

Name: Divo Milán Haddad
Condition and type of director: Independent
Member of the Board of Directors since 2002
Professional Experience: General Manager of Investigación, Pro-Invest, and Dimmag Invest (Panama Real Estate).
Chairman of the Board of Directors of: Inmobiliaria del Norte, Pro-Invest, (Commercial Real Estate), Dimmag Invest, Círculo de Crédito (Risk Rating Agency), Círculo Laboral (Labor Database), Grupo Aradam (Food Franchise) and Quonia (Spanish Real Estate Society).
Member of the Board of Directors of: NetCapital (Escuela Tecnológica), Mexichem, S.A.B. de C.V., Banco Ve por Más, S.A., Grupo Financiero Ve por Más, S.A. de C.V., Elementia, S.A.B. de C.V. and Grupo Kaluz S.A. de C.V.

Name: Fernando Ruiz Sahagún
Condition and type of director: Independent
Member of the Board of Directors since 2002
Professional Experience: Certified Public Accountant from Universidad Nacional Autónoma de México (UNAM).
Founding partner of Chevez, Ruiz, Zamarripa y Cía., S.C. Asesores y Consultores Fiscales, of which he was its Managing Partner since its foundation. He is currently an advisor to the firm.
Member of the Colegio de Contadores Públicos de México, of the Instituto Mexicano de Contadores Públicos, A.C., of the Instituto Mexicano de Ejecutivos de Finanzas, of the International Fiscal Association (IFA).
He was professor of taxation at the Universidad Anáhuac, he also taught postgraduate courses at the Instituto Panamericano de Alta Dirección de Empresas (IPADE) and at the Universidad Panamericana.
He participates as a member of the Boards of Directors and Audit and/or Corporate Practices Committees of the following companies: Bolsa Mexicana de Valores, S.A.B. de C.V., Fresnillo PLC, Grupo Financiero Santander, S.A.B. de C.V., Grupo Mexico, S.A.B. de C.V. and Rassini, S.A.B. de C.V.

Name: Guillermo Ortiz Martínez
Condition and type of director: Independent
Member of the Board of Directors since 2010
Professional experience:
He graduated from the National School of Economics of the Universidad Nacional Autónoma de Mexico (UNAM). He later obtained a master’s and Doctorate in Economics from Stanford University in the United States.
Currently, Dr. Ortiz is a partner and board member of BTG Pactual and is also a member of the Group of Thirty, the Board of the Center for Financial Stability, China's International Financial Forum and the Board on Global Financial Regulation, as well as Chairman of the Per Jacobsson Foundation.
He is the founder of GO & Asociados, an economic consulting firm created in 2009 and member of the Advisory Board on Quality of Life of the Federal District Government. Dr. Ortiz was Chairman of BTG Pactual Latin America ex-Brazil from 2016 to 2018 and Chairman of the Board of Directors of Grupo Financiero Banorte-Ixe from 2011 to 2014.
In addition, he is a member of the Board of Directors of Weatherford International (a leading oil and equipment company based in Geneva, Switzerland), as well as of the Mexican companies Aeropuertos del Sureste, Mexichem and Vitro.
Dr. Ortiz was Governor of Banco de México from January 1998 to December 2009 and Ministry of Finance and Public Credit from December 1994 to December 1997.

Name: Eduardo Tricio Haro
Condition and type of director: Independent
Member of the Board of Directors since 2008
Professional Experience: Zootechnical Agriculture Engineer from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).
He is Chairman of Grupo Lala and Grupo Nuplen. He presides over the executive committee of Aeromexico.
He is Member of the Board of Directors of Mexichem, Aeroméxico, Televisa, Grupo Financiero Banamex, and Aura Solar; and of the Mexican Business Board.
In addition, he is Member of the Board of several foundations and philanthropic organizations such as the Federico Gomez Children's Hospital of Mexico, Salvador Zubirán National Institute of Medical Sciences and

Nutrition, the Woodrow Wilson Institute, Mexicanos Primero, The Latin America Conservation Board of the Nature Conservancy, among others.

Name: Eugenio Santiago Clariond Reyes
Condition and type of director: Independent Assets
Member of the Board of Directors since 2007
Professional Experience: He has a bachelor's and master's degree in Business Administration from from Instituto Tecnológico y de Estudios Superiores de Monterrey (ITESM).
He is Chairman of several Boards of Directors such as: Grupo Cuprum, Grupo Cleber, Grupo Fultra. Director of several public and private companies: Mexichem, Grupo Financiero Ve por Más, Grupo Industrial Saltillo, Grupo Pochteca, FIBRA Monterrey, Grupo Energex, and Excel del Norte. Advisor to institutions such as TEC Salud, Fondo del Agua Metropolitano de Monterrey, Instituto Mexicano para la Competitividad (IMCO). He is a member of the Advisory Board of the College of Business Administration of the University of Texas at Austin. He is Honorary Consul of Brazil.

Name: Alma Rosa Moreno Razo
Condition and type of director: Independent
Member of the Board of Directors since 2018
Professional experience: A graduate in Economics from Instituto Tecnológico Autónomo de México (ITAM). She also holds a master's degree in economics from the Colegio de México and doctoral studies from New York University.
After a long career at SHCP she was President of the Tax Administration System from 1999 to 2000. She was Mexico's Ambassador to Great Britain and Northern Ireland from 2001 to 2004, Director of Administration at Grupo Financiero Banorte from 2004 to 2009 and from 2009 to mid-2018 she worked at Pemex.

Name: Juan Pablo del Río Benítez
Condition and type of director: Secretary without being a member of the Board of Directors
Member of the Board of Directors since 2008
Professional Experience: He graduated in Law from Universidad Anáhuac in 1992. He specialized in commercial law (postgraduate) at the Escuela Libre de Derecho, 1993-1994. Founding partner of the law firm DRB Consultores Legales.
He has concentrated his practice in the areas of corporate law, commercial law, finance, foreign investment, mergers and acquisitions, securities and corporate finance.
He is Secretary (non-member) of the Board of Directors and external legal advisor to several companies, among them: Mexichem, Elementia, Compañía Minera Autlán, Grupo Pochteca, Grupo Hotelero Santa Fe, Banco Ve por Más, Grupo Financiero Ve por Más, Aeropuertos Mexicanos del Pacífico, Grupo Finaccess, Sabormex, Cía. Cerillera La Central.
He is a member of the Regulatory Committee of the Mexican Stock Exchange, the Mexican Bar Association and the Center for International Legal Studies.

Directors are elected by the annual Meeting, and will hold office for one year, with the Meeting having the power to re-elect them or appoint new members.

	BOARD OF DIRECTORS	
Member	**Gender**	**Date of Designation**
Antonio del Valle Ruíz Honorary Life President	Male	Ordinary General Shareholders' Meeting dated April 28, 2000
Juan Pablo del Valle Perochena	Male	Extraordinary and Ordinary General Shareholders' Meeting held on April 30, 2002
Antonio del Valle Perochena	Male	Extraordinary and Ordinary General Shareholders' Meeting held on April 30, 2002
María de Guadalupe del Valle Perochena	Female	Ordinary General Shareholders' Meeting held on April 27, 2005
Adolfo del Valle Ruíz	Male	Extraordinary General Shareholders' Meeting dated November 24, 1993
Ignacio del Valle Ruíz	Male	Ordinary General Shareholders' Meeting dated April 28, 2000
Jaime Ruíz Sacristán	Male	Ordinary General Shareholders' Meeting dated April 28, 2000
Divo Milan Haddad*	Male	Extraordinary and Ordinary General Shareholders' Meeting held on April 30, 2002
Fernando Ruíz Sahagún*.	Male	Extraordinary and Ordinary General Shareholders' Meeting held on April 30, 2002

Guillermo Ortiz Martínez*	Male	Annual General Ordinary Shareholders' Meeting dated April 30, 2010
Eduardo Tricio Haro*	Male	Ordinary General Shareholders' Meeting held on April 29, 2008
Eugenio Santiago Clariond Reyes*	Male	Ordinary General Shareholders' Meeting dated April 18, 2007
Alma Rosa Moreno Razo*	Female	Ordinary General Shareholders' Meeting held on April 23, 2018

* Independent directors.

As of the date of this report, 16.66% of the Directors are women.

The Independent Directors are not employees of the Issuer, nor are they related or associated with it or its executives.

The criteria used to identify whether a member is an independent, assets, related, etc. Director as indicated in the report is based on the description defined in the Best Corporate Practices Questionnaire issued by the BMV.

The Board of Directors must be composed of a maximum of 21 members appointed by the Shareholders' Meeting, of which at least 25% must be independent. There are people who, due to their attributes, cannot be considered independent, including those who have privileged information, those who exercise control over the Issuer, its main suppliers and the relatives of such people. The Shareholders' Meeting must decide on the independence of the directors, but the CNBV may object to such decision. Currently, the Board of Directors of the Issuer has at least 25% independent members.

The companies called Kaluz, S.A. de C.V., Elementia, S.A.B. de C.V., Grupo Financiero Ve por Más, S.A. de C.V., Grupo Pochteca, S.A.B. de C.V., Banco Ve por Más, S.A., Casa de Bolsa Ve por Más S.A. de C.V. and Constructora y Perforadora Latina, S.A. de C.V. are persons or parties related to the Issuer.

Powers of the Board of Directors

The Board of Directors has the legal representation of the Company and enjoys the broadest powers and powers of attorney to carry out all the operations inherent to the corporate purpose, except those expressly entrusted to the General Shareholders' Meeting. The Board of Directors is vested with, but not limited to, the following powers or powers: (i) lawsuits and collections, (ii) administer property, (iii) exercise acts of ownership, without limitation, (iv) appoint and remove the General Director, directors, managers, officers and attorneys-in-fact, and to determine their attributions, working conditions, compensation and guarantees, and confer powers on directors, managers, officers, attorneys and other persons required to carry out the operations of the Company.

The Board of Directors is responsible for the strategic management of the Company and is empowered to resolve any matter not expressly reserved to the Shareholders' Meeting. Among others, the Board of Directors must deal with the obligations and responsibilities established in article 28 of the LMV.
The Board of Directors is also empowered to approve any transfer of shares of the Company, when such transfer involves 10% or more of the shares representing the outstanding capital stock of the Company.

In accordance with the LMV, the Board of Directors will have the support of an Audit Committee and a Corporate Practices Committee to carry out its functions. In addition to these Committees, the Company has a Finance Committee.

In addition, the Board of Directors shall be responsible, among others, including but not limited to the following attributions: (i) monitor compliance with the resolutions of the Shareholders' Meetings, which may be carried out through the Audit Committee; (ii) establish compensation plans for executives and directors, as well as to make decisions regarding any other matter in which the aforementioned persons may have an interest. The Board of Directors reports annually to the Shareholders' Meeting on its activities and resolutions, and the Shareholders' Meeting has the power to evaluate, qualify and, if appropriate, approve said report on the functioning of the Board of Directors, and may even require additional or complementary reports.

Audit Committee

The Board of Directors shall be assisted in the performance of its duties by the Audit Committee. This Committee will be made up exclusively of Independent Directors and a minimum of three members appointed by the Board of Directors itself, at the proposal of the Chairman of said corporate body, on the understanding that the chairmen of said Committees will be appointed and removed by the General Shareholders' Meeting, not being able to chair the Board of Directors. The secretary of the Committees shall be the secretary of the Board of Directors itself, without being a member of said Committees.

The Audit Committee is made up of 3 independent members of the Board of Directors, who were appointed by the Board of Directors except for its Chairman, who was appointed by the Annual General Shareholders' Meeting.

The person on Mexichem's Audit Committee who is considered a "financial expert" is Mr. Fernando Ruiz Sahagún.

The Audit Committee and its Chairman shall have the following powers and duties, within the scope of their competence:

a) To provide the Board of Directors with their opinion on the matters indicated in Articles 28, 30, 44, 99, 100, 101, 102, 108 and other applicable articles of the Securities Market Act;
b) Those established in Articles 27, 41, 42 and 43 and other applicable of the Securities Market Act.

Without prejudice to the foregoing:

A. The Committee shall be responsible for carrying out the following activities:

(i) To give the Board of Directors an opinion on the matters that fall within its competence under the applicable legislation.
(ii) To evaluate the performance of the legal entity that provides the external audit services, as well as to analyze the opinion, opinions, reports or reports prepared and signed by the external auditor. For this purpose, the Committee may require the presence of the said auditor whenever it deems it appropriate, without prejudice to the fact that it shall meet with the latter at least once a year.
(iii) To discuss the Company's financial statements with the persons responsible for preparing and reviewing them, and on this basis to recommend or not to recommend their approval by the Board of Directors.
(iv) Inform the Board of Directors of the situation of the internal control and internal audit system of the Company or of the legal entities it controls, including any irregularities it detects.
(v) To prepare the opinion referred to in article 28, section IV, paragraph c) of the Securities Market Act and submit it to the Board of Directors for its subsequent presentation to the Shareholders' Meeting, relying, among other elements, on the external auditor's report. That opinion should at least point out:
a) Whether the accounting and reporting policies and criteria followed by the Company are adequate and enough, taking into consideration the circumstances of the Company.
(b) Whether such policies and criteria have been consistently applied in the information submitted by the Director-General.
c) If, because of paragraphs a) and b) above, the information presented by the Director General reasonably reflects the financial situation and results of the Company.
(vi) To support the Board of Directors in the preparation of the reports referred to in article 28, section IV, paragraphs d) and e) of the Securities Market Act.
(vii) Ensure that the transactions referred to in articles 28, section III and 47 of the Securities Market Act are carried out in accordance with the provisions of said precepts, as well as the policies derived therefrom.
(viii) Seek the opinion of independent experts where it deems it appropriate, for the proper discharge of its functions or where required under applicable law or general provisions.
(ix) Require the Relevant Officers and other employees of the Company or of the legal entities controlled by it, reports related to the preparation of financial information and of any other type that it deems necessary for the exercise of its functions.
(x) Investigate the possible non-compliance of which it is aware, with the operations, operation guidelines and policies, internal control system and internal audit and accounting records, whether of the Company itself or of the legal entities controlled by it, for which it shall carry out an examination of the documentation, records and other evidences, to the degree and to the extent necessary to carry out said monitoring.

(xi) Receive observations made by shareholders, directors, relevant executives, employees and, in general, any third party with respect to the matters referred to in the foregoing paragraph, as well as carrying out the actions it deems appropriate in relation to such observations.
(xii) Request periodic meetings with the relevant executives, as well as the delivery of any type of information related to the internal control and internal audit of the Company or legal persons that it controls.
(xiii) Inform the Board of Directors of any significant irregularities detected in the performance of its duties and, where appropriate, of any corrective actions taken or propose those that should be applied.
(xiv) To call a Shareholders' Meeting and request adding any items it deems relevant in the Agenda of said Meetings.
(xv) Ensure that the Chief Executive Officer complies with the resolutions of the Shareholders' Meetings and the Board of Directors of the Company, in accordance with the instructions, if any, issued by the Meeting itself or the Board.
(xvi) To supervise the establishment of internal mechanisms and controls to verify that the acts and operations of the Company and of the legal entities controlled by it comply with the applicable regulations, as well as to implement methodologies that make it possible to review compliance with the foregoing.
(xvii) Any others that the Securities Market Act establishes or are provided for in these Bylaws, in accordance with the functions legally assigned.

See Section 8, "Annexes", "Reports of the Audit and Corporate Practices Committee" of this Annual Report for more information on the Audit and Corporate Practices Committee and its members.

See Section 4, "Management", subsection d, "Bylaws and Other Agreements" of this Annual Report, for additional information on the Board of Directors.

Corporate Practices Committee

The Board of Directors, for the performance of its functions, will count on the assistance of the Committee that carries out the activities related to Corporate Practices. This Committee will be made up exclusively of Independent Directors and a minimum of three members appointed by the Board of Directors itself, at the proposal of the Chairman of said corporate body, on the understanding that the chairmen of said committees will be appointed and removed by the General Shareholders' Meeting, not being able to chair the Board of Directors. The secretary of the Committees shall be the secretary of the Board of Directors itself, without being a member of said Committees.

The Corporate Practices Committee is composed of 3 independent members of the Board of Directors, who were appointed by the Board of Directors except for its Chairman, who was appointed by the Annual General Shareholders' Meeting.
The Corporate Practices Committee and its Chairman shall have the following powers and duties, within the scope of their competence:

a) To provide the Board of Directors with its opinion on the matters indicated in Articles 28, 30, 44, 99, 100, 101, 102, 108 and other applicable articles of the Securities Market Act;
b) Those established in Articles 27, 41, 42 and 43 and other applicable of the Securities Market Act.

Without prejudice to the foregoing:

A. The Committee shall be responsible for carrying out the following activities:

(i) To give an opinion to the Board of Directors on matters within its competence under applicable law.
(ii) Seek the opinion of independent experts when it deems it appropriate, for the proper performance of its functions or when required under applicable law or general provisions.
(iii) To call Shareholders' Meetings and have the items they deem relevant inserted in the Agenda of said Meetings.
(iv) To support the Board of Directors in the preparation of the reports referred to in article 28, section IV, paragraphs d) and e) of the Securities Market Act.
(v) Propose to the Company's Shareholders' Meeting a form with the names of the persons who, in its opinion, should form part of the Company's Board of Directors in the event that its members at the time of election are not ratified in their posts by the Shareholders' Meeting. In the selection of candidates for the Board of Directors, the Corporate Practices Committee shall consider only persons of recognized experience and professional or business background, as well as persons who do not have a conflict of interest with the

Board, its subsidiaries or relevant shareholders, and to the extent required, that candidates who propose qualify as independent Directors under the terms of the applicable legislation.
(vi) Such other duties as may be established by the Securities Market Act or as may be provided for in these Bylaws, in accordance with the functions legally assigned.

See Section 8, "Annexes", "Reports of the Audit and Corporate Practices Committees" of this Annual Report for more information on the Corporate Practices Committee and its members.
See Section 4, "Management", subsection d, "Bylaws and Other Agreements" of this Annual Report, for additional information on the Board of Directors.

Finance Committee

The Finance Committee was created by resolution of the Board of Directors adopted at its meeting held on June 9, 2016, based on Article Thirty-Eight of the Issuer's Bylaws.

The Finance Committee is composed of 6 members of the Board of Directors, who were appointed by the Board of Directors.

This Committee shall support the Board of Directors in fulfilling its responsibilities to shareholders with respect to policies, practices and strategies related to the management of their financial affairs.

The Finance Committee shall have the following powers and duties, within the scope of its competence:

a) Formulate and recommend for the approval of the Board of Directors the financial policies of the Issuer, including the management of financial affairs.
b) Review management's plans for managing the Issuer's financial risk exposure.
c) Review the Issuer's cash flow plan, balance sheet and capital structure.
d) Review the Issuer's capital allocation strategy, including the cost of capital.

Without prejudice to the foregoing:

A. The Committee shall be responsible for carrying out the following activities:

(i) Review and make recommendations to the Board of Directors regarding the capital structure, debt, and financing, including issues related to Mexichem's debt and equity issues.
(ii) Review and make recommendations to the Board of Directors on major strategic investments, mergers, acquisitions, divestitures, capital expenditures and other transactions.
(iii) To review and recommend to the Board of Directors the company's annual budget. The Committee must monitor compliance with the budget, as well as the financial operations of the Issuer.
(iv) Recommend to the Board of Directors the Issuer's Dividend Policy.
(v) Recommend to the Board of Directors the strategy for repurchase of shares and bonds.
(vi) Review the Issuer's capital strategy, as well as the relevant financial indicators so that the Company can continue to strengthen its balance sheet.
(vii) Review and establish treasury investment policies.
(viii) Review the Issuer's funding and liquidity strategies and relevant metrics used to ensure adequate diversification and achievement of annual funding targets, including cash flow, minimum cash requirements, as well as liquidity and working capital targets.
(ix) Review the priorities, policies and capital allocation guidelines of the Issuer, as well as the financial result of the investments made against the established objectives (periodic review of acquisitions and new investments).
(x) Supervise the Issuer's policies and procedures on hedges, swaps, other derivative transactions and risk management.
(xi) Review movements and liquidity of the Issuer's shares in the market.
(xii) Review and approve recommendations to the Board of Directors in all significant areas of the Issuer's treasury.

See Section 8, "Annexes," "Report of the Finance Committee of Mexichem, S.A.B. de C.V.," of this Annual Report for more information on the Finance Committee and its members.

See Section 4, "Management", subsection d, "Bylaws and Other Agreements" of this Annual Report, for additional information on the Board of Directors.

Officers and Executives

The following table sets forth the names of the principal officers of the Group as of the date of this Annual Report, their current conditions and their seniority in the Company:

First name	**Gender**	**Date of birth**	***Official conditions in English /translated into Spanish***	***Date of entry (dd/mm/yy)***
Daniel Martinez-Valle	Male	June 5, 1971	*Chief Executive Officer/* Director General	*01/31/2018*
Rodrigo Guzmán Perera	Male	March 8, 1972	*Chief Financial Officer/* Director de Finanzas	*06/10/2013*
Francisco Hernández Castillo	Male	March 3, 1966	*General Counsel/* Vicepresidente Legal	*09/01/2016*
Alejandra Rodríguez Sáenz	Female	September 13, 1971	*Corporate Vice-President, Human Capital /* Vicepresidente Corporativo, Capital Humano	*05/05/2014*
Sameer J. Bharadwaj	Male	April 4, 1970	*President, Fluor & Compounds Business Group /* Presidente, Grupo de negocio Fluor y Compuestos	*08/15/2016*
Carlos Manrique Rocha	Male	December 4, 1955	*President, Vinyl Business Group/* Presidente, Grupo de negocio Vinyl	*06/01/1978*
Pedro Martínez Puig	Male	July 5, 1971	*Corporate Vice-President, IT, /* Vicepresidente, Tecnologías de Información	*10/26/2015*
Jorge Luis Guzmán Mejía	Male	August 24, 1970	*Corporate Vice-President, Internal Audit/* Vicepresidente, Auditoría Interna	*01/02/2008*
Maarten Roef	Male	February 23, 1964	*President, Building & Infrastructure / Presidente, negocio de Construcción e Infraestructura*	*10/09/2018*
Ran Maidan	Male	August 9, 1970	*President, Precision Agriculture / Presidente, negocio de Agricultura de Precision*	*10/09/2018*
Peter Hajdu	Male	August 1, 1978	*Chief Executive Officer/* Director General	*10/09/2018*

To date, 9 per cent of senior officials are female.

Daniel Martinez-Valle holds a master’s degree in Business Administration from Stanford Business University and a bachelor’s degree in Economics from the Instituto Tecnológico Autónomo de México. Beginning in February 2018, Daniel was appointed CEO of Mexichem. He previously served as CEO of Kaluz, where he was an essential part in its global expansion by executing strategies with a particular focus on return on invested capital. In addition, he co-founded CoRe, a think tank focused on making cities more livable. Daniel also fostered customer-centric innovation in the companies that are part of Kaluz. Prior to Kaluz, Daniel was Director of Global Strategy and Planning at Cisco, where he was a key member of the leadership team that drove a $5 billion investment from Cisco to Mexico. Previously, he was managing partner of Nebli Capital Advisors, a private investment and investment advisory firm based in Spain, and CEO and founder of Aquanima, a leading provider of global management services to large corporations in Europe and Latin America. Previously, Mr. Martínez-Valle was a founding partner of BBF Ventures.

He also worked as a consultant at McKinsey & Co. and served as Advisor to the Ministry of Communications and Transportation in Mexico and Coordinator of Advisors at the Ministry of Finance, where he actively participated in the negotiation of a USD 20 billion loan during the 1994-95 financial crisis.

Rodrigo Guzmán Perera holds a degree in Business Administration from the Instituto Tecnológico Autónomo de México (ITAM) and a Masters in Global Business Administration in a joint program between the Instituto Tecnológico y de Estudios Superiores de Monterrey (Tec de Monterrey) and the Thunderbird School of Global Management where he graduated with honors. Mr. Guzman began his career at Grupo Financiero Capital and later moved to Grupo Financiero Banamex where he was recruited to work on the opening of Grupo Unión Fenosa's operations in Mexico (today Gas Natural Fenosa) as Finance Director, where he opened more than 11 companies through which the Group's investment in Mexico was channeled for the construction and operation of combined cycle power generation plants for a total of 1,500 MW and an investment of more than $1 billion. In 1998-1999, Mr. Guzmán was the head and leader in Mexico of the consortium formed by Aeropuertos Españoles y Navegación Area, Grupo Dragados, Grupo Empresarial Angeles and Grupo Unión Fenosa, which participated in the privatization process of Grupo Aeroportuario del Pacífico and of which he was the winner, in addition to being responsible for the formation of the corporate structure required for the acquisition of the corresponding share package. From 1999 to 2001 he was a member of the Operating Committee of Grupo Aeroportuario del Pacífico and an assistant non-member of its Board of Directors until 2001 when he was appointed Director of Administration and Finance of Grupo Aeroportuario del Pacífico where he was responsible for the execution of its Initial Public Offering in the New York Stock Exchange (NYSE: PAC) and in the BMV, for which Mr. Guzmán has more than 20 years of experience in financial areas. Mr. Guzman was appointed Mexichem's CFO in June 2013.

Francisco Hernández Castillo studied law at the Universidad Católica Andrés Bello in Caracas, Venezuela. He also holds master's degrees in law from New York University, the University of Rome (La Sapienza) and a Diploma in Advanced Studies (DEA) from the University Paris II Assas. Mr. Hernandez has over 20 years of experience in international companies in various countries. Previously, he served as VP & General Counsel for Emerging Markets for Tyco International where he was responsible for legal, public, regulatory and compliance matters for both the corporate and all Tyco International divisions in Africa, India, the Middle East and Latin America. Prior to that condition, he served as General Counsel for Latin America and the Caribbean for Tyco, a condition he held from July 2007 to February 2013. Mr. Hernandez joined Tyco in May 2005 as a compliance attorney and previously held various conditions as legal counsel 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 Tyco CEO Award in 2012 and recognized as one of the 100 most influential lawyers in Latin America in 2013 by Legal 500 and by Hispanic Executive magazine as one of the top Hispanic legal leaders in the United States in December 2014.

Alejandra Rodríguez Sáenz holds a degree in Organizational Psychology from the Instituto Tecnológico y de Estudios Superiores de Monterrey and an MBA from the Instituto Tecnológico Autónomo de México. Before joining Mexichem, she worked as Human Resources Director for Latin America at The Clorox Company, and has more than 20 years of experience in the area of Human Resources in multinational companies such as Gillette, Procter & Gamble, and Philips.

Sameer S. Bharadwaj joined the Mexichem team in August 2016 as President of the Compounds Business Unit. At the beginning of 2018, Sameer added the Fluor Business Group to its responsibility. Sameer has 22 years of work experience, 19 of which he has dedicated to the advanced materials and chemical industries. Most recently, he served as Vice President and Chief Executive Officer of the Specialty Fluids segment at Cabot Corporation, a global specialty materials company. Previously, he served as Vice President of Marketing, Strategy and Growth for the $1 billion Performance Materials segment at the same company. Prior to this, Sameer was responsible for building the Elastomer Compounds business in Cabot, commercializing this new cutting-edge technology in collaboration with a major tire company. Sameer also worked as a consultant for The Boston Consulting Group for over 3 years in various industries. Sameer holds a degree in Chemical Engineering from the University of Bombay and a PhD in Chemical Engineering from the University of Minnesota, where he worked with alternative fuels, as well as new reactor and catalyst technologies. In 2001, he completed an MBA at Harvard Business School, where he was recognized as one of the top 5% of his class (out of 850). Prior to entering business school, while working as a Senior Researcher at The Dow Chemical Company, he worked on the commercialization of an innovative ethylene production process based on his doctoral research.

Carlos Manrique Rocha has an academic degree in Chemical Engineering from the Universidad Autónoma de Puebla and postgraduate studies in Business Administration from IPADE and Statistical Postgraduate from ITESM. He has worked at Mexichem for more than 30 years and has served as President of the Vinyl business group since 2011. Mr. Manrique is Chairman of the Board of Directors of the TEPEAL Port Terminal.

Maarten Roef is President of the Building & Infrastructure business (Fluent Europe -Wavin- and Fluent LatAm -Amanco-). Mr. Roef has 28 years of professional experience in the plastics and packaging industry. He began his career in 1991 at DSM in the chemical industry, then moved to Van Leer Packaging in 1996, then joined Wavin at the end of 1999. Mr. Roef developed his career at the Company by leading the overseas business of Wavin, the Benelux and then the Northwest region, before being appointed CEO of Wavin by the Wavin Board of Directors in 2013. Subsequently, Mr. Roef was appointed head of the Fluent Europe (Wavin) business from 2016 and now, from the end of 2018, leads the Company's global Construction & Infrastructure business (Fluent Europe and Fluent LatAm - Wavin and Amanco-). In April 2016, he was appointed President of the European Association of Plastic Tubes and Fittings (TEPPFA). Mr. Roef holds a master's degree in Business Economics from Erasmus University in Rotterdam, the Netherlands. In addition, he has studied in the UK and France and at various institutions such as IMD (Switzerland), Insead (France), Kellogg (USA), Stanford (USA) and Harvard (USA).

Ran Maidan joined Netafim as CEO after 15 years of experience in areas such as finance, operations, mergers and acquisitions, marketing and sales. Prior to joining Netafim in 2014, Mr. Maidan was Executive Director of Asia-Pacific, Africa and Middle East at Makhteshim Agan Industries (now Adama Agriculture Solutions) of which he had been CFO for the period 2006-2010. Prior to joining Makhteshim Agan, he held several senior management conditions at Koor Industries, including vice president and chief financial officer, vice president in charge of mergers, acquisitions and taxes, and corporate controller. He also served as CFO of Elisra Defense Group and as Audit Manager at KPMG Somekh Chaikin. Ran holds a bachelor's degree in Accounting and Economics and a master's degree in business administration with a specialization in Finance from Bar-Ilan University and is a CPA in Israel.

Peter Hajdu graduated from the University of California at Berkeley with an MBA and a degree in Technology Management. During his corporate career, he also attended numerous senior management programs at Harvard Business School and IMD in Switzerland. He began his career as a consultant working for McKinsey and Company. Before joining Mexichem, he worked at Cisco, the world's largest network company, where he held various management conditions. Mr. Hajdu was Director of Strategy and Business Development and a member of the board of directors of Cisco Emerging Markets. In 2010, he became Managing Director of operations in several developing countries for the same company. His last condition at Cisco was as Chief Executive Officer of Cisco Central and Eastern Europe. Since 2018 Mr. Hajdu serves as President of the Company's Datacom business (Fluent US/Canada and AMEA). Within his capabilities, Mr. Hajdu has lectured at major conferences and advises heads of state and governments on issues of competitiveness, digitization, education, inclusion and social development.

Pedro Martínez Puig holds a degree in Business Administration and Management from ESADE University in Barcelona, Spain and a master’s degree in International Business Administration and Management from ESADE and the Rotterdam School of Economics in the Netherlands. With more than 20 years of experience in the Information Technology sector, he joined Mexichem in October 2015 as Corporate Vice President of IT. Prior to joining the Mexichem team, Mr. Martinez worked in the Henkel Group, as CIO for Latin America and later as IT Director in the German corporate offices.

Jorge Luis Guzmán Mejía has a degree in Business Administration and an MBA from the Universidad Iberoamericana. Mr. Guzman also holds CIA & CSA certifications accredited by the Florida Institute of Internal Auditors. Prior to joining Mexichem in 2008, he worked at AVON, Becton Dickinson, Dupont, and Dow Chemical. He has over 20 years of experience in the areas of finance, treasury, credit, auditing, risk, and internal control (Sarbanes Oxley).

Diversity

Our corporate culture respects professional, cultural and gender diversity and encourages professional development based on talent, character, education, knowledge, discipline and work, without distinction of sex, race, religion or other similar subjective factors. In addition, Mexichem strictly rejects any kind of discriminatory behavior, including gender discrimination. To date, the Issuer is working to materialize policies, to be approved by our Board of Directors, that actively promote corporate and labor inclusion, without distinction of sex, diversity and the selection of the best candidates for the Issuer, both in our governing bodies and among our employees, without specific standards, but with a view to broadening the diversity of gender, perspective and experience. This, with those directly responsible for monitoring compliance. Although at the date of this Annual Report, of the total number of our relevant executives and directors we have a percentage of 13% women and 87% men (16.7% women and 83.3% men on the board; while 9% of our executives are women and 91% are men), we expect this percentage to increase as a result of a more active effort, driven by our initiatives to increase the diversity in perspectives and experiences of our human factor.

Compensation to members of the Board of Directors and of the Audit and Corporate Practices Committee

According to the resolutions of the Ordinary General Shareholders' Meeting held on April 23, 2018, it was resolved that the Chairmen of the Board of Directors and of the Audit and Corporate Practices Committees receive the amount of $160,000.00 Mexican pesos for each meeting they attend, as well as that the members of the Board of Directors and of the Audit and Corporate Practices Committees receive the amount of $80,000.00 Mexican pesos for their attendance at the meetings of said Board and/or Committees, respectively.

The compensation to management and other key members of management during the year was as follows:

	2018	2017	2016
Short-term benefits	$ 7,556	$8,471	$ 7,695
Post-retirement benefits	-	-	729
Termination benefits	873	159	659
	$ 8,429	$ 8,630	$ 9,083

Intermediate Management Bodies

The Committees that assist the Board of Directors are the Audit Committee, the Corporate Practices Committee and the Finance Committee. Mexichem does not have intermediate bodies additional to those referred to above.

Code of Ethics

Mexichem must always be a company recognized for its principles and values. In order to maintain and strengthen its ethical and professional performance, its Code of Ethics has been updated and strengthened, while a more effective reporting system has been established through which any conduct contrary to the Company's principles and values is reported.

Considering the foregoing considerations, Mexichem's Board of Directors approved and authorized a new version of the Code of Ethics.

The Code of Ethics sets forth Mexichem's commitments with society, the government, and competitors, as well as with its employees, suppliers, consumers, customers, partners, and shareholders.

The Code of Ethics is the guideline for behavior in Mexichem's daily operation.

Main Shareholders

As of the date of this Annual Report, the principal shareholder of the Company is Kaluz, which is controlled by the Valle family, and which owns approximately 42.91% of the voting capital stock and should therefore be considered as a shareholder exercising significant influence under the LMV. The Perochena Valle brothers individually own 0.45%, other shareholders related to the Perochena Valle family are: (a) Ignacio del Valle Ruíz with 6.90, and (b) 25 individuals and companies related to the Perochena Valle family to a greater or lesser extent with 1.94%, own approximately 8.84% of the capital stock with voting rights, so that together with Kaluz should be considered as a group of people who exercise significant influence over the Issuer, according to the LMV.

See Section 1, "General Information," item c, "Risk Factors," sub-item c, "Risk Factors Related to Securities Issued by the Company," in this Annual Report - about the principal and related shareholders who control Mexichem, may have interests that differ from the rest of the shareholders and the holders of the Certificados Bursátiles and/or the Notes for more information about the principal shareholders of Mexichem.

As of December 31, 2018, the Company's capital remains unchanged. The capital is represented by 2,100,000,000 shares.

Employee and executive shareholdings

To the best of the Company's knowledge, none of its employees and/or relevant management have individual holdings of more than 1%.

Shareholding of Directors

The main shareholders of the Company are members of the Perochena Valle Family (Antonio del Valle Perochena, María Blanca del Valle Perochena, María de Guadalupe del Valle Perochena, Francisco Javier del Valle Perochena and Juan Pablo del Valle Perochena), through the company Kaluz, S.A. de C.V. of which 43% of the shares are held in equal shares, the remaining 57% of Kaluz, S.A. de C.V. which belongs to Controladora Gek, S.A.P.I. de C.V., of which the Perochena Valle brothers are 100% shareholders (20% each).

Maria de Guadalupe, Antonio and Juan Pablo del Valle Perochena, are also Directors of the Issuer.

Based on the lists of holders provided to the Company by various securities market intermediaries on the occasion of its Ordinary and Extraordinary General Shareholders' Meeting held on April 23, 2019, the following directors of the Company maintain a direct and individual shareholding of more than 1% and less than 10% of the Company's capital stock:

Shareholder	Condition
Ignacio del Valle Ruíz	Assets Director

The person mentioned above holds in aggregate the equivalent of 6.90% of the Company's subscribed and paid-in capital stock.

Significant Changes in Last Three Years of Shareholder Holding

There have been no significant changes in shareholder ownership in the last three fiscal years.

d) Bylaws and Other Agreements

The following is a brief summary of the main provisions contained in the Issuer's bylaws.

Right of Preference

In cash capital increases, shareholders will have preference to subscribe the new shares issued to represent the increase. This right must be exercised within the term established for such purpose by the Shareholders' Meeting that decrees the increase, which in no case may be less than 15 (fifteen) calendar days counted from the date of publication of the corresponding notice in the electronic system established by the Ministry of Economy. In addition, the Company may publish the respective notice in a newspaper with widespread circulation at the registered office. However, if all the shares comprising the capital stock are represented at the Meeting that decreed the increase, said period of at least 15 (fifteen) days shall begin to run and be counted, if so resolved by said Meeting, as from the date the Meeting is held, and the shareholders shall be deemed to have been notified of the resolution at that time, and therefore its publication shall not be necessary.

If, after the expiry of the aforementioned period, certain shares still remain unsubscribed, the Board of Directors shall have the power to determine the person or persons to whom the unsubscribed shares must be offered for subscription and payment.

Shareholders shall not enjoy a pre-emptive right in the case of: (i) the merger of the Company, (ii) the conversion of debentures into shares, (iii) the public offering of shares under the terms of Article 53 of the Securities Market Act and Article Eight of the Bylaws, (iv) the increase in the capital stock through the payment in kind of the shares issued, or through the cancellation or capitalization of liabilities payable by the Company, (v) the placement of shares acquired by the Company in accordance with Article 56 of the LMV and Article Thirteen of the Bylaws (repurchase fund), (iv) the capitalization of share premiums, retained earnings and reserves or other items of the assets of the Company; and (vii) any other case where the Law permits the non-application of the pre-emptive subscription right.

Provisions for Change of Control

The ninth article of the Bylaws contains measures to limit shareholding, such that any transfer of shares to any person or group of persons acting in a concerted manner, which accumulates in one or more transactions (without time limit) 10% or more of the total shares representing the outstanding capital stock, shall be subject to the authorization of the Board of Directors.

The above, including but not limited to: a) The purchase or acquisition by any title or means, of shares representing the capital stock of this Company, of Classes "I" and "II", or any other Class or Series of shares that are issued or will be issued in the future by the Company, including Ordinary Participation Certificates (CPO's) or any other instrument whose underlying value are shares issued by the Company, b) The purchase or acquisition of any class of rights corresponding to the holders or owners of Class "I" and "II" shares or of any other Class or Series of shares issued in the future by the Company, c) Any contract, agreement or legal act that seeks to limit or results in the transfer of any of the rights and powers that correspond to shareholders or owners of shares in the Company, including derivative financial instruments or operations, as well as acts that imply the loss or limitation of voting rights granted by shares representing the capital stock of this Company, and d) Purchases or acquisitions intended to be made by one or more interested parties, who act in a concerted manner or are linked to each other, de jure or de facto, to take decisions as a group, association of persons or consortia.

The prior favorable written agreement of the Board of Directors shall be required regardless of whether the purchase or acquisition of the shares, securities and/or rights is intended to be made on or off the Stock Exchange, directly or indirectly, through a public offer, private offer, or through any other modality or legal act, in one or several transactions of any legal nature, simultaneous or successive, in Mexico or abroad.

The favorable prior written agreement of the Board of Directors shall also be required for the execution of agreements, contracts and any other legal acts of any nature, oral or written, by virtue of which voting mechanisms or association agreements are formed or adopted, to be exercised at one or more Shareholders' Meetings of the Company, each time the number of grouped votes results in a number equal to or greater than any percentage of the total shares representing the capital stock of the Company that are equal to or greater than 10% (ten percent) of the capital stock. An agreement of this nature shall not be understood to be an agreement entered by shareholders for the appointment of minority Directors. Such agreements shall be subject to the provisions of the LMV and shall not be enforceable against the Company to the detriment of the other shareholders or the Company's financial or business interests.

If purchases or acquisitions of shares are made, or restricted agreements are entered into, without observing the requirement to obtain prior favorable written agreement of the Board of Directors of the Company and, if applicable, compliance with the aforementioned provisions, the shares, securities and rights pertaining to such purchases, acquisitions or agreements, shall not grant any right or faculty to vote at the Company's Shareholders' Meetings, nor shall any value be given to certificates of deposit of shares issued by any credit institution, financial intermediary or stock exchange, depositary or institution or for the deposit of securities, to accredit the right to attend a Shareholders' Meeting. Nor shall such shares, rights or securities be entered in the Register of Shares of the Company or the Company shall cancel their entry in the Register of Shares kept by the Company.

Shares

All shares, both those representing the minimum fixed capital stock, with no right of withdrawal, and those representing variable capital, are ordinary, nominative, without nominal value and confer on their holders' equal rights and obligations.

Shareholders' Meetings

The General Shareholders' Meeting is the supreme body of the Company. Meetings shall be Ordinary, Extraordinary or Special. The Extraordinary Meetings will be those that meet to deal with any of the matters referred to in Article 182 of the General Corporations Act, as well as Articles 53 and 108 of the LMV. Special Meetings will be those that meet to deal with matters that may affect a single category of shareholders. All other Meetings shall be Ordinary, the latter being held at least once a year within the four months following the end of the fiscal year, to address the matters indicated in Articles 181 of the General Corporations Act and 56 section IV of the LMV.

The Annual Ordinary General Shareholders' Meeting will appoint the members of the Board of Directors, based on the payroll proposed by the control group. In accordance with the LMV and the Bylaws, any shareholder or group of shareholders owning shares representing 10% of the capital stock may appoint and revoke a member of the Board of Directors at a general shareholders' meeting. Such appointment may only be revoked by the other shareholders when the appointment of all the other directors is revoked.

In terms of Article 47 of the LMV, the Ordinary General Shareholders' Meeting, in addition to the provisions of the General Corporations Act, will meet to approve the operations that the Company or the legal entities it controls intends to carry out, within the period of a fiscal year, when they represent 20% (twenty percent) or more of the consolidated assets of the Company based on figures corresponding to the close of the previous quarter, regardless of the way in which they are carried out, whether simultaneously or successively, but which due to their characteristics may be consolidated as a single operation.

In addition, the Annual Ordinary General Shareholders' Meeting shall be informed of the annual report prepared by the Committee or Committees that perform the Corporate Practices and Auditing functions referred to in Article 43 of the LMV, which must be presented to said Shareholders' Meeting by the Company's Board of Directors.

Shareholders' Meetings must be called at least 15 calendar days in advance, through the publication of the respective call through the electronic system of publications established for such purpose by the Ministry of Economy of the Mexican government. In addition, Mexichem publishes this announcement in a newspaper with widespread national circulation. The call for the Shareholders' Meetings invariably contains the *agenda* to be dealt with, which may not be varied unless 100% of the issued shares are represented at the Shareholders' Meeting.

The Ordinary Shareholders' Meeting will be considered legitimately installed by virtue of the first call if at least 50% plus one of all the shares with voting rights in such Meetings are present. In the case of a second or subsequent call, with the expression of this circumstance, it will be considered legitimately installed with any number of shares represented in the Meeting.

The Extraordinary Meeting shall be legally installed by virtue of the first call if at least 75% of all the shares entitled to vote in the Meeting are represented. In the case of a second or subsequent call, with the expression of this circumstance, it shall be considered legitimately installed if at least 50% plus one of all the shares with the right to vote in said Meeting is represented in it.

The Ordinary or Extraordinary General Meeting will be legitimately installed without the need to call a meeting if all the shares into which the capital stock is divided are represented and may resolve any matter if at the time of voting all the shares are still represented.

Admission to Shareholders' Meetings

In order to attend the Meetings, shareholders must obtain from the Issuer's secretary the corresponding admission card for the Meeting, at least one day in advance, at the day and time set for the holding of the Meeting.

In order to obtain the admission card, shareholders must deposit their shares at the Issuer's secretary's office in advance; in the case of shares deposited at the S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V., This must be complemented with the list referred to in Article 290 of the LMV and delivered to the address of the Issuer's secretariat or to the address of the Issuer to obtain the admission card.

Shareholders may be represented at the Meetings by the person or persons they appoint by means of a power of attorney signed before two witnesses or by representatives with sufficient general or special power of attorney granted in terms of the applicable legislation or through the forms referred to in Article 49 of the LMV, which must be available to shareholders from the day of publication of the call.

Transactions in securities of the Company

On February 24, 2015, the Board of Directors approved the "Policies and Agreements on Securities Transactions and the Acquisition and Placement of Mexichem, S.A.B. de C.V.'s Own Shares" and the "Policies and Agreements on Securities Transactions and the Acquisition and Placement of Mexichem, S.A.B. de C.V.'s Own Shares". The purpose of this document is to disclose the limitations/prohibitions that certain persons related to the Company have considering that its shares are listed on the BMV, among them the members of the Board of Directors, the General Director, the relevant Officers and others, to carry out operations with securities (shares or any class of securities issued by Mexichem or credit securities that represent them; as well as optional securities or derivative financial instruments that have such securities or securities as underlying) issued by the Issuer itself.

Although it is the responsibility of the members of the Board of Directors, Relevant Executives, and other parties obligated under the aforementioned policy to comply with the same and with the regulations regarding transactions with securities issued by Mexichem, including the use of insider information, the Company has tried to alert such persons about such provisions and regularly informs them of the periods of restriction for the purchase or sale by them of Mexichem shares based on the existence of insider information that has not been communicated to the public.

Compensation and Performance Evaluation of Directors and Committee Members

The Directors shall receive as compensation for their services the one established in cash or in kind by the Ordinary General Shareholders' Meeting that has appointed them. This Meeting may delegate to the Board of Directors or any other competent administrative body the implementation of any remuneration in kind for Directors. The Corporate Practices Committee is responsible for evaluating the performance of and compensation to the Issuer's relevant executives.

Power of the board to make decisions regarding any other matter in which they may have a personal interest

Members and, where appropriate, the Secretary of the Board of Directors who have a conflict of interest in any matter must abstain from participating and be present at the deliberation and voting on that matter.

Amendments to the Bylaws

The last amendment to the bylaws was approved by the Ordinary and Extraordinary General Shareholders' Meeting on April 23, 2019. Among the most relevant changes are the following: (i) certain clarifications to article nine to indicate that the requirements and considerations applicable to the acquisition of shareholdings will apply to 10% or more of the capital stock; and (ii) changes to other articles of the Bylaws relating to the requirements for the appointment by minorities of members of the Board of Directors. A summary of these changes is presented below:

Article Two: Reflects the change by which the Federal District shall now be known as Mexico City.

Article Three: Clarifies of the purpose of the company.

Article Six: Sets forth that with the prior express authorization of the National Banking and Securities Commission, the Company may issue shares with limited, restricted or no voting rights; and that the preferential subscription right referred to in Article 132 of the General Corporations Act shall not be applicable in the case of capital increases through public offerings.

Article Seven: These are editorial adjustments only.

Article Nine: Regulates the acquisition of 10% or more of shares representing the capital stock; and in addition to the foregoing, that a majority of the members of the Board of Directors who have been elected to such condition before any circumstance that could imply a change of Control is verified, must grant their written authorization so that a change of Control can take place in the Company.

It is important to note that according to the proposed amendment, the amendment to this Article may only be approved at an Extraordinary General Shareholders' Meeting of the Company in which 5% or more of the outstanding shares have not voted against on the date of the respective Shareholders' Meeting.

Article Ten: Specifies that the pre-emptive right is in terms of the provisions of Article 132 of the General Corporations Act.

Article Thirteen: Sets forth the power of the Board of Directors to appoint the person or persons responsible for the management of resources for the acquisition and placement of own shares, when such appointment has not been made by the Shareholders' Meeting.

Article Fifteen: These are editorial adjustments only.

Article Twenty-eight: Sets forth requirements for appointing and revoking a board member by shareholders owning shares representing 10% of the capital stock.

Article Thirty-Second: Incorporates to the requirements for Directors those persons who, in the opinion of the Company's Corporate Practices Committee, enjoy recognized professional or business experience and prestige, as well as moral solvency, and who do not find themselves in situations of conflict of interest with the Company or its subsidiaries.

Article Thirty-four: Sets forth the procedure for the election of directors proposed by shareholders owning shares representing 10% of the capital stock, as well as including the power of the Company's Corporate Practices Committee to present to the Annual General Shareholders' Meeting a spreadsheet with the names of the candidates proposed to serve on the Company's Board of Directors, including those proposed by minority shareholders.

Article Forty-Four: Includes as a power of the Corporate Practices Committee to propose to the shareholders' meeting those candidates who, in its opinion, should be members of the Board of Directors of the Company, in the event that its members at the time of the election are not ratified in their conditions by the Shareholders' Meeting.

Process to be followed to change the rights associated with the actions

Both the shares representing the minimum fixed capital stock, with no right of withdrawal, and those representing variable capital, are ordinary, nominative, without nominal value expression and confer on their holders' equal rights and obligations.

Subject to the express authorization of the National Banking and Securities Commission, the Company may issue shares with limited, restricted or no voting rights, including those indicated in Articles 112 and 113 of the same Law.

The issuance of shares other than ordinary shares shall not exceed twenty-five percent of the paid-in capital placed among the investing public. When expressly authorized by the National Banking and Securities Commission, such limit may be extended in certain exceptional cases.

Limitations on the acquisition of shares by shareholders or a certain part of shareholders

Any transfer of shares to any person or group of persons acting in a concerted manner that accumulates in one or more transactions (without time limit) 10% (ten percent) or more of the total shares representing the outstanding capital stock shall be subject to the authorization of the Board of Directors.

The prior favorable written agreement of the Board of Directors shall be required regardless of whether the purchase or acquisition of the shares, securities and/or rights is intended to be made on or off the Stock Exchange, directly or indirectly, through a public offer, private offer, or through any other modality or legal act, in one or several transactions of any legal nature, simultaneous or successive, in Mexico or abroad.

If purchases or acquisitions of shares are made, without observing the requirement of obtaining the favorable prior written agreement of the Board of Directors of the Company, the shares, securities and rights subject to such purchases or acquisitions, shall not grant any right or power to vote at the Company's Shareholders Meetings, nor shall any value be given to the certificates of deposit of shares issued by any credit institution, financial intermediary or stock exchange, depositary or institution or for the deposit of securities of the Country, in order to accredit the right to attend a Shareholders Meeting.

Notwithstanding the foregoing, and regardless of any consequence deriving from non-compliance with the foregoing, each person who acquires shares, securities, instruments or rights representing the Company's capital stock in violation of the foregoing shall be obliged to pay the Company a conventional penalty for an amount equal to the price of all the shares, securities or instruments representing the Company's capital stock that have been the object of the prohibited transaction. In the event that the operations that gave rise to the acquisition of a percentage of shares, securities, instruments or rights representing the Company's capital stock equal to or greater than 10% (ten per cent) of the capital stock, are carried out free of charge, the conventional penalty shall be equivalent to the market value of said shares, securities or instruments, provided that the authorization of the Company's Board of Directors has not been obtained.

As long as the Company holds the shares representing its capital stock registered in the National Securities Registry, the foregoing requirement, in the case of operations carried out through the stock exchange, shall additionally be subject to the rules established, as the case may be, by the Securities Market Act or those issued pursuant thereto by the National Banking and Securities Commission.

Bylaw clauses or agreements between shareholders that limit or restrict the management of the issuer or its shareholders

There is no restriction whatsoever for shareholders to participate in the management of the Company. In this respect, the Bylaws establish that shareholders owning shares with voting rights, even limited or restricted, which individually or collectively hold 10% of the Capital Stock, will have the right to appoint and revoke at the General Shareholders' Meeting a member of the Board of Directors and their respective alternate, on the understanding that it must always be respected that 25% of the Directors must be independent. Such appointment may only be revoked by the other shareholders when the appointment of all the other Directors is revoked, in which case the persons substituted may not be so appointed during the twelve months immediately following the date of revocation.

Minority shareholders who, in terms of the foregoing, intend to appoint a Director must notify the Company's Corporate Practices Committee at least five working days prior to the Annual General Shareholders' Meeting. This communication must contain at least: (i) the full name and experience of the person they propose to appoint, and (ii) whether or not, in their judgment, they satisfy the conditions of independence, recognized professional or business experience and repute, and moral solvency, as well as those defined in the laws and other applicable provisions.

Shareholders' Agreement dated September 1, 2010, regarding the exercise of voting rights in shareholders' meetings.

Mexichem has been notified of the existence of a Shareholders' Agreement entered into on September 1, 2010, between the Company's principal shareholder, Kaluz, S.A. de C.V., and other shareholders (I.A.P., various members of the Valle Perochena Family, as well as the company Inmobiliaria Asturval, S.A. de C.V.), as well as various modifications thereto.
Pursuant to this Agreement, Kaluz, S.A. de C.V. may determine during the term of the Agreement (and in addition to its own shares) the direction of the vote with respect to the shares of the Company owned by the other referred shareholders, which together represent approximately 0.8% of the total shares representing the outstanding capital stock of Mexichem.

The execution of the mentioned Agreement does not imply the constitution of rights in favor of Kaluz, S.A. de C.V. on the ownership of the shares subject matter thereof.

e) Other corporate governance practices

The Company is governed by corporate governance principles that frame its operations and sustain its results. As a public company listed on the BMV, we adhere to Mexican law and, specifically, to the Securities Market Act. We also adhere to the principles set forth in the Code of Best Corporate Practices, endorsed by the Business Coordinating Board.

In order to carry out its functions, determine corporate strategy, define and supervise the implementation of the values and vision that identify us, as well as approve transactions between related parties and those carried out in the ordinary course of business and in accordance with its bylaws, the Board of Directors relies on the Audit and Corporate Practices Committees, whose members, including its chairman, must be independent directors. For further information on the Board of Directors and the External Auditor, see sections "4. Directors - a) External Auditors", "4. Directors - c) Directors and Shareholders" and "4. Management - d) Bylaws and Other Agreements" in this Annual Report.

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

CHAPTER ONE

NAME, ADDDRESS, PURPOSE, DURATION AND NATIONALITY

ARTICLE ONE – NAME*.* The Company's name is "Mexichem" and must always be followed by the words "SOCIEDAD ANONIMA BURSÁTIL DE CAPITAL VARIABLE", or its abbreviation "S.A.B. de C.V.".

ARTICLE TWO – ADDRESS*.* The address of the Company is Mexico City, where the main administration of the Company and its effective management headquarters shall be located; offices, agencies, branches, warehouses, representations or any other facilities may be established in any other place in the Mexican Republic or abroad and conventional domiciles may be established or jurisdictions may be submitted to outside said domicile, without on the understanding that its corporate domicile is modified.

ARTICLE TRHEE – PURPOSE. *The corporate purpose of the Company is:*

- **(i)** To promote, constitute, organize, exploit, acquire, administer and/or participate in the capital stock or assets of all kinds of trading or civil corporations, associations or companies, whether industrial, commercial, service or of any other nature, both national and foreign, as well as to participate in their liquidation.
- **(ii)** To acquire shares, interests, participations, parts of the company or any other title representing capital in other trading or civil corporations or any other entities or companies including trusts or any other instrument, with or without legal personality, whether national or foreign, as part of their incorporation or by means of their subsequent acquisition, as well as to sell or transfer such shares, interests, participations, parts of the company or any other title representing capital, and to carry out all the appropriate acts that may correspond to it as the controlling company of the companies it holds or of the majority of their shares or parts of the company.
- **(iii)** Receive from or provide to civil or trading corporations / or individuals, services in general, including administrative, organizational, tax, legal, advisory and technical consulting in industrial, accounting, commercial, administrative, commercial or financial matters and in general any kind of advice and / or consulting.
- **(iv)** To obtain, acquire, develop, make improvements, use, grant, receive or dispose of and in general to use and exploit, on their own behalf or on behalf of third parties, under any legal title, including licenses, of all kinds of patents, trademarks, names, commercial notices, utility models, drawings, designs, industrial secrets, certificates of invention, of Corporate Practices of origin and any other industrial, intellectual property rights or copyrights; and in any other way, acquire, obtain, use or dispose of by any legal title, concessions, permits, franchises, licenses, authorizations, assignments, commissions and rights over processes, whether in Mexico or abroad.
- **(v)** To enter into all types of mutual, loan or credit agreements, with or without a specific collateral, and to guarantee or guarantee in any form, through real or personal guarantees or as a guarantor or joint and several guarantor, the fulfillment of the obligations or credit instruments of its subsidiaries, affiliates or associates or, with the authorization of the Board of Directors, of any other person.
- **(vi)** To subscribe, issue, write, trade, draw against, endorse, accept, discount and guarantee all kinds of credit securities or debt instruments, regardless of their denomination, whether on its own account, or account of its subsidiaries, associates or affiliates, including obligations with or without mortgage or collateral, and with the authorization of the Board of Directors, of any other person.
- **(vii)** To lease out or rent or receive in commodatum, as well as to acquire, possess, exchange, alienate, transfer, dispose of or encumber the ownership of or possess all kinds of movable and immovable property, as well as the real or personal rights on them that are necessary or convenient for its corporate purpose or for the operations or corporate purpose of the trading or civil corporations, associations or institutions in which the Company has an interest or participation of any nature.
- **(viii)** To place, in accordance with the Securities Market Act and any general provisions issued by the National Banking and Securities Commission, its own shares, provided that they are registered in the National Securities Registry, securities representing them, credit securities or debt instruments, in domestic or foreign securities markets, with the prior authorization of the competent authorities, including stock exchanges or quotation systems in Mexico or abroad.
- **(ix)** As long as the Company's shares are registered in the National Securities Registry, the latter may acquire or place the shares representing its capital stock, in accordance with the applicable legal provisions and the policies and agreements issued by the Board of Directors,

through the Mexican Stock Exchange, S.A.B. de C.V. and/or any other stock exchange in which they are listed.

(x) To issue unsubscribed shares for placement among the public under the terms of article 53 of the Securities Market Act in accordance with the procedure established in these bylaws.

(xi) The production, transformation, adaptation, import, export, sale or disposal of and, in general, the marketing of machinery, spare parts, materials, inputs, raw materials and finished products. Carrying out all types of trading operations on its own account and that of third parties.

(xii) Execute all kinds of commercial acts, being able to buy and sell, import and export all kinds of items and goods.

(xiii) To act as commission agent, mediator, intermediary, agent, administrator, promoter, intermediary, representative, warehouseman or merchant in general, by itself or by any person or company.

(xiv) In general, to perform, enter into and execute all manner of acts, contracts, agreements and other operations of any nature that are necessary or advisable for the performance of the above purposes, including the acquisition, sale, encumbrance, lease and administration of real estate.

ARTICLE FOUR – <u>DURATION</u>. The duration of the Company shall be indefinite.

ARTICLE FIVE – <u>NATIONALITY</u>. The Company is Mexican and is incorporated and will operate under the laws of the United Mexican States. Shareholders may be Mexican or of any other nationality, and the percentages of foreign investment, if any, established by applicable law, must be met.

Any foreigner who has or acquires an interest or social participation in the Company formally undertakes with the Ministry of Foreign Affairs to consider themselves as a national with respect to the shares of this Company that they acquire or of which they own, as well as with respect to the goods, rights, concessions, rights and obligations derived from the contracts to which this Company is a party with the Mexican authorities, and not to invoke the protection of its government, under penalty of losing to the benefit of the Mexican Nation the shares or social participations that they have acquired.

The agreement provided for in the preceding paragraph shall be deemed to have been agreed upon before the Ministry of Foreign Affairs, simply because the express agreement or pact of reference is included in these Bylaws with respect to current or future foreign shareholders.

CHAPTER TWO

CAPITAL STOCK, MODIFICATIONS TO CAPITAL AND SHARES

ARTICLE SIX – CAPITAL STOCK AND SHARES. Capital Stock is Variable. The minimum fixed capital without right of withdrawal is the amount of $406,566,566.00 (Four Hundred Six Million Five Hundred Sixty-Six Thousand Five Hundred Sixty-Six Pesos and Zero Cents), represented by 308,178,735 (Three Hundred Eight Million One Hundred Seventy-Eight Thousand Seven Hundred Thirty-Five) Class "I", nominative, ordinary shares with no nominal value and which are fully subscribed and paid.

The variable part of the Company's Capital Stock will be unlimited and will always be represented by Class "II" shares, which will have the characteristics determined by the Ordinary or Extraordinary General Shareholders' Meeting that issues them; however, they must be nominative and with no nominal value.

Both the shares representing the minimum fixed capital stock, with no right of withdrawal, and those representing variable capital, are ordinary, nominative, with ordinary shares with no nominal value and confer on their holders’ equal rights and obligations.

Subject to the express authorization of the National Banking and Securities Commission, the Company may issue shares with limited, restricted or no voting rights, pursuant to the provisions of Article 54 of the Securities Market Act and other applicable legal provisions.

The issuance of shares other than ordinary shares shall not exceed twenty-five percent of the paid-in capital placed among the investing public. When expressly authorized by the CNBV, this limit may be extended, provided that it is a scheme that contemplates the issue of any type of shares that are necessarily convertible into ordinary shares within a period of no more than five years from the date of their placement, or that it is a case of shares or investment schemes that limit voting rights on the basis of the nationality of the holder.

Non-voting shares will not be computed for purposes of determining the quorum at Shareholders' Meetings. Restricted or limited voting shares will only be computed to determine the quorum and resolutions at the Shareholders' Meetings to which their holders must be summoned to exercise their right to vote.

The rights of minority shareholders shall be governed by Article 50 of the Securities Market Act or, where such Law is silent, by the General Corporations Act or these Bylaws.

Subsidiaries of the Company shall not directly or indirectly invest in the capital stock of the Company or of any other company that controls the Company, except as provided for in Article Twenty-One of these Bylaws.

The Company may issue unsubscribed shares to be held in treasury for subsequent subscription by the public, subject to the following:

i. That the Extraordinary General Shareholders' Meeting approves the maximum amount of the capital increase and the conditions under which the corresponding share issues must be made.

ii. That the shares issued are subscribed for by means of a public offering, following registration in the National Securities Registry, in compliance with the provisions of the Securities Market Act and other general provisions emanating therefrom.

iii. That the amount of the subscribed and paid-up capital is announced when the authorized capital represented by the issued and unsubscribed shares is published.

iv. The pre-emptive subscription right referred to in Article 132 of the General Corporations Act shall not be applicable in the case of capital increases by means of public offerings.

CAPITAL STOCK INCREASES – Except for increases in Capital Stock derived from the placement of Own Shares referred to in Article Thirteen of these Bylaws, any increase in Capital Stock of the Company shall be by resolution of the General Shareholders' Meeting, in accordance with the following rules:

(i) In the event of an increase in the Minimum Fixed Capital, the resolution will be adopted by the Extraordinary General Shareholders' Meeting, which will also agree to amend Article Six of these Bylaws. In any case, the minutes that are drawn up on the Shareholders' Meeting that resolves said increase must be notarized and registered in the Public Registry of Commerce of the registered office of the Company.

(ii) If the increase is in the variable part of the Company's Capital, said increase may be agreed by an Ordinary General Shareholders' Meeting, without the need to amend the Company's Bylaws. In any case, the minutes that are drawn up on the Shareholders' Meeting that resolves said increase must be notarized before a notary public without registration in the Public Registry of Commerce of the registered office of the Company being necessary.

(iii) Under no circumstances may capital increases be decreed without the previously issued shares having been fully subscribed and paid for or having been cancelled.

(iv) Capital increases may be affected by means of subsequent contributions from shareholders, the capitalization of stockholders' equity accounts referred to in Article 116 of the General Corporations Act, or by payment in cash or in kind, or by capitalization of liabilities. In increases by capitalization of accounts of the stock capital, all shares will have right to the proportional part that corresponds to them of the shares that are issued to cover the increase, except that the same one is carried out without emission of new shares, since the titles that represent them do not express nominal value.

The General Shareholders' Meeting that decrees the increase of the Capital Stock shall also determine the terms and conditions for carrying it out, and in any case the corresponding minutes must be notarized.

ARTICLE EIGHT – <u>ISSUANCE OF SHARES FOR PUBLIC OFFERING</u>. Subject to the provisions of Article 53 of the Securities Market Act, the Shares that are issued to represent increases in Capital Stock and that by resolution of the Meeting that decrees their issue must be deposited with the Company's Treasury to be delivered as they are subscribed, may be offered for subscription and payment by the Board of Directors, in accordance with the powers granted to the Board of Directors by the Meeting of Shareholders that decrees the issuance of said shares.

The pre-emptive subscription right referred to in Article 132 of the General Corporations Act and Article Ten of these Bylaws shall not be applicable in the case of capital increases by means of public offerings.

ARTICLE NINE – <u>MEASURES TO LIMIT SHAREHOLDING</u>. Any transfer of shares, in favor of any person or group of persons acting in a concerted manner or the acquisition by these of shares, which accumulates in one or several transactions (without time limit) 10% (ten per cent) or more of the total shares representing the Company's outstanding Capital Stock, shall be subject to the authorization of the Board of Directors.

The provisions of the previous paragraph apply by way of example, but are not limited to: a) The purchase or acquisition by any title or means, of shares representing the capital stock of this Company, of Classes "I" and "II", or any other Class or Series of shares that are issued or will be issued in the future by the Company, including Ordinary Participation Certificates (CPO's) or any other instrument whose underlying value are shares issued by the Company, b) The purchase or acquisition of any class of rights corresponding to the holders or owners of Class "I" and "II" shares or of any other Class or Series of shares issued in the future by the Company, c) Any contract, agreement or legal act that seeks to limit or results in the transfer of any of the rights and powers that correspond to shareholders or owners of shares in the Company, including derivative financial instruments or operations, as well as acts that imply the loss or limitation of voting rights granted by shares representing the Capital Stock of this Company, and d) Purchases or acquisitions intended to be made by one or more interested parties, who act in a concerted manner or are linked to each other, de jure or de facto, to take decisions as a group, association of persons or consortia.

The prior favorable written agreement of the Board of Directors referred to in this Article shall be required regardless of whether the purchase or acquisition of the shares, securities and/or rights is intended to be made on or off the Stock Exchange, directly or indirectly, through a public offer, private offer, or through any other modality or legal act, in one or more transactions of any legal nature, simultaneous or successive, in Mexico or abroad.

The favorable prior written agreement of the Board of Directors shall also be required for the execution of agreements, contracts and any other legal acts of any nature, oral or written, by virtue of which voting mechanisms or association agreements are formed or adopted, to be exercised at one or more Shareholders' Meetings of the Company, each time the number of grouped votes results in a number equal to or greater than any percentage of the total shares representing the capital stock of this Company that are equal to or greater than 10% (ten percent) of the capital stock. An agreement of this nature shall not be understood to be an agreement entered by shareholders for the appointment of minority Directors. Such agreements shall be subject to the provisions of the Securities Market Act and shall not be enforceable against the Company to the detriment of the other shareholders or the Company's financial or business interests.

The written request for acquisition or for authorization of the acts described in the preceding paragraph shall be submitted by the interested parties for consideration by the Board of Directors of the Company and shall be delivered to the Chairman of the Board with a copy to the Secretary, in the understanding that any false statement will cause the applicants and their represented parties to incur the respective criminal sanctions and to be responsible for the damages and harm that they cause, including the moral damage that they cause to the Company, its subsidiaries and affiliates. Such request shall include at a minimum, but not be limited to, the following information which shall be provide under oath to tell the truth:

a) The number and Class and/or Series of shares involved and the legal nature of the act or acts they intend to perform.

b) The identity and nationality of the applicant or applicants, disclosing whether they act on their own behalf or on behalf of others, whether as agents, representatives, shareholders, commission agents, fiduciaries, trustors, trustees, members of the Technical Committee or its equivalent, *trustees* or agents of third parties, and whether they act with or without the representation of third parties in Mexico or abroad.

c) The identity and nationality of the partners, shareholders, principals, representatives, principals, fiduciaries, trustors, *trustees*, members of the Technical Committee or their equivalents, successors in title and agents of the applicants.

d) The identity and nationality of the party controlling the applicants, whether directly or indirectly through commission agents, trustees, settlors and other entities or persons indicated in paragraphs b and c above.

e) Who among those mentioned are spouses or are related by consanguinity or kinship within the fourth degree or have a civil relationship.

f) Who of all the above are or are not competitors of this Company or its subsidiaries and affiliates; and whether or not they maintain any legal, economic or factual relationship with any competitor, customer, supplier, creditor or shareholder of at least 5% (five percent) of the capital stock of the Company, its subsidiaries or its affiliates.

g) Individual shares already held, directly or indirectly by the applicants and all those mentioned above, in the shares, securities, rights and voting mechanisms or association agreement referred to in this Article.

h) The origin of the economic resources that are intended to be used to pay for the transaction(s) covered by the application, specifying the identity, nationality and other relevant information of who provides or will provide such resources; explaining the legal nature and conditions of such financing or contribution, including a description of any type of guarantee that may be granted, and also disclosing whether or not this or these persons, directly or indirectly, are direct or indirect competitors of this Company or its subsidiaries or affiliates; or whether or not they have any legal, economic or factual relationship with any competitor, customer, supplier, creditor or shareholder holding or owning at least 5% (five percent) of the capital stock of the Company, its subsidiaries or its affiliates.

i) The purposes sought with the transaction or transactions to be carried out, and those of the applicants who intend to continue acquiring, directly or indirectly, shares and rights additional to those referred to in the application and, if applicable, the percentage of ownership or vote that is intended to be reached, and whether or not it is desired to acquire 30% (thirty percent) or more of the capital stock or control of the Company through acquisition of shares, mechanisms or voting association agreement or by any other means; and ii) The purposes of the transaction or transactions to be carried out, and those of the applicants who intend to continue acquiring, directly or indirectly, shares and additional rights to those referred to in the application and, if applicable, the percentage of ownership or vote that is intended to be reached, and whether or not it is desired to acquire 30% (thirty percent) or more of the capital stock or control of the Company through acquisition of shares, mechanisms or voting association agreement or by any other means; and

j) If applicable, any other information or additional documentation required by the Board of Directors to adopt its resolution.

If purchases or acquisitions of shares are made, or the agreements of those restricted in this Article are entered into, without observing the requirement of obtaining the prior favorable written agreement of the Board of Directors of the Company and, as the case may be, having complied with the aforementioned provisions, the shares, securities and rights pertaining to said purchases, The Company shall not grant any right or power to vote at the Company's Shareholders' Meetings, nor shall any value be given to the certificates of deposit of shares issued by any credit institution, financial or stock exchange intermediary, depositary or institution for the deposit of securities, to accredit the right to attend a Shareholders' Meeting. Nor shall such shares, rights or securities be entered in the Register of Shares of the Company or the Company shall cancel their entry in the Register of Shares kept by the Company.

The holders and owners of shares of any Class and/or Series representing the paid-in capital stock of this Company, as well as the securities, documents, contracts and covenants referred to in this Article, by the mere fact of being so, expressly agree to comply and abide by the provisions of this Article and the resolutions of the Board of Directors of the Company taken pursuant thereto. In addition, they accept that the Board of Directors carry out all kinds of investigations and information requirements to verify compliance with this Article and, if applicable, compliance with the legal provisions applicable at that time. For the purposes of these bylaws, it shall be considered, unless there is evidence to the contrary, that the Directors of the Company fail to comply with their duty of loyalty if they seek, promote, encourage or tolerate hypotheses or factual or legal circumstances that contravene the terms or purposes of this Article and shall not be entitled to an indemnity or benefit from the corporate assets, including insurance premiums or the costs and expenses of a transaction agreement.

The Board of Directors, in making the corresponding determination under the terms of this Article, may evaluate, among other aspects, the following: i) The benefit that would be expected for the development of the Company, ii) The increase that could occur in the value of the shareholders' investment, iii) The due protection of minority shareholders other than those who are qualified, iv) Whether the intended buyer or acquirer is a direct or indirect competitor of the Company or its subsidiaries and affiliates or whether it is related to competitors of the Company or its subsidiaries or affiliates, vi) The moral and economic solvency of the interested parties, vii) The protection of the rights of the workers of the Company and its subsidiaries, viii) The maintenance of an adequate base of investors, and ix) The other requirements deemed appropriate by the Board of Directors, including the possible request to a third party of a report on the reasonableness of the price or claims of the interested party.

The Board of Directors shall resolve the applications referred to in this Article within three months following the date on which the application or applications were submitted, or after the last request for additional information made by the Board of Directors to the applicant has been satisfied. In any case, if the Board of Directors does not resolve the request or requests within the period, it shall be deemed to have resolved the request or requests in a negative manner, denying the authorization. Furthermore, the Board of Directors may reserve the right to disclose to the investing public the fact that the respective request has been received and is being analyzed, since it is a strategic matter of the Company.

For the purposes of this Article, the acquisition of shares or rights over shares, as well as the securities, documents, contracts and agreements referred to in the second paragraph of this Article, includes, in addition to the ownership and co-ownership of shares, the cases of usufruct, node owner or usufructuary, loan, repurchase, pledge, possession, fiduciary ownership or rights derived from trusts or similar concepts under Mexican or foreign legislation; the power to exercise or be able to determine the exercise of any right as a shareholder; the power to determine the disposal and transfer in any form of the shares or of the rights attached thereto, or to be entitled to receive the profits or products of the disposal, sale and usufruct of shares or rights attached thereto.

In order to determine whether the percentages and amounts referred to in this Article are reached or exceeded, the following shares and rights shall be grouped together, in addition to the shares or rights owned or held by the persons intending to purchase or acquire shares or rights therein: a) The shares or rights that are intended to be acquired, b) The shares or rights held or owned by legal persons in which the intended acquirer, acquirers or the persons referred to in this Article have a direct or indirect participation; or with those who have an agreement, contract or arrangement, either directly or indirectly, by virtue of which they may in any way influence the exercise of the rights or powers that said individuals have by virtue of their ownership of shares or rights, including the hypotheses of Significant Influence or Command Power under the terms of the provisions of the Securities Market Act, c) Shares or rights over shares that are subject to trusts or similar concepts in which the purported acquirer or purported acquirers, their relatives up to the fourth degree or any person acting on behalf of or by virtue of agreement, agreement or contract with the purported acquirer or the said relatives participate or are a party, d) Shares or rights over shares that are owned by relatives of the purported acquirer up to the fourth degree, and e) Shares and rights owned or held by natural persons by virtue of any act, agreement or contract with the intended acquirer or with any of the natural or legal persons referred to in paragraphs b), c) and d) above; or in relation to which any of these persons may influence or determine the exercise of their corresponding powers or rights or said shares or rights.

The provisions of this Article shall not be applicable to: a) The inheritance of shares, b) Increases to the percentages of shareholding due to reductions or increases in capital agreed by the Shareholders' Meetings of the Company, (c) Mergers of the Company with other companies, unless by merger with companies belonging to a business group other than the one headed by the Company, and (d) acquisitions in compliance with a final and unappealable judgment declared by the competent judicial authority.

Notwithstanding the foregoing, and regardless of any consequence deriving from non-compliance with the foregoing, each person who acquires shares, securities, instruments or rights representing the Company's capital stock in violation of the provisions of this Article Nine shall be obliged to pay the Company a conventional penalty for an amount equal to the price of all the shares, securities or instruments representing the Company's capital stock that have been the object of the prohibited transaction. In the event that the operations that gave rise to the acquisition of a percentage of shares, securities, instruments or rights representing the Company's capital stock equal to or greater than 10% (ten per cent) of the capital stock, are carried out free of charge, the conventional penalty shall be equivalent to the market value of said shares, securities or instruments, provided that the authorization of the Company's Board of Directors has not been obtained.

As long as the Company holds the shares representing its capital stock registered in the National Securities Registry, the foregoing requirement, in the case of operations carried out through the stock exchange, shall additionally be subject to the rules established by the Securities Market Act or those issued by the CNBV pursuant thereto.

The person or group of persons who are obliged to make a takeover bid but do not make it or obtain control of the Company in contravention of Article 98 of the Securities Market Act may not exercise the corporate rights derived from the shares or rights acquired in contravention of said provision, nor from those that they acquire thereafter when they are in the event of non-compliance, the agreements made as a result being ineffective against the Company. If the acquisition has represented the totality of the ordinary shares of the Company, the holders of the other Classes and/or Series of shares, if any, shall have full voting rights until the corresponding bid is made. Acquisitions that contravene the provisions of the aforementioned Article 98 shall be affected by relative nullity and the person or group of persons that carry them out shall be liable to the other shareholders of the Company for damages caused by reason of non-compliance with the obligations indicated in the applicable legal provisions. Likewise, in the case of acquisitions that must be made through takeover bids pursuant to the Securities Market Act, the acquirers must: (i) comply with the requirements set forth in the regulations in force; (ii) obtain the corresponding regulatory authorizations; and (iii) obtain the authorization of the Board of Directors for the transaction prior to the beginning of the period for the takeover bid. In any case, the acquirers must always disclose the existence of this prior authorization procedure by the Board of Directors for any acquisition of shares involving 10% (ten percent) or more of the shares representing the capital stock of the Company.

The provisions contained in this Article Nine do not preclude in any way, and apply in addition to, the notices, notifications and/or authorizations that potential purchasers must submit or obtain under existing regulatory provisions.

The Board of Directors may determine whether any person is acting in a joint or coordinated manner with another person or persons for the purposes regulated in this Article. If the Board of Directors adopts such a determination, the persons concerned shall be considered as a single person for the purposes of this Article.

In addition to the foregoing, a majority of the members of the Board of Directors who have been elected to such condition before any circumstance that could imply a change of Control is verified, must grant their authorization in writing through a resolution adopted at a meeting of the Board convened expressly for this purpose under the terms of these Bylaws so that a change of Control may take place in the Company.

"Control" or "Controlling" means the ability of a person or group of persons to perform any of the following acts: (i) directly or indirectly impose decisions at General Shareholders' Meetings or of equivalent bodies, or appoint or remove the majority of Directors, administrators or their equivalent, (ii) maintain the ownership of rights that allow directly or indirectly to exercise a vote in respect of more than 50% (fifty percent) of the capital stock, or (iii) direct, directly or indirectly, the administration, strategy or main policies of the Company, whether through the ownership of securities, by contract or in any other way.

The amendment of this Article Nine of the bylaws may only be approved at an Extraordinary General Shareholders' Meeting of the Company in which 5% (five percent) or more of the outstanding shares have not voted against on the date of the respective Shareholders' Meeting.

ARTICLE TEN – PRE-EMPTIVE RIGHT. In cash capital increases, shareholders will have preference to subscribe the new shares issued to represent the increase, in proportion to the number of shares they own within the respective Class and/or Series at the time the increase in question is decreed, as established in article 132 of the General Corporations Act. This right must be exercised within the term established for such purpose by the Shareholders' Meeting that decrees the increase, which in no case may be less than 15 (fifteen) calendar days counted from the date of publication of the corresponding notice in the electronic system established by the Ministry of Economy. In addition, the Company may publish the respective notice in a newspaper with widespread circulation at the registered office. However, if all the shares comprising the capital stock are represented at the Shareholders' Meeting that decreed the increase, said period of at least 15 (fifteen) days shall begin to run and be counted, if so resolved by said Meeting, as from the date on which it is held, and the shareholders shall be deemed to have been notified of the resolution at that time, and therefore its publication shall not be necessary.

In the event that after the expiration of the term during which the shareholders should exercise the preferential right granted to them in this Article, some shares still remain unsubscribed, the Board of Directors shall have the power to determine the person or persons to whom the unsubscribed shares may be offered for subscription and payment. If no person is appointed, these may be offered for subscription and payment to any other person, under the conditions and terms determined by the Shareholders' Meeting that decreed the Capital increase, or on the terms established by the Board of Directors or the Delegates appointed by the Shareholders' Meeting for such purpose, or they shall be cancelled, as determined by the Shareholders' Meeting that decreed the respective capital increase, on the understanding that they shall never be offered under conditions more favorable than those granted to the shareholders.

Shareholders shall not enjoy the pre-emptive right referred to in the preceding paragraphs in the case of: (i) the merger of the Company, (ii) the conversion of debentures into shares, (iii) the public offering under the terms of Article 53 of the Securities Market Act and Article Eight of these Bylaws, (iv) the increase of the Capital Stock through the payment in kind of the shares issued, or through the cancellation or capitalization of liabilities payable by the Company, (v) the placement of shares acquired by the Company pursuant to Article 56 of the Securities Market Act and Article Thirteen of these Bylaws, (vi) the capitalization of share premiums, retained earnings and reserves or other items of the Company's net worth, and (vii) any other case where the Law permits the non-application of the right in question.

ARTICLE ELEVEN – CAPITAL STOCK DECREASES. With the exception of decreases in the Capital Stock derived from the acquisition of Own Shares referred to in Article Thirteen of these Bylaws, the Capital Stock may be decreased by resolution of the Ordinary or Extraordinary General Shareholders' Meeting, as the case may be, pursuant to the provisions of this Article.

(i) Reductions to the Capital Stock that affect the Minimum Fixed Capital must be approved by the Extraordinary General Shareholders' Meeting with the consequent amendment to Article Six of these Bylaws. In any case, the minutes that are drawn up on the Meeting that resolves such reduction must be registered before a notary public and registered in the Public Registry of Commerce of the registered office of the Company.

(ii) Reductions to the Capital Stock that affect the variable part of it will require the approval of the Ordinary General Shareholders' Meeting, without the need to reform the Company's Bylaws. In any case, the minutes that are drawn up on the Meeting that resolves said reduction must be registered before a notary public without it being necessary to register in the Public Registry of Commerce of the registered office of the Company.

(iii) The Capital Stock may be decreased by reimbursing the shareholders, on the understanding that it will be applied to all of them in the corresponding proportion. The agreement to reduce the Capital Stock by means of reimbursement to the shareholders or liberation granted to the latter from unrealized Annexes shall be published in the electronic system established by the Ministry of Economy, in terms of Article 9 of the General Corporations Act. In addition, the Company may publish the notice in a newspaper with widespread circulation at the registered office.

(iv) The reduction of the Capital Stock due to the amortization of shares with distributable profits will be carried out in accordance with the provisions of these Bylaws.

(v) The Capital Stock may be decreased by the exercise of the right of separation in the terms of Article 206 of the General Corporations Act.

(vi) Decreases in Capital Stock to absorb losses will be made proportionally among the shareholders, without it being necessary to cancel shares, by the securities that represent them do not express a nominal value, unless the Shareholders' Meeting resolves otherwise.

In any case, the minutes drawn up on the General Shareholders' Meeting that decrees a reduction of the Capital Stock must be notarized, except in the case of decreases referred to in Article 56 of the Securities Market Act.

ARTICLE TWELVE - REIMBURSEMENT ON WITHDRAWAL. In terms of the provisions of these Bylaws and Article 50 of the Securities Market Act, shareholders shall not have the right to withdraw their contributions in whole or in part. Therefore, the provisions of Articles 213, 220 and 221 of the General Corporations Act shall not be applicable.

ARTICLE THIRTEEN - ACQUISITION OF OWN SHARES. Pursuant to the provisions of Article 56 of the Securities Market Act and other applicable general provisions issued by the National Banking and Securities Commission, the Company may acquire shares representing its Capital Stock or credit securities representing such shares, as well as derivative financial instruments or optional securities underlying such shares that are payable in kind, without the prohibition established in the first paragraph of Article 134 of the General Corporations Act being applicable, provided that:

(i) The acquisition is made on a national stock exchange.

(ii) The acquisition and the disposal on the stock exchange is carried out at market price, except in the case of public bids or auctions authorized by the National Banking and Securities Commission.

(iii) The acquisition is made and charged to stockholders' equity, in which case the shares acquired may be held by the Company without the need for a reduction in capital stock, or charged to capital stock, in which case they will be converted into unsubscribed shares which will be held in the Treasury, without the need for a resolution of the Shareholders' Meeting.

In any event, the amount of the Subscribed and Paid-up Capital must be announced when the Authorized Capital represented by the issued and unsubscribed shares is advertised.

(iv) The Ordinary General Shareholders' Meeting, prior proposal by the Board of Directors shall expressly agree, for each fiscal year, on the maximum amount of resources that may be destined to the purchase of Own Shares or credit titles representing said shares, with the only limitation that the sum of the resources that may be destined for such purpose, in no case exceeds the total balance of the Company's net profits, including those retained.

(v) The Company is current in the payment of obligations derived from debt instruments registered in the National Securities Registry.

(vi) The acquisition and disposal of the shares or credit securities representing said shares may in no case lead to the percentages referred to in Article 54 of the Securities Market Act being exceeded, nor to the non-compliance with the requirements for maintenance of the list of the stock exchange on which the securities are listed.

The Board of Directors' authorization shall not be required for the purchase or sale of own shares; however, if the Shareholders' Meeting has not done so, said body shall designate the person or persons responsible for the management of resources for the acquisition and placement of own shares, adjusting at all times to the Policies for the Acquisition and Placement of Own Shares that have been previously approved by the Board of Directors as well as the resolutions of the Board based on which the purchase and placement of said shares is instructed.

Own Shares and credit titles representing said shares belonging to the Company or issued unsubscribed shares held in the Treasury may be placed among the investing public without the need of a resolution by the Shareholders' Meeting or resolution by the Board of Directors. For purposes of the provisions of this paragraph, the provisions of Article 132 of the General Corporations Act shall not apply.

If the shares belong to the Company, they may not be represented or voted at Shareholders' Meetings, nor may social or economic rights of any kind be exercised.

The provisions of this Article shall also be applicable to acquisitions or disposals made of derivative financial instruments or optional securities whose underlying shares represent the Company's capital stock, which may be liquidated in kind, in which case the provisions of sections I and II of this Article shall not be applicable to acquisitions or disposals, as established in Article 56 of the Securities Market Act, except in the case of public offerings or auctions authorized by the National Banking and Securities Commission.

Trust trustees constituted for the purpose of establishing stock option plans for employees and pension funds, retirement plans or seniority premiums for the Company's personnel or corporate entities controlled by the Company and any other fund with similar purposes, constituted directly or indirectly by the Company, may only dispose of or acquire from the Company the shares representing its corporate capital or the credit titles representing them or the optional titles or derivative financial instruments that have as their underlying shares representing the corporate capital of the Company or credit titles representing them, by means of a public offer or auctions authorized by the National Banking and Securities Commission, subject to the provisions of Article 366 of the Securities Market Act.

If the shares representing the capital stock of the Company for any reason cease to be registered in the National Securities Registry, the provisions of this Article shall not apply, and the Company shall be subject to the provisions of Article 134 of the General Corporations Act.

ARTICLE FOURTEEN – <u>AMORTIZATION OF SHARES WITH DISTRIBUTABLE PROFITS</u>. The Extraordinary General Meeting may resolve the amortization of shares with distributable profits, complying with the provisions of Article 136 of the General Corporations Act. The amortization will be carried out:

(i) By means of the acquisition of the corresponding shares in a public offer made on a stock exchange, at the price and in accordance with the method determined for this purpose by the Meeting, which may delegate said powers to the Board of Directors.

(ii) Proportionally among all shareholders so that, after amortization, shareholders maintain the same percentages with respect to Capital Stock as they did before.

The amortized shares will be annulled, and their certificates cancelled.

Should the shares representing the Company's capital stock cease to be registered in the National Securities Registry for any reason, Article 136 of the General Corporations Act regarding the redemption of shares shall apply accordingly.

ARTICLE FIFTEEN – CANCELLATION OF SHARES IN THE NATIONAL SECURITIES REGISTRY. In the event of cancellation of the registration of the shares representing the capital stock of the Company or of the securities representing them in the Securities Section of the National Securities Registry, either at the request of the Company, on the prior agreement of the Extraordinary General Shareholders' Meeting adopted with the favorable vote of the holders of shares with or without voting rights representing 95% (ninety-five percent) of the capital stock, or by resolution adopted by the National Banking and Securities Commission under the terms of the Securities Market Act, the Company shall have the obligation, upon request of said Commission, to make a public offer to acquire shares pursuant to Article 108 and other applicable provisions of the Securities Market Act. The person or group of persons who have control of the Company at the time the said Commission makes the requirement shall be subsidiarily responsible with the Company for compliance with the provisions of this Article.

In the event of cancellation of the registration requested by the Company, the National Banking and Securities Commission may exempt the Company from the obligation to carry out the aforementioned public offering, when the interest of the investing public has been safeguarded and the requirements of the Securities Market Act and the general provisions issued for such purpose by the National Banking and Securities Commission are complied with.

The members of the Board of Directors of the Company shall, no later than the tenth working day following the commencement of the public offering, or in the term indicated as the case may be by the National Banking and Securities Commission, prepare, having heard to the Committee that performs the functions regarding Corporate Practices, and inform the investing public through the stock exchange in which the Company's securities are listed and under the terms and conditions established by said stock exchange, their opinion regarding the price of the offer and the conflicts of interest, if any, that each of its members has regarding the offer. The opinion of the Board of Directors may be accompanied by another opinion issued by an independent expert hired by the Company. Furthermore, the members of the Board of Directors and the Chief Executive Officer of the Company must disclose to the public, together with the opinion, the decision they will take with respect to the securities they own.

The Company shall affect in trust for a minimum period of six months, counted from the date of cancellation, the resources necessary to acquire at the same price of the offer the shares and securities of the investors who did not attend the offer.

ARTICLE SIXTEEN – REGISTRATION OF SHARES. The Company will have a register of shares in the terms of Article 128 of the General Corporations Act, which must be kept by the Company itself, by an institution for the deposit of securities or by a credit institution, which act as recording agents on its behalf and name, in which will be registered all operations of subscription, acquisition or transfer to which the shares representing the Capital Stock are subject, with the expression of the subscriber and the acquirer. Any person who acquires one or more shares shall assume all the rights and obligations of the transferees in relation to the Company. The possession of one or more shares means the acceptance by the holder of the provisions contained in the Company's Bylaws, in the amendments or modifications made thereto and in the resolutions adopted by the General Shareholders' Meetings and by the Board of Directors, without prejudice to the right of condition and separation set forth in Articles 200 to 206 of the General Law of Commercial Companies and the right to report irregularities or demand responsibilities in relation to the administration of the Company.

The Company shall recognize as shareholders those persons who are registered, where applicable, in the Share Register.

The Company shall also recognize as shareholders those who accredit such capacity with the certificates issued by the institution for the deposit of securities in question, complemented with the list of owners of the corresponding shares, formulated by those who appear as depositors in said certificates, in the terms of Article 290 of the Securities Market Act.

ARTICLE SEVENTEEN – SHARE OWNERSHIP. Each share is indivisible; therefore, if two or more persons own the same share, a common representative must be appointed in accordance with the provisions of article 122 of the General Corporations Act. If the appointment of the common representative is omitted, the Company shall have as such whoever accredits being a shareholder in accordance with Article Sixteen above. All share transfers will be considered as unconditional and without any reservation against the Company and therefore the person acquiring one or more shares will assume all the rights and obligations of the previous holder towards the Company.

ARTICLE EIGHTEEN – REGISTRATION OF CAPITAL VARIATIONS. With the exception of Capital Stock movements derived from the purchase or sale of Own Shares carried out by the Company under the terms of Article Twelve of these Bylaws and Article 56 of the Securities Market Act, capital increases and decreases must be registered in the Capital Variations Book kept by the Company.

ARTICLE NINETEEN - SHAREHOLDERS' RIGHTS. Each share shall grant its respective holder the right to one vote at Shareholders' Meetings on all matters submitted to the Meeting when these Bylaws or the Law grant said right to vote.

Within its respective Class and/or Series, each share shall confer equal rights and obligations on its holders.

Shareholders owning shares with voting rights, even limited or restricted, that individually or jointly hold ten percent of the Company's Capital Stock shall have the rights referred to in Article 50 of the Securities Market Act.

Shareholders owning shares with voting rights, even limited or restricted, that individually or jointly hold twenty percent or more of the Company's Capital Stock shall have the rights referred to in Article 51 of the Securities Market Act.

ARTICLE TWENTY – SHARE CERTIFICATES. The provisional certificates or the definitive titles of the shares may cover one or more shares and shall be signed by two Directors, whose signatures may be printed in facsimile, pursuant to the provisions of section VIII of Article 125 of the General Corporations Act. Pursuant to Article 282 of the Securities Market Act, the Company may issue a single bond that complies with the provisions of the Article and the general provisions emanating from the Securities Market Act.

Said certificates or titles must satisfy the requirements established by Article 125 of the General Corporations Act and the titles shall bear attached numbered coupons for the payment of dividends and the exercise of other corporate and pecuniary rights, and shall also ostensibly contain the stipulation referred to in Article Five, Nine and Ten of these Corporate Bylaws.

ARTICLE TWENTY-ONE – PROHIBITION ON SUBSIDIARIES ACQUIRING SHARES IN THE COMPANY. Except as provided for in the following paragraph, legal entities controlled by the Company may not acquire, directly or indirectly, shares representing the Company's Capital Stock or credit securities representing such shares. Acquisitions made through investment companies are exempted from the above prohibition.

Persons who, according to the Securities Market Act, are considered related to the Company, as well as trust trustees constituted for the purpose of establishing stock option plans for employees and pension funds, retirements, seniority premiums and any other fund with similar purposes, constituted directly or indirectly by the Company, when operating the shares or credit titles that represent the shares representing the Company's Capital Stock, must comply with the provisions of Articles 366 and 367 of the Securities Market Act.

CHAPTER THREE
MEETINGS

ARTICLE TWENTY-TWO – <u>SHAREHOLDERS' MEETINGS</u>. The General Shareholders' Meeting is the supreme body of the Company. Meetings shall be Ordinary, Extraordinary or Special. Extraordinary Meetings will be those that meet to deal with any of the matters referred to in Article 182 of the General Corporations Act, as well as Articles 53 and 108 of the Securities Market Act. Special Meetings will be those that meet to deal with matters that may affect a single category of shareholders. All other Meetings shall be Ordinary, the latter being held at least once a year within the four months following the end of the fiscal year, to address the matters indicated in Articles 181 of the General Corporations Act and 56 section IV of the Securities Market Act.

In terms of Article 47 of the Securities Market Act, the Ordinary General Shareholders' Meeting, in addition to the provisions of the General Corporations Act, will meet to approve the operations that the Company or the legal persons it controls intend to carry out within the period of one fiscal year, when they represent 20% (twenty percent) or more of the Company's consolidated assets based on figures corresponding to the close of the immediately preceding quarter, regardless of how they are executed, whether simultaneously or successively, but which due to their characteristics can be consolidated as a single operation. In such Meetings, shareholders owning shares with voting rights, even limited or restricted, may vote.

Furthermore, the Annual Ordinary General Shareholders' Meeting will be informed of the annual report prepared by the Corporate Practices and Audit Committee or Committees performing the duties referred to in Article 43 of the Securities Market Act. Said report must be submitted to the Shareholders' Meeting by the Company's Board of Directors through any of its delegates designated for such purpose.

ARTICLE TWENTY-THREE – <u>CALL FOR MEETINGS</u>. Notice for Meetings must be given by the Board of Directors, the Committee or Committees that performing duties regarding Corporate Practices and/or Auditing or by the judicial authority and shall be signed by whoever agrees to them.

From the date of the respective call, shareholders will have at their disposal: (a) at the Company's offices, the information and documents relating to each of the items on the agenda of the corresponding Shareholders' Meeting, free of charge and immediately, and (b) through the intermediaries of the securities market or at the Company itself, proxy forms drawn up by the Company under the terms of Article 49 of the Securities Market Act for the representation of shareholders at the relevant Shareholders' Meeting.

Shareholders with voting rights, even on a limited or restricted basis, representing at least 10% of the Capital Stock may request the Chairman of the Board of Directors or of the Committee or Committees that perform the functions of Corporate Practices and/or Auditing, at any time, to call a General Shareholders' Meeting, in the terms set forth in Article 50 of the Securities Market Act, without the percentage set forth in Article 184 of the General Corporations Act being applicable.

ARTICLE TWENTY-FOUR – <u>PUBLICATION OF CALLS FOR MEETINGS</u>. The call for any type of Shareholders' Meeting will be made through the publication of a notice in the electronic system determined by the Ministry of Economy. In addition, the Company may publish the respective notice in a newspaper with widespread circulation at the registered office. The summons shall contain the list of matters that must be dealt with in the Meeting in question, without it being possible to include matters under the heading of general or equivalent, as well as the date, place and time at which it must be held, and must be signed by the person or persons who do so, on the understanding that, if they are made by the Board of Directors, the signature or the name of the secretary of said body or of the delegate designated for this purpose by the Board of Directors shall suffice. Said notice and call must be made at least 15 calendar days prior to the date set for the Meeting. If a second call must be made, this may be sent 24 hours from the date and time set for the corresponding Meeting, in the terms stated above and within a period of at least 8 calendar days prior to the new date set for holding the Meeting on second call. If all the shares are represented in a Meeting, said Meeting may be held without prior notice.

ARTICLE TWENTY-FIVE – <u>RIGHT TO ATTEND.</u> In order to attend the Meetings, shareholders must be registered in the Register of Shares of the Company, and must obtain from the Secretary or the Treasury of the same, the corresponding Admission Card, at least one day in advance, at the day and time set for the Meeting.

In order to obtain proof of admission to the Meeting, shareholders must deposit their shares at the Secretary's Office in advance; in the case of shares deposited at the Instituto para el Depósito de Valores (S.D. Indeval, S.A. de C.V.), the latter must inform the Company Secretary or Treasury of the number of shares held by each of the depositors in said Institute, indicating whether the deposit has been made on their own account or on behalf of third parties. This certificate must be complemented with the list referred to in Article 290 of the Securities Market Act and delivered to the Company Secretary's office or to the Company's own office in order to obtain proof of income.

Shareholders may be represented at the Meetings by the person or persons they designate by means of a power of attorney signed before two witnesses or by representatives with sufficient general or special powers granted in terms of the applicable legislation or via the forms referred to in Article 49 of the Securities Market Act.

The Company shall keep at the disposal of the securities market intermediaries who can prove that they are represented by the shareholders of the Company, during the period referred to in Article 49 of the Securities Market Act, the forms of the aforementioned powers of attorney, so that the former may send them in due time to their represented parties.

The Secretary of the Board of Directors of the Company shall be obliged to ensure compliance with the provisions of this Article and to inform the Shareholders' Meeting thereof, which shall be recorded in the respective minutes.

The members of the Board of Directors may not represent shareholders at any Meeting.

The Scrutineer(s) shall be obliged to ensure compliance with the provisions of this Article and report thereon to the Meeting, which shall be recorded in the respective minutes.

The members of the Board of Directors, the Chief Executive Officer and the individual designated by the legal entity providing the external audit services may attend the Company's Shareholders' Meetings.

ARTICLE TWENTY-SIX – <u>INSTALLATION OF MEETINGS</u>. The Ordinary Shareholders' Meeting shall be considered legally installed pursuant to the first call if at least 50% (fifty percent) plus one of all the shares with the right to vote in said Meetings are present. In the case of a second or subsequent call, with the expression of this circumstance, the Ordinary Shareholders' Meeting will be considered legitimately installed with any number of shares represented at the Meeting.

The Extraordinary Meeting shall be legally installed on first call if at least 75% (seventy-five percent) of all the shares entitled to vote in the Meeting are represented. In the case of second or subsequent call, with the expression of this circumstance, the Extraordinary Shareholders' Meeting shall be considered legitimately installed if at least 50% (fifty percent) plus one of all the shares entitled to vote at said Meeting is represented at it.

The Ordinary or Extraordinary General Meeting will be legitimately installed without the need to call a meeting if all the shares into which the Capital stock is divided are represented and may resolve any matter if at the time of voting all the shares are still represented.

ARTICLE TWENTY-SEVEN – <u>DEVELOPMENT OF THE MEETING</u>. The Chairman of the Board of Directors shall preside over the Shareholders' Meeting, failing that, the person who appoints the majority of the shareholders attending the Meeting from among the Directors present and appointed, and only if there is no shareholder or representative of shareholders appointed by the shareholders present. The Secretary shall be the Secretary of the Board of Directors or, in their absence, the Assistant Secretary of said body or the person designated by the majority of the shareholders attending the Meeting.

The Chairman shall appoint one or two Scrutineers from among the shareholders or representatives of shareholders present at the Meeting, to count the shares represented, so that they may determine whether: (i) quorum is met, (ii) to count the votes cast, if requested to do so by the Chairman, and (iii) to render a report thereon.

ARTICLE TWENTY-EIGHT – <u>VOTING</u>. At Shareholders' Meetings, each share entitled to vote at the Meeting in question shall have one vote. Only fully subscribed and paid shares will have the right to vote.

In the case of Ordinary Meetings, resolutions will be taken and will be valid if approved by the vote of THE shareholders representing at least the majority of the shares represented at the Meeting.

In the case of Extraordinary Meetings, resolutions shall be taken and shall be valid if approved by the vote of the shares representing at least 50% (fifty percent) plus one of all the voting shares into which the Capital Stock is divided.

In the case of Special Meetings, resolutions will be taken and will be valid if approved by the vote of shareholders representing at least 50% (fifty percent) plus one of all the shares of the Class, Series or category in question.

Shareholders with voting rights, including limited or restricted voting rights, who hold at least 10% of the Company's capital stock will be entitled to:

(i) Appoint and revoke a member of the Board of Directors at a General Shareholders' Meeting. Such appointment may only be revoked by the other shareholders when the appointment of all the other Directors is revoked, in which case the persons substituted may not be appointed in said capacity during the twelve months immediately following the date of revocation.

This right must be exercised by written notification addressed to the Chairman of the Board of Directors, the Secretary of said corporate body and also to the Corporate Practices Committee, as required by these bylaws, at least five (5) working days prior to the date on which the General Shareholders' Meeting is to be held to appoint, ratify or revoke appointments of the Board of Directors.

(ii) To request that the Chairman of the Board of Directors or of the Committees carry out the duties regarding corporate practices and auditing referred to in the Securities Market Act, at any time, to call a General Shareholders' Meeting, without the percentage indicated in Article 184 of the General Corporations Act being applicable.

(iii) Request a one-time postponement, for three calendar days and without the need for a new call, of the vote on any matter with respect to which they do not consider themselves sufficiently informed, without the percentage indicated in Article 199 of the General Corporations Act being applicable.

Holders of shares with voting rights, even limited or restricted, that individually or jointly hold 20% or more of the Capital Stock, may oppose judicially the resolutions of the General Meetings, in respect of which they have voting rights, without the percentage referred to in Article 201 of the General Corporations Act being applicable.

The shareholders of the Company, when exercising their voting rights, must comply with the provisions of Article 196 of the General Corporations Act. To this effect, it shall be presumed, unless there is evidence to the contrary, that a shareholder has in a given transaction an interest contrary to that of the Company or legal persons controlled by it, when maintaining control of the Company votes for or against the execution of transactions, obtaining profits that exclude other shareholders or the Company or legal persons controlled by it. Actions against shareholders who violate the provisions of the preceding paragraph shall be brought in accordance with the provisions of Article 38 of the Securities Market Act.

In cases in which, in accordance with these Bylaws or with the General Corporations Act, the shareholders of a single series must vote separately or in cases in which their votes must be computed separately, the respective voting or computation may be carried out, either at a Special Shareholders' Meeting called for said purpose or within the corresponding Ordinary or Extraordinary General Shareholders' Meeting, as the case may be.

***ARTICLE TWENTY-NINE – <u>SPECIAL MEETINGS</u>**.* For Special Shareholders' Meetings, the same rules regarding their installation and voting shall apply as for the Extraordinary General Meetings and shall be presided over by the person designated by the Shareholders of the Series in question.

***ARTICLE THIRTY – <u>MEETING MINUTES</u>**.* The minutes of the Shareholders' Meetings shall be recorded in the respective minutes book that shall be kept by the Secretary of the Board of Directors and shall be signed by those who acted, in the Meeting, as Chairman and Secretary.

At all times, the attendance list of the shareholders or their representatives attending the Meeting shall be prepared and signed by the scrutineer or scrutineers acting in this capacity at said Meeting, and must form part of the file that for this purpose is drawn up both the attendance list and the powers of attorney that were presented, copy of the publication in which the call for the Meeting has appeared, copy of the reports, the accounting statements of the Company and any other documents that have been submitted to the Meeting or that it has ordered to be attached to the file that forms part of the same.

If for any reason a legally called Shareholders' Meeting is not installed, or it is installed, but there the necessary quorum to adopt resolutions has not been met, minutes shall also be taken and shall be recorded in the corresponding book.

The minutes of the Extraordinary General Shareholders' Meetings, as well as those corresponding to the Ordinary General Shareholders' Meetings that approve increases or decreases in the variable portion of the Capital Stock and the others applicable under the law, must be notarized before a Notary Public.

When for any reason the minutes of a Shareholders' Meeting cannot be recorded in the respective book, they must be notarized before a Notary Public.

***ARTICLE THIRTY-ONE – <u>RESOLUTIONS ADOPTED OUTSIDE MEETINGS</u>**.* The shareholders, without the need to meet in a Meeting, may adopt resolutions by unanimous vote of those representing the totality of the shares with voting rights or of the Special Series of shares, as the case may be, which shall have the same validity as if they had been adopted in a General or Special Meeting of Shareholders, respectively, provided that said resolutions are confirmed in writing and their content is recorded in the corresponding minute book with the signature of the Chairman and Secretary of the Board of Directors.

CHAPTER FOUR

MANAGEMENT OF THE COMPANY

ARTICLE THIRTY-TWO – BOARD OF DIRECTORS. The Company shall be managed and directed by a Board of Directors and a Chief Executive Officer.

The Board of Directors shall be composed of a maximum of 21 (twenty-one) Proprietary Directors, as determined by the Ordinary General Shareholders' Meeting that appoints them and, if applicable, their respective alternates. Alternate Directors, where applicable, may only stand in for their Proprietary Director. Directors may or may not be shareholders of the Company, on the understanding that only those persons who qualify as such in accordance with the provisions of the Securities Market Act and other applicable provisions may act as Directors, and who in the opinion of the Company's Corporate Practices Committee have recognized professional or business experience and prestige as well as moral solvency have no conflict of interest with the Company or its subsidiaries. Of said members, both proprietary and alternate, at least twenty-five percent must be independent, in terms of Article 24 of the Securities Market Act, on the understanding that Substitute Directors for Independent Directors must also be independent. The General Shareholders' Meeting at which the members of the Board of Directors are appointed or ratified or the meeting at which such appointments or ratifications are reported on, shall qualify the independence of its Directors.

Under no circumstances may any person who has held the condition of external auditor of the Company or of any of the legal persons that make up the business group or consortium to which it belongs, during the twelve months immediately prior to the date of appointment, be a Director of the Company.

Should the Shareholders' Meeting not have done so, the Board of Directors shall appoint a Secretary and an Assistant Secretary who shall not form part of said corporate body, and who shall be subject to the obligations and responsibilities set forth in the Securities Market Act and other applicable legal provisions.

The appointed Directors shall remain in office for the term determined by the Meeting that elected them and may be re-elected, except for the power of the Meeting to revoke their appointments and make new appointments when it deems it appropriate, but in any case, Directors shall remain in office even when the term for which they have been appointed has expired or by resignation from office, up to a term of thirty calendar days, in the absence of the appointment of a substitute or when the latter does not take office, without being subject to the provisions of Article 154 of the General Corporations Act.

The Board of Directors may appoint provisional Directors, without the intervention of the Shareholders' Meeting, when any of the cases indicated in the previous paragraph or in Article 155 of the General Corporations Act materialize. The Company's Shareholders' Meeting will ratify such appointments or designate the substitute Directors at the Meeting following the occurrence of such event, without prejudice to the provisions of Article 50 section I of the Securities Market Act.

The Company shall indemnify, keep safe and secure and release each of the Directors, as well as the Secretary and Assistant Secretary of the Board of Directors, with respect to any contingency, loss, claim, damage, responsibility or expense (including reasonable legal fees and expenses), occurring in the performance of their duties, with the exception of losses, claims, damages, liabilities or expenses resulting from the gross negligence or bad faith of the person in question or in the event that the shareholders or the Company exercise the liability action referred to in Article 161 of the General Corporations Act as well as in cases of liability for failure to comply with the duty of loyalty and/or for the commission of unlawful acts or acts under the terms of Articles 34 to 37 of the Securities Market Act. In the event that any action or proceeding is initiated against any Director, Secretary or Assistant Secretary of the Board of Directors in respect of which compensation may be sought from the Company, or if any such person is notified of any possible claim which in his opinion may result in the initiation of a legal action or proceeding, such person shall promptly notify the Company in writing of the commencement of such action or proceeding. In the event such action or proceeding is brought against the person concerned, the Company may assume the defense through the legal counsel of its choice, in which case the Company shall not be liable for the fees, costs and expenses of any other legal counsel engaged by the person concerned.

By taking office, the Directors undertake to comply with and supervise compliance with self-regulatory rules or of any kind issued by the Company, as well as to keep in absolute personal reserve the information provided by the Company and non-compliance with the provisions of this paragraph shall be cause for removal by the Ordinary General Shareholders' Meeting; it shall not be considered as non-compliance with the obligation to which this paragraph refers the disclosure made by said Director in compliance with a legal provision.

ARTICLE THIRTY-THREE – INDEPENDENT DIRECTORS. The Independent Directors and, where applicable, their respective alternates must be selected for their experience, capacity and professional prestige, considering also that due to their characteristics they can perform their functions free of conflicts of interest and without being subordinated to personal, patrimonial or economic interests.

The General Shareholders' Meeting at which the members of the Board of Directors are appointed or ratified or, as the case may be, the meeting at which such appointments or ratifications are reported on, shall qualify the independence of its Directors. Without prejudice to the foregoing, in no case may the following persons be appointed or act as Independent Directors:

(i) Relevant executives or employees of the Company or of the legal entities that make up the business group or consortium to which it belongs, as well as the statutory auditors of the latter under the terms of the Securities Market Act. The limitation shall be applicable to those individuals who have held said conditions during the twelve months immediately prior to the date of appointment.

(ii) Individuals who have significant influence or power of command in the Company or in any of the legal entities that make up the business group or consortium to which the Company belongs under the terms of the Securities Market Act.

(iii) Shareholders who are part of the group of persons who maintain control of the Company under the terms of the Securities Market Act.

(iv) Customers, service providers, suppliers, debtors, creditors, partners, advisors or employees of a company that is a customer, service provider, supplier, debtor or significant creditor.
A customer, service provider or supplier is deemed to be important when the sales of the Company represent more than ten percent of the total sales of the customer, service provider or supplier during the 12 months preceding the date of appointment. Likewise, a debtor or creditor is considered to be significant when the amount of the credit is greater than fifteen percent of the assets of the Company itself or of its counterparty.

(v) Those who are related by consanguinity or kinship within the fourth degree or have a civil relationship, as well as the spouses, and common-law spouses, of any of the natural persons referred to in sections I to IV above.

Independent Directors who cease to have this characteristic during their term of office must inform the Board of Directors no later than the next meeting of the said corporate body.

ARTICLE THIRTY-FOUR – <u>ELECTION OF THE BOARD</u>. The election of the members of the Board of Directors of the Company, both Proprietary Directors and their respective Substitutes, as well as the Independent Directors, shall be by simple majority vote of the shares represented at the General Shareholders' Meeting that designates them.

Shareholders holding shares with limited or restricted voting rights shall observe the provisions of Article Thirty-Three above regarding Independent Directors, in proportion to the appointments they make of Directors in the Company.

Shareholders owning shares with voting rights, even limited or restricted, that individually or jointly hold 10% of the Capital stock, shall have the right to appoint and revoke at the General Shareholders' Meeting a member of the Board of Directors and their respective alternate, on the understanding that it must always be respected that 25% of the Directors must be independent. Such appointment may only be revoked by the other shareholders when the appointment of all the other Directors is revoked, in which case the persons substituted may not be so appointed during the 12 months immediately following the date of revocation.

Shareholders who individually or jointly hold 10% (ten percent) of the Company's capital stock and who, in terms of the preceding paragraph, intend to appoint a Director, must notify the Company's Corporate Practices Committee at least five (5) business days prior to the Annual General Shareholders' Meeting. This communication must contain at least: (i) the full name and experience of the person they propose to appoint, and (ii) whether or not, in their judgement, they meet the conditions of independence, recognized professional or business experience and repute, and moral solvency, as well as those defined in the laws and other applicable provisions.

The Company's Corporate Practices Committee shall submit to the Annual General Shareholders' Meeting a spreadsheet with the names of the candidates proposed to serve on the Company's Board of Directors, including the names that, in accordance with the preceding paragraph, the minority Shareholders have submitted to the Corporate Practices Committee with respect to the persons to be appointed as Directors by said minority Shareholders.

The Company's Corporate Practices Committee may propose to the Annual General Shareholders' Meeting the ratification, in whole or in part, of the conditions for the following year of the members of the Board of Directors previously appointed by the Shareholders, taking into consideration the Directors proposed by the minority Shareholders.

The form with the names of the candidates for Directors that the Corporate Practices Committee may propose to the Shareholders' Meeting must be made available to the Shareholders who request it together with the report referred to in Article 172 (one hundred and seventy-two) of the General Corporations Act, within the term set forth in Article 173 (one hundred and seventy-three) of said Act, without prejudice to the right of the Shareholders to be provided with a copy of said form when they request it.

In appointing the members of the Board of Directors, those who, in the opinion of the Corporate Practices Committee, have a possible conflict of interest with the Company or its subsidiaries or with relevant shareholders of the Company who hold 25% (twenty-five percent) or more of the shares representing the capital stock of the Company or with persons related to any of the foregoing shall be discarded.

ARTICLE THIRTY-FIVE – REMUNERATION OF DIRECTORS. Directors shall receive as compensation for their services the payment in cash or in kind determined by the Ordinary General Shareholders' Meeting that has appointed them. This Meeting may delegate to the Board of Directors or any other competent administrative body the implementation of any in kind remuneration program for Directors.

ARTICLE THIRTY-SIX – OFFICERS' GUARANTEE AND LIABILITY. Neither the members of the Board of Directors and their alternates nor, as the case may be, the members of any committee, including the audit and corporate practices committees, nor the directors and managers will be required to grant a guarantee to ensure compliance with the responsibilities they may incur in the performance of their duties, unless the Shareholders' Meeting that expressly designates them determines such obligation.

In such case, the guarantee shall not be returned to the person who granted it until the accounts corresponding to the period in which they acted in that capacity are duly approved by a General Meeting.

Under the terms set forth in the Securities Market Act, the obligation to pay for damages caused to the Company or to the legal entities controlled by it or over which it has a significant influence, due to the lack of diligence of the members of the Board of Directors, of the Secretary or Assistant Secretary of said body of the Company, derived from the acts they execute or the decisions they adopt on the Board or from those that are no longer taken as a result of the inability of said body to legally meet, and, in general, due to a lack of diligence, may not exceed, in any case, on one or more occasions and for each fiscal year, the amount equivalent to the total net fees that said members and officers of the Board have received in that capacity from the Company and, if applicable, from the legal entities controlled by the Company or from those in which it has a significant influence, in the twelve months prior to the fault in question. The foregoing, on the understanding that the limitation on the amount of indemnification contained in this paragraph shall not be applicable in the case of fraudulent acts or acts of bad faith, or unlawful acts under the Securities Market Act or other regulations.

The members of the Board of Directors shall perform their duties with the aim of creating value for the benefit of the Company, without favoring any shareholder or group of shareholders. To this end, they must act diligently, adopting informed decisions and complying with the duties imposed on them by virtue of the Securities Market Act or these Bylaws.

ARTICLE THIRTY-SEVEN – CHAIRPERSON AND SECRETARY OF THE BOARD. In the absence of an express appointment by the Ordinary General Shareholders' Meeting, the Board of Directors, in the first meeting convened immediately after the Meeting in which the Directors have been appointed, shall appoint the Chairman of said corporate body. The Chairman of the Board of Directors shall be the Chairman of the Company and shall be of Mexican nationality.

The Chairman of the Board of Directors shall have, among others and except for such extensions, modifications or restrictions as the General Shareholders' Meeting or the Law may determine, the following powers, obligations, attributions and powers:

(i) Execute or monitor the execution of the resolutions of the General Shareholders' Meeting and of the Board of Directors, doing everything necessary or prudent to protect the interests of the Company, without prejudice to the powers that the Meeting, the Board or the Law confer on the Chief Executive Officer.
(ii) Propose to the Board of Directors the independent directors who will compose the Corporate Practices and Audit Committees, as well as the provisional directors that the Board may appoint.
(iii) Chair Shareholders' Meetings and Board meetings, having a casting vote in the resolutions of the Board in the event of a tie.
(iv) Formulate, sign and publish the calls for the General Shareholders' Meetings and call the Meetings of the Board of Directors.
(v) Represent the Company before all kinds of authorities and persons.

The Chairman will be replaced during any temporary absence by the Vice-Chairman, if any, or by the Director determined by the Board of Directors in the respective meeting.

When the General Shareholders' Meeting so resolves, it may appoint as Honorary Chairman of the Company the person who deserves it for his actions and merits within the Company. The Honorary Chairman must maintain confidentiality with respect to information and matters known to the Company, when such information or matters are not of a public nature. The Honorary Chairman shall not be subject to the responsibilities that the applicable legislation establishes for Directors and relevant Executives; he shall have a voice, but without a vote, except when he is also a member of the Board of Directors, in which case he shall have the respective vote. The Honorary Chairman may not individually adopt decisions that significantly transcend the administrative, financial, operational or legal situation of the Company or of the business group to which it belongs.

Furthermore, if the Shareholders' Meeting fails to do so, the Board of Directors shall appoint a Secretary and Assistant Secretary, on the understanding that the latter may not be members of the Board of Directors, who shall be subject to the obligations and responsibilities established by law, and this appointment may be revoked at any time.

The Secretary and Assistant Secretary of the Board of Directors shall have, among others, the following powers, obligations and attributions:

(i) Formulate, sign and publish the calls and notifications for the Shareholders' Meetings, and if applicable, call the meetings of the Board of Directors and the Corporate Practices and Audit Committees.
(ii) Participate by speaking, but without vote, in the meetings of the Board of Directors.
(iii) Maintain confidentiality with respect to the information and matters of which he becomes aware by reason of his condition in the Company, when such information or matters are not of a public nature.
(iv) Attend all General Shareholders' Meetings and Board of Directors' Meetings, prepare the corresponding minutes and keep for this purpose the Books of Minutes of General Shareholders' Meetings and Board of Directors' Meetings in the manner provided by Law.
(v) Sign the minutes of said Meetings and Meetings, as well as to authenticate said minutes or the agreements contained therein for all the legal effects to which there may be place.
(vi) Act as special agent of the Company for the purpose of appearing before a notary public in order to obtain the full protocolization, or, of the minutes drawn up of the General Shareholders' Meetings and Board of Directors' Meetings.
(vii) Issue the certificates or authentications in respect of the legal representation of the Company and the entries in the Registers of Shares and Significant Interests which, where applicable, are required.

ARTICLE THIRTY-EIGHTH – POWERS OF THE BOARD OF DIRECTORS. The Board of Directors has the legal representation of the Company and enjoys the broadest powers and powers of attorney to carry out all the operations inherent to the corporate purpose, except those expressly entrusted to the General Shareholders' Meeting. The Board of Directors is vested with, but not limited to, the following powers:

(i) To manage business and property of the Company with the broadest power of attorney for acts of administration, in the terms of the second paragraph of Article 2554 of the Civil Code for the Federal District, and its correlative articles of the Civil Codes of all other States of the Republic and of the Federal Civil Code.
(ii) Exercise acts of ownership with respect to the movable or immovable property of the Company, as well as its real and personal rights, in the terms of the third paragraph of Article 2554 of the Civil Code for the Federal District, and its correlative articles of the Civil Codes of all other States of the Republic and of the Federal Civil Code.
(iii) General power of attorney for lawsuits and collections that is granted with all the general and special powers that require a special clause in accordance with the Law, without any limitation, in the terms set forth in the first paragraph of Article 2554 of the Federal Civil Code and of the civil codes of the other States of the Mexican Republic and of the Federal Civil Code; it shall therefore be empowered in an enunciative but not limitative manner to file claims, criminal complaints and grant pardons, to constitute itself as the offended party or assistant in criminal proceedings; to desist from attempted actions and amparo lawsuits; to reach settlements, to submit to arbitration, to propound interrogatories, to assign assets, to challenge judges, to receive payments and to execute all other acts expressly determined by the Law, including representing the Company before judicial and administrative authorities, civil or criminal, before labor authorities and courts, and before the Ministry of Foreign Affairs to enter into agreements with the Federal Government, in the terms of the first and fourth sections of Article 27 of the Constitution, in its Organic Law and its Regulations. No Director or the Chairman of the Board of Directors of the Company, nor the Director or Chief Executive Officer shall have the power to provide confession evidence, and therefore they are prevented from absolving conditions in any trial or procedure to which the

Company is a party; the aforementioned powers shall correspond exclusively to the Company's attorneys-in-fact to whom they have been expressly granted.

(iv) For acts of administration with specific powers in labor matters, in the terms of Article 2554 (two thousand five hundred fifty-four), second and fourth paragraphs of the Civil Code of the Federal District, of its correlatives articles in the Civil Codes in force in the States of the Mexican Republic and of the Federal Civil Code, as well as in accordance with the provisions of Articles 11 (eleven), 692 (six hundred ninety-two) sections II and III, 786 (seven hundred eighty-six), 876 (eight hundred seventy-six) and other relative provisions of the Federal Labor Act, to appear in their capacity as administrators and therefore as legal representatives of the Company before all labor authorities, In addition, the National Workers' Housing Fund Institute, the Mexican Social Security Institute and the National Workers' Consumption Fund Institute, in all matters relating to these institutions and other public bodies, being able to deduct all the shares and rights that correspond to the Company, with all the general and special powers that require a special clause in accordance with the Law, authorizing them to submit the company conciliation proceedings, as well as to lead the Company's labor relations.

(v) Subscribe, accept, certify, grant, draft, issue, endorse, guarantee or in any other way underwrite credit instruments, in terms of Article 9 of the General Law of Credit Instruments and Transactions.

(vi) To open and close bank accounts in the name of the Company, as well as to make deposits and draw against them and appoint persons to draw against them.

(vii) Obligations of third parties with or without consideration and therefore to subscribe credit titles, contracts and other documents that may be necessary for the granting of said guarantees within the limits imposed by law and the Bylaws.

(viii) Under the terms of these bylaws, to contribute real state property of the Company to other companies and to subscribe for shares or take shareholding or partnership interests in other companies

(ix) Power to grant and delegate general and special powers, revoke some and substitute them in whole or in part, in accordance with the powers vested thereon, expressly including the power so that the persons to whom it grants such powers may, in turn, grant them, delegate them, substitute them or revoke them, in whole or in part in favor of third parties.

(x) To contract with technical specialists or with any other company or companies, the provision of services, either in an advisory capacity, or by conferring on them some or all of the branches of administration.

(xi) To execute the resolutions of the Shareholders' Meeting and, in general, to carry out the acts and operations that are necessary or convenient for the fulfillment of the purpose of the Company, with the exception of those expressly reserved by Law and by these Bylaws to the Shareholders' Meeting.

(xii) Exercise civil liability actions to protect the assets of the Company and of the legal persons controlled by it and as required under the applicable legislation.

(xiii) To establish the general strategies for the conduct of the Company's business and the legal persons controlled by the Company.

(xiv) To supervise the management and conduct of the Company and of the legal entities that it controls, considering the relevance that the latter have in the financial, administrative and legal situation of the Company, as well as the performance of the relevant executives.

(xv) Without prejudice to the provisions of these Bylaws, it may establish such special committees or commissions as it deems necessary for the conduct of the Company's operations, establishing, where appropriate, the powers and obligations of such committees or commissions, including the determination of the number of members that comprise them and the rules governing their operation. Said committees or commissions shall not have powers that, according to the Law or these Bylaws, correspond exclusively to the General Shareholders' Meeting or to the Board of Directors;

(xvi) To establish and approve the internal regulations and organic statutes that shall govern the integration, functioning, powers, attributions and duties of the committee or committees created to assist the Board of Directors in its functions.

(xvii) The power to determine the direction in which the votes corresponding to the shares owned by the Company should be cast at the Ordinary, Extraordinary and Special Shareholders' Meetings in which it holds the majority of the Company's shares;

(xviii) The power to decide on the Company's share acquisition programs, as well as to approve the corresponding policies for the acquisition and placement of treasury stock, in accordance with the provisions of the Company's Bylaws, the Securities Market Act and the general provisions on the matter issued by the National Banking and Securities Commission;

(xix) To issue internal guidelines, policies, codes of conduct and other ordinances that, among other aspects, establish the self-regulatory regime applicable to Directors, executives, officers, proxies and employees of the Company and its subsidiaries. All the internal guidelines, policies, codes of conduct and other ordinances applicable to the Company and its subsidiaries issued by the Board of Directors shall be mandatory for the Directors, officers, officers, proxies and employees of the Company and its subsidiaries, as applicable; without prejudice to the compliance that such persons must make with the norms contained in the legal ordinances applicable to them.

(xx) To carry out all acts authorized by these Bylaws or that are a consequence thereof.
(xxi) Approve with the prior opinion of the competent committee:

a) The policies and guidelines for the use or enjoyment of the assets that make up the assets of the Company and of the legal persons it controls, by related persons.
b) The operations, each one individually, with related persons, that the Company intends to execute or the legal persons that it controls. The following transactions shall not require the approval of the Board of Directors, provided that they adhere to the policies and guidelines approved for this purpose by the Board:
   1. Transactions which, due to their amount, are of no relevance to the Company or to the legal persons it controls.
   2. Transactions carried out between the Company and the legal entities it controls or in which it has a significant influence, or between any of these, provided that they are part of the normal course of business and are considered to be carried out at market prices or supported by valuations carried out by external specialists.
   3. Transactions carried out with employees, if they are carried out under the same conditions as with any customer or as a result of general employment benefits.
c) Transactions carried out, either simultaneously or successively, which, due to their characteristics, may be considered as a single transaction and which are intended to be carried out by the Company or the legal entities controlled by it, during the period of a fiscal year, when they are unusual or non-recurring, or their amount represents, based on figures corresponding to the close of the immediately preceding quarter in any of the following cases:
   1. Acquisitions or disposals of assets with a value equal to or greater than five percent of the Company's consolidated assets.
   2. The granting of guarantees or the assumption of liabilities for a total amount equal to or greater than five percent of the Company's consolidated assets.

   Investments in debt securities or banking instruments are excepted, if they are made in accordance with the policies approved for this purpose by the Board itself.
d) The appointment, election and dismissal of the Company's Chief Executive Officer and his integral remuneration, as well as the policies for the appointment and integral remuneration of the other relevant executives.
e) Policies for the granting of mortgages, loans or any type of credits or guarantees to related persons.
f) Dispensations for a Director, relevant executive or person with power of command to take advantage of business opportunities for itself or in favor of third parties, which correspond to the Company or to the legal entities it controls or over which it has a significant influence. Dispensations for transactions whose amount is less than that mentioned in paragraph c) of this section may be delegated to the Audit Committee or to the Corporate Practices Committee.
g) The guidelines in matters of internal control and internal audit of the Company and of the legal entities it controls.
h) The Company's accounting policies, in accordance with the accounting principles recognized or issued by the National Banking and Securities Commission through general provisions.
i) The Company's financial statements.
j) The hiring of the legal entity that provides the external audit services and, where appropriate, additional or complementary services to those of external audit. When the determinations of the Board of Directors are not in accordance with the opinions provided by the corresponding committee, the said committee shall instruct the Chief Executive Officer to disclose such circumstance to the investing public, through the stock exchange on which the Company's shares are listed or the securities representing them, in accordance with the terms and conditions established by said exchange in its internal regulations.

The Company, in addition to the foregoing, when, by itself or through the legal entities it controls, it intends to enter into transactions with related persons that, either simultaneously or successively, due to their characteristics, may be considered as a single transaction, within the period of a fiscal year, the amount of which it represents, based on figures corresponding to the close of the immediately preceding quarter, the acquisition or disposal of assets with a value equal to or greater than 10% of the Company's consolidated assets, or the granting of guarantees or the assumption of liabilities representing the same percentage, prior to obtaining approval by the Board of Directors, must obtain the opinion of an independent expert appointed by the Corporate Practices Committee on the reasonableness of the price and market conditions of the transaction. The reference opinion must be considered by the Board of Directors and the committee in their deliberations and in order to determine the convenience of the corresponding operation, given its importance, being submitted for the approval of the Shareholders' Meeting.

The provisions of the preceding paragraph shall not be applicable to operations carried out by the Company, in terms of the provisions of numeral (xxi), paragraph b), 2.

(xxii) Submit to the General Shareholders' Meeting held on the close of the fiscal year:
   a) The reports referred to in Article 43 of the Securities Market Act.
   b) The report drawn up by the Chief Executive Officer pursuant to the provisions of Article 44 section XI of the Securities Market Act, accompanied by the report of the external auditor.
   c) The opinion of the Governing Body on the content of the Director-General's report referred to in the preceding paragraph.
   d) The report referred to in Article 172, paragraph b) of the General Corporations Act containing the main accounting and information policies and criteria followed in the preparation of the financial information.
   e) The report on the operations and activities in which it has intervened pursuant to the provisions of the Securities Market Act.

(xxiii) To monitor the principal risks to which the Company is exposed and the legal persons it controls, identified on the basis of the information presented by the committees of the Board, the Chief Executive Officer and the legal person providing the external audit services, as well as the accounting, internal control and internal audit, record, archive or information systems of these and the former, which may be carried out through the Audit Committee.

(xxiv) Approve information and communication policies with shareholders and the market, as well as with Directors and relevant executives, to comply with the provisions of the Securities Market Act.

(xxv) Determine the corresponding actions in order to correct the irregularities of which they are aware and implement the corresponding corrective measures.

(xxvi) Establish the terms and conditions to which the Director General shall conform in the exercise of his powers of dominion acts.

(xxvii) Order the Director General to disclose to the public any relevant events of which he is aware. The foregoing is without prejudice to the obligation of the Chief Executive Officer to disseminate relevant information and events that must be disclosed to the public in accordance with the provisions of the Securities Market Act.

(xxviii) Take out liability insurance for Directors, relevant directors, Secretary and other officers of the Company.

(xxix) Any others that the Securities Market Act or the Shareholders' Meeting may establish or are provided for in these Bylaws in accordance with said Act.

The Board of Directors shall be responsible for overseeing compliance with the resolutions of the Shareholders' Meetings, which may be carried out through the Audit Committee.

All Directors must inform the competent committee of the Board of Directors and the Board of Directors of any transactions they intend to enter with the Company or its Subsidiaries.

The members of the Board of Directors shall be responsible for the resolutions arrived at in connection with the matters referred to in this Article, except in the case established by the General Corporations Act relating to Directors who, being exempt from guilt, have expressed their disagreement at the time of deliberation and resolution of the act in question.

The members of the Board of Directors shall perform their duties with the aim of creating value for the benefit of the Company, without favoring a specific shareholder or group of shareholders. To this end, they must act diligently, adopting reasoned decisions and complying with the duties of diligence, loyalty and responsibility established in the Securities Market Act, the General Law on Commercial Companies, the Company's Bylaws and any internal regulations issued by the Board of Directors itself.

The members of the Board of Directors shall not incur, individually or as a whole, liability for any damages or losses caused to the Company or to the legal entities controlled by it or over which it has significant influence, as defined in the Securities Market Act, arising from the acts they execute or the decisions they adopt, when, acting in good faith, any of the following disclaimers of liability materializes:

(i) Comply with the requirements established by the Securities Market Act, the Bylaws or those that the Internal Regulations issued by the Board of Directors establish, for the approval of the matters that the Board of Directors or, as the case may be, the committees of which it forms part, are competent to know.

(ii) Take decisions or vote at meetings of the Board of Directors or, as the case may be, committees to which they belong, based on information provided by relevant directors, as defined in the Securities Market Act, or by the legal entity providing external audit services or independent experts, whose capacity and credibility do not give rise to reasonable doubt.

(iii) They have chosen the most appropriate alternative, to the best of their knowledge, or the negative equity effects have not been foreseeable, in both cases, based on the information available at the time of the decision.
(iv) Comply with the resolutions of the Shareholders' Meeting, if these do not violate the Law.

ARTICLE THIRTY-NINE _ GOOD FAITH OF THE BOARD OF DIRECTORS. The members of the Board of Directors, in the diligent exercise of the functions that the Securities Market Law and these Bylaws confer on said corporate body, must act in good faith and in the best interest of the company and the legal entities it controls, for which they may:

(i) Request information from the Company and the legal entities it controls that is reasonably necessary for decision making.
To this effect, the Company's Board of Directors may establish, with the prior opinion of the committee that performs audit functions, guidelines that establish the manner in which such requests will be made and, where appropriate, the scope of the requests for information by the Directors themselves.
(ii) Require the presence of relevant executives and other persons, including external auditors, who may contribute elements to the decision-making process in the meetings of the Board of Directors.
(iii) Postpone the meetings of the Board of Directors when a Director has not been summoned or has not been summoned in due time or, as applicable, for not having been provided with the information given to the other Directors. This postponement shall be for up to three calendar days, and the Board of Directors may meet without the need for a new call, provided that the deficiency has been rectified.
(iv) Deliberate and vote, requesting that, if they so wish, only the members and the Secretary of the Board of Directors be present.

The members of the Board of Directors, the relevant directors and other individuals holding powers of representation of the Company must provide whatever is necessary to comply with the provisions of the Securities Market Law, observing the provisions of Article 3 of said Law.

The information submitted to the Company's Board of Directors by relevant executives and other employees, both Company itself and of the legal entities it controls, must be signed by the persons responsible for its content and preparation.

The members of the Board of Directors and other persons who are employed by or hold a condition or commission in any of the legal entities controlled by the Company or in which the Company has a significant influence, shall not lack the discretion and confidentiality established in the Securities Market Law or other laws when providing information to the Company's Board of Directors, in accordance with the provisions herein, regarding the aforementioned legal entities.

The members of the Board of Directors shall fail in their duty of diligence and shall be subject to liability in terms of the provisions of Article 33 of the Securities Market Law, when they cause pecuniary damage to the Company or to the legal entities it controls or in which it has a significant influence, if:

(i) They abstain from attending the meetings of the Board of Directors and, where appropriate, committees of which they form part, unless there is a justified cause in the opinion of the Shareholders' Meeting, and that the body in question cannot legally meet due to their non-attendance.
(ii) They do not disclose to the Board of Directors or, as the case may be, to the committees of which they form part, any relevant information that they are aware of and that is necessary for the appropriate decision-making in said corporate bodies, unless they are legally or contractually obliged to maintain secrecy or confidentiality in this respect.
(iii) They fail to comply with the duties imposed on them by the Securities Market Law or these Bylaws.

The liability consisting of compensating the damages caused to the Company or to the legal entities controlled by it or in which it has a significant influence, due to the lack of diligence of the members of the Company's Board of Directors, deriving from the acts they carry out or the decisions they adopt on the Board or from those which are no longer taken because said corporate body cannot legally meet, shall be joint and several between the guilty parties who adopted the decision or caused said corporate body not to be able to meet. This indemnity is limited by Article Thirty-Six of these Bylaws.

The Company may agree on indemnities and contract insurance, bonds or sureties in favor of the members of the Board of Directors that cover the amount of the indemnity for the damages caused by their actions to the Company or legal entities controlled by it or in which it has a significant influence, except in the case of fraudulent acts or acts of bad faith, or illicit acts in accordance with this or other laws.

ARTICLE FORTY – <u>CONFIDENTIALITY OF THE BOARD OF DIRECTORS AND SECRETARY.</u> The members and Secretary of the Company's Board of Directors must maintain confidentiality with respect to the information and matters of which they become aware by reason of their condition in the Company, when said information or matters are not of a public nature.

Members and, where appropriate, the Secretary of the Board of Directors who have a conflict of interest in any matter must abstain from participating and being present in the discussion and voting on that matter, without affecting the quorum required for said Board to convene.

Directors shall be jointly and severally liable with those who have preceded them in office for any irregularities they may have committed if, having been informed of such irregularities, they do not communicate them in writing to the committee that performs audit functions and to the external auditor. Likewise, said Directors shall be obliged to inform the Audit Committee and the external auditor of all irregularities that they become aware of during the exercise of their office and that are related to the Company or the legal entities it controls or over which it has a significant influence.

The members and Secretary of the Board of Directors shall be disloyal to the Company and, consequently, shall be liable for the damages caused to the Company or to the legal entities it controls or in which it has a significant influence, when, without legitimate cause, by virtue of their employment, condition or commission, they obtain economic benefits for themselves or procure them in favor of third parties, including a specific shareholder or group of shareholders.

Likewise, the members of the Board of Directors shall be disloyal to the Company or to legal entities controlled by it or over which it has significant influence, and shall be liable for damages caused to these legal entities or to the Company when they engage in any of the following conducts:

(i) Vote in the meetings of the Board of Directors or make determinations related to the patrimony of the Company or legal entities that it controls or in which it has significant influence, when a conflict of interest exists.
(ii) Failing to disclose, in the matters dealt with in the meetings of the Board of Directors or committees of which they form part, any conflicts of interest they may have with respect to the Company or legal entities controlled by it or in which they have a significant influence. To this end, Directors must specify the details of the conflict of interest, unless they are legally or contractually obliged to maintain secrecy or confidentiality in this regard.
(iii) Knowingly favor a certain shareholder or group of shareholders of the Company or of the legal entities controlled by the Company or over which it has a significant influence, to the detriment of the other shareholders.
(iv) Approve transactions entered into by the Company or the legal entities it controls or in which it has significant influence, with related parties, without complying with the requirements established by the Securities Market Law.
(v) Take advantage for themselves or approve, in favor of third parties, the use or enjoyment of the assets that form part of the patrimony of the Company or legal entities controlled by it, in contravention of the policies approved by the Board of Directors.
(vi) Misuse relevant information that is not in the public domain, relating to the Company or legal entities controlled by the Company or over which it has significant influence.
(vii) Take advantage of or exploit, for their own benefit or in favor of third parties, business opportunities that correspond to the Company or legal entities that the Company controls or in which it has significant influence, without authorization of the Board of Directors.
    To this effect, it shall be considered, unless there is proof to the contrary, that a business opportunity corresponding to the Company or legal entities controlled by it or in which it has a significant influence is taken advantage of or exploited, when the Director, directly or indirectly, carries out activities that:
    a) Are in the ordinary or habitual course of business of the Company itself or of the legal entities controlled by it or over which it has significant influence.
    b) Involve the execution of a transaction or a business opportunity that is originally addressed to the Company or legal entities mentioned in the preceding paragraph.
    c) Involve or intend to involve in commercial or business projects to be developed by the Company or the legal entities mentioned in paragraph a) above, provided that the Director has had prior knowledge thereof.

The provisions of the fourth paragraph of this Article, as well as fractions (v) to (vii) thereof, shall also apply to persons exercising power of command in the Company.

In the case of legal entities in which the Company has a significant influence, the responsibility for disloyalty shall be demanded of the members and Secretary of the Board of Directors of said Company who contribute to obtaining, without legitimate cause, the benefits referred to in the fourth paragraph of this Article.

ARTICLE FORTY-ONE – <u>OBLIGATION OF THE BOARD OF DIRECTORS AND SECRETARY NOT TO CARRY OUT CERTAIN CONDUCTS</u>. The members and Secretary of the Company's Board of Directors shall refrain from engaging in any of the conducts set forth below:

(i) Generate, disseminate, publish or provide information to the Company's public or legal entities controlled by it or in which it has a significant influence, or over the values of any of them, knowing that it is false or misleading, or order that any of said conducts be carried out.
(ii) Order or cause the omission of the transactions log carried out by the Company or the legal entities controlled by it, as well as to alter or order the alteration of the registers to hide the true nature of the transactions carried out, affecting any concept of the financial statements.
(iii) Hide or omit the disclosure of information that must be disclosed to the public, shareholders or holders of securities pursuant to the terms of the Securities Market Law, unless the Act provides for the possibility of deferral, or cause it to be hidden or omitted.
(iv) Order or accept the recording of false data in the accounts of the Company or legal entities controlled by it. In the absence of proof to the contrary, it shall be presumed that the data included in the accounts is false when the authorities, in the exercise of their powers, require information related to the accounting records and the Company or legal entities controlled by it do not have it, and the information supporting the accounting records cannot be accredited.
(v) Destroy, modify or order the total or partial destruction or modification of the accounting systems or records or of the documentation that gives rise to the accounting entries of the Company or of the legal entities it controls, prior to the expiry of the legal conservation periods and with the purpose of concealing their registration or evidence.
(vi) Destroy or order the total or partial destruction of information, documents or files, including electronic files, for the purpose of preventing or obstructing acts of supervision by the National Banking and Securities Commission.
(vii) Destroy or order the total or partial destruction of information, documents or files, including electronic files, for the purpose of manipulating or concealing relevant data or information of the Company from those who have a legal interest in knowing them.
(viii) Submit false or altered documents or information to the National Banking and Securities Commission in order to conceal its true content or context.
(ix) Altering active or passive accounts or the conditions of contracts, making or ordering non-existent operations or expenses to be recorded, exaggerating real ones or intentionally carrying out any illegal act or operation prohibited by the Securities Market Law, generating in any of these cases a loss or damage to the patrimony of the Company in question or of the legal entities controlled by it, for their own economic benefit, either directly or through a third party.

The provisions of this Article shall also apply to persons exercising power of command in the Company.

ARTICLE FORTY-TWO – <u>OPERATION OF THE BOARD</u>. The Board of Directors shall meet at least once every three months on the dates and in the places determined by the Board. The Chair of the Board, the Chair of the Committees carrying out the Corporate Practices and/or Auditing functions, at least 25% (twenty-five percent) of the Directors, the Secretary or Assistant Secretary may call a meeting of the Board of Directors and insert the items they deem pertinent in the Agenda.

In all cases, calls for meetings of the Board of Directors must be made in writing and sent to each of the Directors, at least five (5) working days prior to the date of the corresponding meeting. Such calls may be sent by registered mail, telegram, fax to the fax numbers or, as the case may be, by e-mail or courier to the addresses registered with the Company Secretary; until the Director notifies the Secretary in writing of changes to the fax number, e-mail or address, the calls sent in accordance with the registered data will be fully effective. The summons shall contain the time, date, place, and the proposed Agenda; however, the summons shall not be necessary if all the Proprietary Directors or, if applicable, the Substitutes are present at the Meeting, as well as when the Board of Directors has agreed and established a fixed calendar of meetings.

The External Auditor of the Company will be summoned to the Meetings of the Board of Directors as a guest, with voice, but without vote, and must abstain from being present with respect to those matters on the Agenda in which they have a conflict of interest or which may compromise their independence. Similarly, the officers of the Company and its Subsidiaries and other persons invited by the Chair of the Board of Directors may attend.

The Board of Directors shall meet validly in the presence of the majority of its proprietary members or their substitutes. Resolutions will be valid if approved by a majority of the attendees. In the event of a tie, the President shall have a casting vote.

Minutes must be taken of each meeting of the Board of Directors held, indicating the date, time and place of the meeting, the Directors Owners or Alternates who attended the meeting and the resolutions approved, indicating whether there was unanimity or only a majority of votes. These minutes shall be recorded in the

Minutes Book of Board Meetings and must be signed by the persons acting as Chair and Secretary respectively.

Copies or records of the minutes of the meetings of the Board of Directors and of the General Shareholders' Meetings, as well as of the entries contained in the Company's legal books and registers and, in general, of any document in the Company's archives, may be authorized by the Secretary or by the Assistant Secretary. Either may appear before a Notary Public to notarize the aforementioned documents, without prejudice to any person authorized by the Board of Directors or by the Meeting of Shareholders. In general, in the absence of a specific delegate, both the Secretary and the Assistant Secretary, indistinctly, shall act as delegates for the execution of the resolutions of the Board of Directors or the Shareholders' Meeting.

ARTICLE FORTY-THREE – RESOLUTIONS TAKEN OUT OF COUNCIL SESSION. The Board of Directors may, without having to meet in a formal session, adopt resolutions unanimously by a number of Directors equal to the number of Proprietary members appointed by the last Ordinary General Shareholders' Meeting, who may be Owners or Substitutes, provided that said resolutions are confirmed in writing by all the Directors who participated in them. The text of such resolutions shall be recorded in the respective Minutes Book, signed by the Chair and Secretary of the Board of Directors.

ARTICLE FORTY-FOUR – COMMITTEES OF THE ADMINISTRATIVE BOARD. In terms of Articles 25, 41 to 43 and other applicable Articles of the Securities Market Law, the Board of Directors, for the performance of its functions, shall be assisted by the Committee(s) that carry out activities related to Corporate Practices and Auditing. Said Committee(s) shall be made up exclusively of Independent Directors and a minimum of three members appointed by the Board of Directors, at the proposal of the Chair of said corporate body, understanding that the chairs of said committees shall be appointed and removed by the General Shareholders' Meeting, and may not chair the Board of Directors. The secretary of the Committees shall be the secretary of the Board of Directors itself, without being a member of said Committees.

The Chairs of the Audit and Corporate Practices Committees may call a meeting of the Board of Directors and insert the points they deem pertinent in the Agenda.
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Whenever the Company is controlled by a person or group of persons holding 50% or more of the Capital Stock, the Committee that performs the functions of Corporate Practices shall be made up of at least a majority of Independent Directors, provided that such circumstance is disclosed to the public.

When, for any reason, the minimum number of members of the Committee performing audit functions is lacking and the Board of Directors has not appointed provisional Directors pursuant to the provisions of Article 24 of the Securities Market Law and these Bylaws, any shareholder may request the Chair of said Board to call a General Shareholders' Meeting within three calendar days to make the corresponding appointment. If the call is not made within the period indicated, any shareholder may contact the judicial authority of the Company's domicile, so that the latter may make the call. In the event that the Meeting does not meet or the appointment is not made at a meeting, the judicial authority of the Company's domicile, at the request and proposal of any shareholder, will appoint the corresponding Directors, who will function until the General Meeting of Shareholders makes the definitive appointment.

The Committee(s) that perform the Corporate Practices and Auditing functions shall invariably act as collegiate bodies, without their powers being delegated to individuals such as Directors, Managers, Managing Directors or Proxies.

The Committee(s) that perform the Corporate Practices and Auditing functions shall prepare an annual report on their activities and submit it to the Board of Directors under the terms of Article 43 of the Securities Market Law.

The Corporate Practices and Audit Committee(s) and their respective Chairpersons shall have the following powers and duties, within the scope of their competence:

a) Provide the Board of Directors with its opinion on the matters indicated in Articles 28, 30, 44, 99, 100, 101, 102, 108 and other applicable articles of the Securities Market Law;
b) Those established in Articles 27, 41, 42 and 43 and other applicable of the Securities Market Law.

Without prejudice to the foregoing:

C. As regards Corporate Practices, the respective Committee will oversee the development of the following activities:

(i) Give the Board of Directors an opinion on the matters that fall within its competence under the applicable legislation.

(ii) Seek the opinion of independent experts when it deems it appropriate, for the proper fulfilment of its functions or when required under applicable law or general provisions.
(iii) Call Shareholders' Meetings and have the items they deem pertinent inserted in the Agenda of said Meetings.
(iv) Support the Board of Directors in the preparation of the reports referred to in article 28, section IV, paragraphs d) and e) of the Securities Market Law.
(v) Propose to the Company's Shareholders' Meeting a form with the names of the persons who, in its opinion, should form part of the Company's Board of Directors in the event that its members at the time of election are not ratified in their posts by the Shareholders' Meeting. In the selection of candidates for the Board of Directors, the Corporate Practices Committee shall consider only persons of recognized experience and professional or business background, as well as persons who do not have a conflict of interest with the Board, its subsidiaries or relevant shareholders and, to the extent required, that the proposed candidates qualify as independent Directors under the terms of the applicable legislation.
(vi) Such other duties as may be established by the Securities Market Law or as may be provided for in these Bylaws, in accordance with the legally assigned functions.

D. Regarding Auditing, the respective Committee will oversee the development of the following activities:

(i) Give the Board of Directors an opinion on the matters that fall within its competence under the applicable legislation.
(ii) Evaluate the performance of the legal entity that provides the external audit services, as well as to analyze the opinions or reports prepared and signed by the external auditor. For this purpose, the Committee may require the presence of said auditor whenever it deems it appropriate, without prejudice to the fact that it shall meet with the latter at least once a year.
(iii) Discuss the Company's financial statements with the persons responsible for preparing and reviewing them and, based on this, recommend or not recommend their approval by the Board of Directors.
(iv) Inform the Board of Directors of the situation of the internal control and internal audit system of the Company or of the legal entities it controls, including any irregularities it detects.
(v) Prepare the opinion referred to in article 28, section IV, paragraph c) of the Securities Market Law and submit it to the Board of Directors for its subsequent presentation to the Shareholders' Meeting, relying, among other elements, on the external auditor's report. This opinion should at least point out:
    a) Whether the accounting and reporting policies and criteria followed by the Company are adequate and enough, taking into consideration the particular circumstances of the Company.
    (b) Whether such policies and criteria have been consistently applied in the information submitted by the Chief Executive Officer.
    (c) If, because of paragraphs (a) and (b) above, the information presented by the Chief Executive Officer reasonably reflects the financial situation and results of the Company.
(vi) Support the Board of Directors in the preparation of the reports referred to in article 28, section IV, paragraphs d) and e) of the Securities Market Law.
(vii) Ensure that the transactions referred to in articles 28, section III and 47 of the Securities Market Law are carried out in accordance with the provisions of said precepts, as well as the policies derived therefrom.
(viii) Seek the opinion of independent experts where it deems it appropriate, for the proper fulfilment of its functions or where required under applicable law or general provisions.
(ix) Request reports related to the preparation of financial information and of any other type that it deems necessary for the exercise of its functions from Relevant Officers and other employees of the Company or of the legal entities controlled by the Company.
(x) Investigate the possible cases of non-compliance of which it is aware, with the operations, operation guidelines and policies, internal control system and internal audit and accounting records, whether of the Company itself or of the legal entities controlled by it, for which it shall carry out an examination of the documentation, records and other evidences, to the degree and to the extent necessary to carry out said monitoring.
(xi) Receive observations made by shareholders, directors, relevant executives, employees and, in general, any third party regarding the matters referred to in the foregoing paragraph, as well as carrying out the actions it deems appropriate in relation to such observations.
(xii) Request periodic meetings with the relevant executives, as well as the delivery of any type of information related to the internal control and internal audit of the Company or legal entities that it controls.
(xiii) Inform the Board of Directors of any significant irregularities detected in the performance of its duties and, where appropriate, of any corrective actions taken or propose those that should be applied.
(xiv) Call a Shareholders' Meeting and request the insertion of the items they deem pertinent in the Agenda of said Meetings.

(xv) Ensure that the Chief Executive Officer complies with the resolutions of the Shareholders' Meetings and the Company's Board of Directors, in accordance with any instructions issued by the Meeting itself or the Board.

(xvi) Supervise the establishment of internal mechanisms and controls to verify that the acts and operations of the Company and of the legal entities controlled by it comply with the applicable regulations, as well as to implement methodologies that make it possible to review compliance with the foregoing.

(xvii) Any others that the Securities Market Law establishes or are provided for in these Bylaws, in accordance with the legally assigned functions.

The annual report on the activities corresponding to the Audit and Corporate Practices Committee(s) shall be prepared by the Chairs of the Committees for presentation to the Board of Directors and shall include, at least:

I. On corporate practices:

a) Observations regarding the performance of relevant executives

b) Transactions with related parties during the reporting year, detailing the characteristics of significant transactions

c) The packages of emoluments or integral remunerations of the physical persons referred to in article 28, section III, paragraph d) of this Law

d) Dispensations granted by the board of directors in terms of the provisions of article 28, section III, paragraph f) of this Law

II. On auditing:

a) The state of the internal control and internal audit system of the company and of the legal entities controlled by it and, if applicable, the description of their deficiencies and deviations, as well as any aspects requiring improvement, taking into account the opinions, reports, communications and external audit opinion, as well as the reports issued by the independent experts who provided their services during the period covered by the report.

b) The mention and monitoring of preventive and corrective measures implemented based on the results of investigations related to non-compliance with operating and accounting registration guidelines and policies, either of the company itself or of the legal entities it controls.

c) The evaluation of the performance of the legal entity that provides the external audit services, as well as the external auditor in charge of it.

d) The description and valuation of any additional or complementary services provided by the legal entity in charge of carrying out the external audit, as well as those provided by independent experts.

e) The main results of the revisions to the financial statements of the company and of the legal entities it controls.

f) The description and effects of modifications to the accounting policies approved during the period covered by the report.

g) The measures adopted as a result of the observations they consider relevant, formulated by shareholders, directors, relevant executives, employees and, in general, of any third party, with respect to accounting, internal controls and matters related to internal or external audit, or deriving from complaints made about events they consider irregular in the administration.

h) Follow-up of the resolutions of the shareholders' meetings and of the board of directors.

The Audit and Corporate Practices Committee(s) shall meet as often as necessary and may be convened by the Chair of the Board, 25% of the Directors or the Chair of the Committee itself.

Decisions shall be taken by a majority vote of those present, the Chair of the Committee having the casting vote in the event of a tie; and shall require the attendance of a majority of its members in order to meet.

In the meetings of the Committee in which the Chair and/or Secretary are absent, the attendees shall appoint by majority, from among the members of the Audit and Corporate Practices Committee, who shall act as

Chair and from among the members themselves or other attendees, who shall act as Secretary for effect of the corresponding meeting.

The Committee(s) shall keep a book of Minutes of their sessions, in which the Minutes of each session shall be recorded and signed, at least, by those who have acted as Chair and Secretary of the session of the Committee.

The same Committee may perform the functions of Audit and Corporate Practices.

ARTICLE FORTY-FIVE – CHIEF EXECUTIVE OFFICER. The functions of management, conduction and execution of the business of the Company and of the legal entities controlled by it shall be the responsibility of the Chief Executive Officer, pursuant to the provisions of Article 44 of the Securities Market Law, subject to the strategies, policies and guidelines approved by the Board of Directors.

In any case, the Chief Executive Officer must comply with the duties and obligations established in the Securities Market Law and in these Bylaws, and in particular the functions established in Article 44 of the Securities Market Law, as well as any other functions, obligations, assignments and duties entrusted to them by the General Shareholders' Meeting or the Company's Board of Directors.

For the performance of their duties, the Chief Executive Officer shall have the broadest powers to represent the Company in acts of administration and lawsuits and collections, including special powers required by law to have a special clause. In the case of acts of dominance, the Chief Executive Officer shall exercise said powers under the terms and conditions determined by the Board of Directors, in accordance always with the provisions of Article 28, section VIII of the Securities Market Law.

The Chief Executive Officer, without prejudice to the foregoing, shall:

- **(i)** Submit the business strategies of the Company and the legal entities it controls for the approval of the Board of Directors, based on the information provided by the latter.
- **(ii)** Comply with the resolutions of the Shareholders' Meetings and of the Board of Directors, in accordance with the instructions issued by the Meeting itself or the aforementioned Board.
- **(iii)** Propose to the Committee that it carry out the functions related to Auditing, the guidelines of the internal control and internal audit system of the Company and the legal entities it controls, as well as to execute the guidelines approved for this purpose by the Company's Board of Directors.
- **(iv)** Subscribe the relevant information of the Company, together with the relevant executives in charge of its preparation, in the area of its competence.
- **(v)** Disseminate relevant information and events that must be disclosed to the public, in accordance with the provisions of the Securities Market Law.
- **(vi)** Comply with the provisions relating to the conclusion of operations for the acquisition and placement of the Company's own shares.
- **(vii)** Exercise, by itself or through an authorized delegate, within the scope of its competence or by instruction of the Board of Directors, the corrective and liability actions that may be appropriate.
- **(viii)** Verify that any capital contributions made by the partners are made.
- **(ix)** Comply with legal and statutory requirements regarding dividends paid to shareholders.
- **(x)** Ensure that the Company's accounting, recording, archiving or information systems are maintained.
- **(xi)** Prepare and submit to the Board of Directors the report referred to in Article 172 of the General Law of Mercantile Corporations, except for the provisions of paragraph b) of said provision.
- **(xii)** Establish internal mechanisms and controls to verify that the acts and operations of the Company and the legal entities it controls have complied with the applicable regulations, as well as to monitor the results of those internal mechanisms and controls and take the necessary measures as appropriate.
- **(xiii)** Exercise the liability actions referred to in the Securities Market Law against related parties or third parties who may have caused damage to the Company or the legal entities controlled by it or over which it has significant influence, unless, by determination of the Company's Board of Directors and prior opinion of the Committee in charge of auditing functions, the damage caused is not material.
- **(xiv)** Such other duties as the Securities Market Law may establish or provide for in these Bylaws, in accordance with the functions assigned to it by said Act.

For the exercise of their functions and activities, as well as for the due fulfillment of the obligations established by the Securities Market Law or other laws, the Chief Executive Officer, will be assisted by the relevant executives appointed for such purpose and by any employee of the Company or by the legal entities controlled by the Company.

In the management, conduction and execution of the Company's business, the Chief Executive Officer shall provide the necessary for the legal entities controlled by the Company to comply with the provisions of Article 31 of the Securities Market Law.

The reports relating to the financial statements and information on financial, administrative, economic and legal matters referred to in Article 104 of the Securities Market Law must be signed, at least, by the Chief Executive Officer and other relevant executives who are heads of the finance and legal areas or their equivalents, within the scope of their respective competencies. This information must also be submitted to the Board of Directors for consideration and, if appropriate, approval, with the supporting documentation.

The Chief Executive Officer and the other relevant executives shall be subject to the provisions of Article 29 of the Securities Market Law, in their respective areas of competence, for which they shall be liable for damages arising from the functions that correspond to them. Likewise, the exclusions and limitations of liability referred to in Articles 33 and 40 of the Securities Market Law shall be applicable to them.

In addition, the Chief Executive Officer and the other relevant officers shall be liable for any damages caused to the Company or legal entities controlled by the Company:

(i) The lack of timely and diligent attention, for reasons imputable to them, to requests for information and documentation within the scope of their competencies required by the Directors of the Company.
(ii) Knowingly presenting or disclosing false or misleading information.
(iii) The updating of any of the conducts contemplated in Articles 35, sections III and IV to VII and 36 of the Securities Market Law, the provisions of Articles 37 to 39 of said Law being applicable.

CHAPTER FIVE

COMPANY SURVEILLANCE

A***RTICLE FORTY-SIX – SURVEILLANCE BODIES***. The supervision of the management, conduct and execution of the business of the Company and of the legal entities controlled by it, considering the relevance of the latter in the financial, administrative and legal situation of the former, shall be the responsibility of the Board of Directors through the Corporate Practices and Audit Committee(s), as well as through the legal entity who carries out the external audit of the Company, each within the scope of their respective competences, as indicated in the Securities Market Law.

CHAPTER SIX

OF SOCIAL EXERCISES AND THE APPLICATION OF RESULTS

ARTICLE FORTY-SEVEN – SOCIAL EXERCISE. The fiscal year shall be 12 (twelve) months, beginning on the first of January and ending on the last day of December of the same year. In the event that the Company goes into liquidation or is merged, its fiscal year will end early on the date on which it goes into liquidation or merges and it will be considered that there will be a fiscal year during all the time in which the Company is in liquidation, the latter must coincide with those established for this purpose by tax laws.

ARTICLE FORTY-EIGHT – PROFIT ALLOCATION. Annual net profits, after deduction of the amount of income tax, workers' participation and other items that according to the Law must be deducted or separated, will be allocated as follows:

(iii) A minimum of 5% (five percent) shall be set aside annually to form the legal reserve fund, until it reaches at least 20% (twenty percent) of the Capital Stock.

(iv) The amounts that the General Meeting of Shareholders of the Company may agree to constitute extraordinary, special or additional funds deemed appropriate or for the creation or increase of general or special reserves shall be set aside.

(v) Remaining earnings, if any, may be allocated and distributed in a manner to be determined by the General Meeting of Shareholders.
The distribution of profits shall be governed by the provisions of Article 19 of the General Law of Mercantile Corporations. After a dividend has been declared, the Ordinary Shareholders' Meeting or the Board of Directors, shall set the date on which the dividend is to be paid. All dividends that are not received within a period of 5 years from the date indicated for their payment, will be understood as prescribed in favor of the Company.

ARTICLE FORTY-NINE – LOSSES. If there are losses, they will be absorbed by the shareholders, in proportion to the number of their shares and up to their determined value, taking into account the number of shares and the Capital Stock in force, and the premium paid by them, as the case may be.

CHAPTER SEVEN

DISSOLUTION AND LIQUIDATION

ARTICLE FIFTY – DISSOLUTION. The Company shall be dissolved in the cases established in Article 229 (two hundred and twenty-nine) of the General Corporation and Partnership Law.

ARTICLE FIFTY-ONE – THE LIQUIDATORS. Once the Company has been dissolved, the Shareholders' Meeting shall, by majority vote, appoint three liquidators. The Shareholders' Meeting shall set the term within which the liquidators must conclude their work and shall indicate the remuneration that should correspond to them.

ARTICLE FIFTY-TWO – BASES FOR LIQUIDATION. The liquidators shall make their decisions by a majority of votes. Liquidation shall be carried out on the following bases:

(i) Conclusion of pending business in the manner deemed appropriate by the liquidators.
(ii) The liquidators shall collect the claims, pay the debts and dispose of the assets of the Company necessary for that purpose.
(iii) The liquid assets resulting from the final balance sheet to be drawn up by the liquidators, approved by the Shareholders' Meeting after publication of the Law, shall be distributed among the shareholders, either by distributing it in kind or by selling it and distributing its product or by carrying out with it any other transaction agreed upon by the Shareholders' Meeting, respecting, where applicable, the rights corresponding to shares belonging to special classes, if any.
(iv) The liquid assets shall be distributed in proportion to the amount paid up of the Capital Stock, respecting, where appropriate, the pre-emptive rights corresponding to special classes of shares.

ARTICLE FIFTY-THREE – LIQUIDATION OF THE COMPANY. During the liquidation, the General Shareholders' Meeting shall have the necessary powers to determine the rules that shall, in addition to and as a reform of the regulations contained in these Bylaws, govern the actions of the liquidators, and may revoke their appointments and appoint new ones.

ARTICLE FIFTY-FOUR – MEETINGS DURING LIQUIDATION. During the liquidation period, General Shareholders' Meetings must be called and held in the manner provided in these Bylaws by any of the liquidators. The liquidators shall have the same powers and obligations that correspond to the Board of Directors in the normal life of the Company, with the special requirements deriving from the state of liquidation.

ARTICLE FIFTY-FIVE – REGISTRATION OF LIQUIDATORS. Until the appointment of the liquidators has been registered in the Public Registry of Commerce and they have not taken office, the Board of Directors, Committees and the Officers, Director or Chief Executive Officer and Directors or Deputy Chief Executive Officers of the Company shall continue to perform their duties, but they may not initiate new operations after the resolution of dissolution of the Company has been approved by the shareholders or the existence of its legal cause has been proven.

CHAPTER EIGHT

APPLICABLE LAWS, COMPETENT COURTS AND SELF-REGULATORY POLICIES

ARTICLE FIFTY-SIX – APPLICABLE LAWS AND JURISDICTION. All matters that are not covered in these Bylaws and while the Company's shares are registered in the National Securities Registry shall be subject to the special provisions contained in the Securities Market Law and, everything that is not covered by said Law shall be subject to the provisions of the General Corporation and Partnership Law as well as the general provisions issued by the National Banking and Securities Commission. In the event of interpretation or controversy with respect to what the Bylaws state or of any controversy between the Company and its shareholders, or between the shareholders for matters relating to the Company, the former and the latter are expressly submitted to the applicable laws and to the jurisdiction of the competent courts of Mexico City.

The shareholders, by the mere fact of their subscription, acquisition or holding of the shares representing the Capital Stock, expressly submit to the provisions of these Bylaws and to the jurisdiction of the competent courts of the Company's corporate address, and therefore waive any other jurisdiction that may correspond to them by reason of their present or future domiciles or for any other reason.

e) Other corporate governance practices

The Issuer has a Code of Ethics widely disseminated throughout the organization, under which the parameters of corporate institutional conduct are established.

As for the substitution of the members of the Board of Directors, this is not indistinct; that is to say, each alternate director may substitute only his respective proprietary director, on the understanding that the alternate directors are appointed at the proposal of the proprietary director in question and, in the case of the independent directors, both must have such characteristic.

The Board of Directors meets four times a year. However, extraordinary sessions could be held if required, or agreements could be adopted through unanimous resolutions not in person. At each meeting of the Board of Directors, the results for the previous quarter are reviewed in order to approve their disclosure to the BMV.

Prior to each meeting of the Board of Directors, as well as its committees, the respective material and information is submitted to the consideration of the directors or members of said bodies by means of the confidential electronic platform set up as a communication channel known as *"Board Effect"*.

The Audit Committee is aware of, analyses and gives its opinion on periodic external audit reports. This Committee monitors the progress and observations of the external audit and maintains constant and effective communication with the external auditors.

The Corporate Practices Committee evaluates the performance of the relevant executives and reviews the compensation granted to them; reviews transactions between related parties; evaluates any dispensation granted to the relevant directors or executives to take advantage of business opportunities; and performs activities provided for in the Securities Market Law.

Mexichem adheres to the recommendations and principles of the Best Corporate Practices Code, issued at the initiative of the Business Coordinating Council, and submits a yearly report to the BMV corresponding to the previous fiscal year regarding the degree of adherence to said Code.

It should be noted that the principles recommended by the Code of Best Practices are not mandatory; however, these principles were largely adopted by the LMV, the latter of mandatory compliance for the Issuer.

a. Possibility for alternate directors to indistinctly replace any proprietary director and under which conditions.

   Mexichem's bylaws provide that alternate directors may only replace the function of their respective owners.

b. Minimum and average frequency of meetings of the Board of Directors

   The Board of Directors meets at least four times a year.

c. Access to the issuer's information by directors for decision-making purposes.

   The members of the board of directors have access to the information necessary for decision making 5 days in advance, through the System Board Effect (business application); it is a collaborative environment for the advisors where the agenda and the material of the presentations of the programmed meetings is shared. Surveys can be carried out and discussion chats can be organized through this application.

d. Existence of an external audit area.

The Issuer has external auditors, which by law are independent.

Other Agreements

The Issuer's bylaws incorporate limitations on the maximum percentage allowed for the acquisition of Outstanding Shares without authorization from the Board of Directors.

On April 23, 2019, the Ordinary and Extraordinary General Shareholders' Meeting approved the amendment, among others, of the ninth article of the bylaws, which establishes that any transfer of shares, in favor of any person or group of persons acting in a concerted manner, that accumulates in one or several transactions (without time limit) 10% (ten percent) or more of the total outstanding shares, will be subject to the authorization of the Board of Directors.

The prior favorable written agreement of the Board of Directors shall be required regardless of whether the purchase or acquisition of the shares, securities and/or rights is intended to be made on or off the Stock Exchange, directly or indirectly, through a public offer, private offer, or through any other modality or legal act, in one or several transactions of any legal nature, simultaneous or successive, in Mexico or abroad.

It is also established in the aforementioned article that a favorable prior written agreement of the Board of Directors will be required for the execution of agreements, contracts and any other legal acts of any nature, oral or written, by virtue of which voting mechanisms or association agreements are formed or adopted, to be exercised in one or more Shareholders' Meetings of the Company, each time the number of votes grouped together results in a number equal to or greater than any percentage of the total shares representing the Capital Stock of the Company that are equal to or greater than 10% (ten percent) of the Capital Stock of the Company that are equal to or greater than 10% (ten percent) of the Capital Stock. An agreement of this nature shall not be understood to be an agreement entered by shareholders for the appointment of minority Directors.

Notwithstanding the foregoing, and regardless of any consequence deriving from non-compliance with the foregoing, each person who acquires shares, securities, instruments or rights representing the Capital Stock of the Company in violation of the provisions of article nine of the Bylaws shall be obliged to pay the Company a conventional penalty for an amount equal to the price of all the shares, securities or instruments representing the Capital Stock of the Company that have been the object of the prohibited transaction. In the event that the operations that gave rise to the acquisition of a percentage of shares, securities, instruments or rights representing the Company's Capital Stock equal to or greater than 10% (ten percent) of the Capital Stock are carried out free of charge, the conventional penalty shall be equivalent to the market value of said shares, securities or instruments, provided that the authorization of the Company's Board of Directors has not been obtained.

To find out the procedure for submitting the request for approval to the Board of Directors, as well as other relevant details. *See Section 4, "The Administration", item d, "Bylaws and Other Agreements", in this Annual Report.*

CAPITAL MARKET

a) Shareholding Structure

See Section 2, "The Issuer", numeral 13 "Shares Representing the Capital Stock", of this Annual Report.

b) Performance of the share in the Stock Market

The shares of the Issuer are currently registered in the RNV held by the CNBV and traded directly on the BMV under the ticker symbol "MEXCHEM *".

The level of marketability corresponding to shares is "High", according to the information available from the Stock Exchange Index carried out by the BMV in March 2019. As of 2008, shares are an integral part of the BMV Price Index.

In the last three fiscal years, the BMV listing of the "MEXCHEM*" shares have not been suspended.

The following tables show the minimum and latest maximum share prices on the BMV during the periods indicated; starting with this Annual Report:

Annual Performance

Date	Maximum	Minimum	Closing	Volume	Amount
2010	43.48	24.73	43.25	689,602,253	23,771,825,042
2011	50.63	37.67	42.96	627,624,409	27,601,056,676
2012	76.10	40.44	72.11	775,735,379	43,906,025,859
2013	75.85	50.00	53.76	942,056,511	56,266,308,996
2014	58.14	41.4	44.81	885,083,817	44,482,500,650
2015	47.44	38.46	38.50	714,532,361	31,137,165,594
2016	50.44	35.18	47.1	788,479,023	33,157,684,406
2017	53.34	46.7	48.63	725,639,512	35,850,815,973
2018	67.56	43.18	49.94	832,190,990	47,256,913,965

Quarterly Performance

Date	Maximum	Minimum	Closing	Volume	Amount
1Q2015	45.26	39.84	42.44	174,351,258	7,403,754,904
2Q2015	47.40	39.62	45.39	188,625,983	8,580,534,380
3Q2015	47.44	40.63	41.51	197,302,037	8,670,285,370
4Q2015	45.34	38.46	38.50	154,253,083	6,482,590,940
1Q2016	43.39	35.18	42.33	187,670,839	7,213,753,291
2Q2016	45.82	37.48	38.65	217,593,139	8,954,883,484
3Q2016	45.63	37.69	43.4	187,665,774	7,942,127,759
4Q2016	50.44	41.68	47.1	195,549,271	9,046,919,872
1Q2017	52.18	46.7	51.14	170,918,335	8,616,834,116
2Q2017	53.34	47.95	48.72	165,153,790	8,270,553,668
3Q2017	51.16	47.18	48.08	228,830,785	11,110,412,786
4Q2017	50.45	47.03	48.63	158,400,452	7,733,804,622
1Q2018	57.16	49.81	55.64	185,486,816	9,944,978,709
2Q2018	59.20	54.78	57.43	216,695,992	12,373,114,929
3Q2018	67.56	57.06	64.36	193,442,663	12,225,330,798
4Q2018	65.25	43.18	49.94	236,565,519	12,713,489,529
1Q2019	52.59	43.41	46.41	291,109,709	13,845,987,708

Monthly Performance

Date	Maximum	Minimum	Closing	Monthly cumulative volume	Monthly cumulative amount
Jan-17	51.50	46.70	51.00	57,247,924	2,874,585,813
Feb-17	50.57	47.37	47.37	40,753,730	1,999,990,074
Mar-17	52.18	48.86	51.03	75,252,831	3,861,529,010
Apr-17	52.87	50.23	51.55	33,819,445	1,751,050,227
May-17	53.34	48.88	48.88	58,910,840	2,992,024,920
Jun-17	49.54	47.95	48.72	72,423,505	3,527,478,521
Jul-17	51.13	47.87	50.73	54,496,700	2,702,196,327
Aug-17	51.16	47.18	47.62	106,736,504	5,164,584,134
Sep-17	49.06	47.27	48.08	67,597,581	3,243,632,325
Oct-17	49.89	47.03	49.36	62,935,730	3,058,993,225
Nov-17	50.45	48.14	48.47	45,967,299	2,271,757,279
Dec-17	50.12	47.11	48.63	49,497,423	2,403,054,118
Jan-18	54.70	49.81	52.75	58,645,593	3,057,623,150
Feb-18	55.13	50.97	52.84	54,971,247	2,901,491,759
Mar-18	57.16	53.35	55.64	71,956,839	3,987,601,932
Apr-18	59.20	54.78	58.42	79,417,372	4,621,448,588
May-18	57.93	56.19	56.19	60,377,413	3,439,595,967
Jun-18	57.43	55.01	57.43	76,901,207	4,312,070,374
Jul-18	65.25	57.06	65.25	70,799,285	4,340,778,852
Aug-18	67.56	62.87	64.69	65,968,257	4,267,362,178
Sep-18	64.50	63.36	64.36	56,486,453	3,605,133,883
Oct-18	65.25	52.76	53.66	76,457,938	4,610,311,928
Nov-18	56.40	43.18	47.56	88,942,688	4,505,575,771
Dec-18	52.76	47.15	49.94	71,164,893	3,597,601,830
Jan-19	51.08	45.98	51.08	105,804,269	5,118,974,833
Feb-19	52.59	46.71	46.71	68,354,711	3,433,098,101
Mar-19	46.98	43.41	46.41	116,950,729	5,293,914,774

Source Bloomberg

c) Market Maker

As of the date of this Annual Report, the Company has not engaged a Market Maker to support the marketability of the MEXCHEM* stock, as permitted by the LMV.

6. UNDERLYING ASSETS (only for structured securities issuers)

This chapter does not apply to the Issuer.

RESPONSIBLE PERSONS

We, the undersigned, declare under oath that, within the scope of our respective functions, we prepared the information relating to the Issuer contained in this annual report, which, to the best of our knowledge and belief, reasonably reflects its situation. We also state that we have no knowledge of relevant information that has been omitted or misrepresented in this annual report or that contains information that could mislead investors.

MEXICHEM, S.A.B. DE C.V.

Daniel Martínez-Valle
Chief Executive Officer

Rodrigo Guzmán Perera
Corporate Vice President of Finance

Francisco Hernández Castillo
Corporate Vice President of Legal Affairs

EXTERNAL AUDITOR

We, the undersigned, declare under penalty of perjury that the consolidated financial statements of Mexichem, S.A.B. de C.V. as of December 31, 2018, 2017 and 2016 and for the years then ended, contained in this Annual Report, were audited as of February 26, 2019, pursuant to applicable International Financial Reporting Standards.

Likewise, we declare that we have read this Annual Report and, based on its reading and within the scope of the audit and review work carried out, we are not aware of relevant errors or inconsistencies in the information included and whose source comes from the audited financial statements, indicated in the previous paragraph, nor of information that has been omitted or falsified in this Annual Report, or that it contains information that could lead investors to error.

However, we, the undersigned, were not engaged to perform, and did not perform, additional procedures for the purpose of expressing an opinion with respect to other information contained in the Annual Report that does not derive from the audited financial statements.

8. ANNEXES

1. Reports of the Corporate Practices and Audit Committee of Mexichem, S.A.B. de C.V. for fiscal years 2018, 2017 and 2016.

2. Consolidated financial statements and audited financial statements of Mexichem, S.A.B. de C.V. for fiscal years 2018, 2017, and 2016.