

**Alpek, S. A. B. de C. V. and  
Subsidiaries**

Consolidated Financial Statements as of  
and for the Years Ended December 31,  
2017 and 2016, and Independent  
Auditors' Report Dated January 31,  
2018



**Alpek, S. A. B. de C. V. and Subsidiaries**

# **Independent Auditors' Report and Consolidated Financial Statements as of and for the Years Ended December 31, 2017 and 2016**

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## **Independent Auditors' Report to the Board of Directors and Stockholders of Alpek, S. A. B. de C. V.**

### ***Opinion***

We have audited the consolidated financial statements of Alpek, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, the consolidated statement of loss, the consolidated statement of comprehensive loss, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***Other matter***

The Company's consolidated financial statements for the year ended December 31, 2016, have been audited by other auditors, who expressed an unqualified opinion on February 17, 2017.

### ***Key audit matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.



### ***Impairment of assets derived from agreements with various subsidiaries of Grupo Mossi & Ghisolfi ("M&G")***

As disclosed in Note 2a to the consolidated financial statements, in 2015, the Company entered into agreements with M&G Resins USA, LLC ("M&G Resins"), one of capacity reserve for a term of 5 years and another of maquila for 20 years, for which the latter agreed to supply with 500 thousand tons of PET (manufactured with 420 thousand tons of PTA) from the start-up of the plant located in Corpus Christi. As a result of this agreement, the company paid \$7,745 million (US\$435 million) to M&G Resins, of which \$6,410 million (US\$360 million) were recognized as an intangible asset, amortizable based on production volumes, and \$1,335 million (US\$75 million) were recognized as prepayments for the purchase of inventories. In 2017, due to M&G's declared insolvency, its difficulty to obtain additional financing, and its lack of liquidity, which resulted in the inability to complete the construction of the plant by M&G, the Company decided to recognize an impairment for these assets of \$7,745 million (net of taxes, \$6,087). In addition, due to the aforementioned conditions, the Company also decided to impair notes and accounts receivable of \$3,711 million (net of taxes, \$2,634 million).

Subsequently, on October 9, 2017, the Company (transferee) entered into a transfer-of-rights agreement with Banco Inbursa, S. A. (transferor), on an unsecured loan agreement bearing interest and mortgage guarantee with M&G Polímeros México, S. A. de C. V. ("M&G Polímeros México"). The consideration for the transfer of rights that the Company paid amounts to \$1,870 million, which is recognized in the consolidated financial statements as other non-current assets. This contract grants the Company the right in the first instance over the other creditors of M&G Polímeros México and is guaranteed by a plant in Altamira, Mexico, of which fair value exceeds the amount of the right of collection maintained by Alpek.

Due to the significant judgments used by management to determine the impairment loss of the assets of the Company associated with M&G, and the recognition of other non-current assets for the transfer of rights, our audit procedures focused on reviewing elements and significant judgments considered by the Company to recognize the impairment loss of the long-lived assets and other non-current assets in the consolidated financial statements.

Regarding the impairment loss recognized, we obtained and read the contractual agreements of the transaction and performed the following procedures:

- We obtained the analysis prepared by management, including level of indebtedness of M&G, lack of liquidity and level of insolvency of M&G; we also assessed the current situation of the construction of the plant and the possibility of reactivation. With respect to the accounts receivable of PTA sales and notes receivable, we obtained the aging analysis, management's estimates of recovery and, if applicable, the guarantees granted.
- We assessed and discussed with management the information and evidence provided to corroborate the considerations for recognizing impairment losses.

As part of our audit, regarding the recognition of the long-term notes receivable arising from the transfer of rights, among others, we performed the following procedures:

- We obtained confirmation from lawyers in relation to the level of the mortgage guarantee.
- With respect to the mortgaged property, with the support of our expert appraisers, we verified that the models used by management to determine the fair values were used and recognized to value assets with similar characteristics in the industry.
- We assessed and discussed with management the probability of recovery of the long-term notes receivable, considering the fair value of the mortgage guarantee.

The results of our procedures were satisfactory and we agree with the amount of impairment of the assets recorded in the year. In addition, the results of our procedures were satisfactory with respect to the recoverability of the other non-current assets arising from the transfer of rights, considering the guarantee established.





### ***Information other than the Consolidated Financial Statements and Auditor's Report thereon***

Management is responsible for the other information presented. The other information includes two documents, the Annual Stock Exchange Filing and the information that will be incorporated in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The Annual Stock Exchange Filing and the Annual Report are expected to be made available to us after the date of this auditors' report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the Annual Report required by the CNBV and those charged with governance in the Company.

### ***Responsibilities of management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's consolidated financial reporting process.

### ***Auditor's responsibilities for the audit of the consolidated financial statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



# Deloitte.

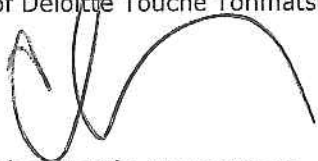
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



C. P. C. César Adrián Garza Tamez  
Monterrey, Nuevo León, México  
January 31, 2018



**Alpek, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of Financial Position**

**As of December 31, 2017 and 2016**

**In millions of Mexican pesos**

<b>Assets</b>	<b>Note</b>	<b>2017</b>	<b>2016</b>
<b>Current assets:</b>			
Cash and cash equivalents	6	\$ 8,795	\$ 2,935
Restricted cash	6	763	2
Trade and other accounts receivable, net	7	15,817	15,918
Inventories	8	16,364	14,853
Derivative financial instruments	4	148	56
Prepayments	9	305	457
Total current assets		<u>42,192</u>	<u>34,221</u>
<b>Non-current assets:</b>			
Property, plant and equipment, net	10	41,535	40,699
Goodwill and intangible assets, net	11	4,065	11,875
Deferred income taxes	18	2,424	433
Prepayments	9	31	1,570
Other non-current assets	12	3,531	2,702
Total non-current assets		<u>51,586</u>	<u>57,279</u>
Total assets		<u>\$ 93,778</u>	<u>\$ 91,500</u>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities:</b>			
Debt	15	\$ 7,408	\$ 2,787
Trade and other accounts payable	14	19,783	15,492
Income taxes payable	18	573	694
Derivative financial instruments	4	230	71
Provisions	16	25	363
Total current liabilities		<u>28,019</u>	<u>19,407</u>
<b>Non-current liabilities:</b>			
Debt	15	26,958	21,551
Derivative financial instruments	4	473	646
Provisions	16	155	7
Deferred income taxes	18	4,403	5,883
Income taxes payable	18	623	553
Employee benefits	17	1,061	1,227
Other non-current liabilities	19	422	504
Total non-current liabilities		<u>34,095</u>	<u>30,371</u>
Total liabilities		<u>62,114</u>	<u>49,778</u>
<b>Stockholders' equity</b>			
<b>Controlling interest:</b>			
Capital stock		6,048	6,048
Share premium		9,071	9,071
Retained earnings		3,271	11,292
Other reserves		8,526	10,662
Total controlling interest		<u>26,916</u>	<u>37,073</u>
Non-controlling interest	13	<u>4,748</u>	<u>4,649</u>
Total stockholders' equity		<u>31,664</u>	<u>41,722</u>
Total liabilities and stockholders' equity		<u>\$ 93,778</u>	<u>\$ 91,500</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of (Loss) Profit**

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos, except for earnings per share amounts

	Note	2017	2016
Revenues		\$ 98,998	\$ 90,192
Cost of sales		<u>(88,598)</u>	<u>(76,943)</u>
Gross profit		10,400	13,249
Selling expenses		(1,747)	(1,578)
Administrative expenses		(2,080)	(2,043)
Other income, net	23	<u>335</u>	<u>235</u>
Income before impairment of intangible assets and trade receivables		6,908	9,863
Impairment of intangible assets and trade receivables	2a	<u>(9,762)</u>	<u>-</u>
Operating (loss) income		(2,854)	9,863
Financial income	24	198	285
Financial expenses	24	(1,482)	(1,414)
Loss due to exchange fluctuation, net	24	(432)	(1,380)
Impairment of financial assets	2a	<u>(1,694)</u>	<u>-</u>
Financial result, net		(3,410)	(2,509)
Equity in income of associates and joint ventures recognized using the equity method		<u>(4)</u>	<u>(3)</u>
(Loss) income before taxes		(6,268)	7,351
Income taxes	18	<u>1,713</u>	<u>(2,358)</u>
Net consolidated (loss) income		<u>\$ (4,555)</u>	<u>\$ 4,993</u>
(Loss) income attributable to:			
Controlling interest		\$ (5,487)	\$ 3,625
Non-controlling interest		<u>932</u>	<u>1,368</u>
		<u>\$ (4,555)</u>	<u>\$ 4,993</u>
(Losses) earnings per basic and diluted share, in Mexican pesos		<u>\$ (2.59)</u>	<u>\$ 1.71</u>
Weighted average outstanding shares (millions of shares)		<u>2,117</u>	<u>2,117</u>

The accompanying notes are an integral part of these consolidated financial statements.





**Alpek, S. A. B. de C. V. and Subsidiaries**

# **Consolidated Statements of Comprehensive (Loss) Income**

**For the years ended December 31, 2017 and 2016**

**In millions of Mexican pesos**

	<b>Note</b>	<b>2017</b>	<b>2016</b>
Net consolidated (loss) income		\$ (4,555)	\$ 4,993
Other comprehensive (loss) income for the year:			
<i>Items that will not be reclassified to the statement of income:</i>			
Remeasurement of employee benefit obligations, net of taxes	17, 18	50	64
<i>Items that will be reclassified to the statement of income:</i>			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	4, 18	123	384
Translation effect of foreign entities	20, 18	(2,461)	6,233
Equity in other comprehensive income of associates and joint ventures.		-	(2)
Total other comprehensive (loss) income for the year		<u>(2,288)</u>	<u>6,679</u>
Consolidated comprehensive (loss) income		<u>\$ (6,843)</u>	<u>\$11,672</u>
Attributable to:			
Controlling interest		\$ (7,570)	\$ 9,527
Non-controlling interest		<u>727</u>	<u>2,145</u>
Comprehensive (loss) income for the year		<u>\$ (6,843)</u>	<u>\$11,672</u>

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of Changes in Stockholders' Equity**

For the years ended December 31, 2017 and 2016  
In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances as of January 1, 2016	\$ 6,052	\$ 9,071	\$ 10,009	\$ 4,822	\$ 29,954	\$ 4,545	\$ 34,499
Net income	-	-	3,625	-	3,625	1,368	4,993
Total other comprehensive income for the year	-	-	62	5,840	5,902	777	6,679
Comprehensive income	-	-	3,687	5,840	9,527	2,145	11,672
Repurchase of own shares	(4)	-	(42)	-	(46)	-	(46)
Dividends declared	-	-	(1,959)	-	(1,959)	(2,049)	(4,008)
Changes in the non-controlling interest	-	-	-	-	-	40	40
Effect of transfer of business under common control	-	-	(403)	-	(403)	(32)	(435)
Balances as of December 31, 2016	6,048	9,071	11,292	10,662	37,073	4,649	41,722
Net (loss) income	-	-	(5,487)	-	(5,487)	932	(4,555)
Total other comprehensive (loss) for the year	-	-	53	(2,136)	(2,083)	(205)	(2,288)
Comprehensive loss	-	-	(5,434)	(2,136)	(7,570)	727	(6,843)
Dividends declared	-	-	(2,667)	-	(2,667)	(618)	(3,285)
Changes in the non-controlling interest	-	-	-	-	-	(40)	(40)
Effect of assumption of non-controlling interest	-	-	(30)	-	(30)	30	-
Other	-	-	110	-	110	-	110
Balance as of December 31, 2017	\$ 6,048	\$ 9,071	\$ 3,271	\$ 8,526	\$ 26,916	\$ 4,748	\$ 31,664

The accompanying notes are an integral part of these consolidated financial statements.



**Alpek, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of Cash Flows**

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos

	2017	2016
Cash flows from operating activities		
(Loss) income before income taxes	\$(6,268)	\$7,351
Depreciation and amortization	2,635	2,560
Impairment of long-lived assets	7,702	2
Allowance for doubtful accounts	2,011	6
Financial result, net	3,069	2,261
Statutory employee profit sharing, provisions and other items	(395)	(361)
Subtotal	8,754	11,819
Movements in working capital		
Increase in trade receivables and other assets	(2,861)	(1,440)
Increase in inventories	(1,874)	(1,439)
Increase in trade and other accounts payable	4,860	71
Income taxes paid	(1,654)	(2,992)
Net cash flows generated from operating activities	7,225	6,019
Cash flows from investing activities		
Interest collected	99	230
Cash flows in acquisition of property, plant and equipment	(4,416)	(4,543)
Cash flows in acquisition of intangible assets	(15)	(1,438)
Cash flows in business acquisition, net of cash acquired	-	(390)
Investment in associates and joint ventures	(39)	(82)
Derivative financial instruments	(17)	108
Loans collected from related parties	16	1,123
Notes receivable	(2,522)	(1,220)
Collection of notes	15	-
Restricted cash	(739)	-
Net cash flows used in investing activities	(7,618)	(6,212)
Cash flows from financing activities		
Proceeds from debt	15,041	3,534
Payments of debt	(4,647)	(2,549)
Interest paid	(1,292)	(1,213)
Dividends paid by Alpek, S. A. B. de C. V.	(2,667)	(1,959)
Dividends paid to non-controlling interest	(618)	(2,049)
Sale of shares	1	338
Repurchase of shares	-	(384)
Loans received from related parties	-	73
Loan payments to related parties	(2)	-
Net cash flows generated from (used in) financing activities	5,816	(4,209)
Net increase (decrease) in cash and cash equivalents	5,423	(4,402)
Effect of changes in exchange rates	437	687
Cash and cash equivalents at the beginning of the year	2,935	6,650
Cash and cash equivalents at the end of the year	\$ 8,795	\$2,935

The accompanying notes are an integral part of these consolidated financial statements.



## Alpek, S. A. B. de C. V. and Subsidiaries

# Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2017 and 2016

Millions of Mexican pesos, except where otherwise indicated

### 1. General Information

Alpek, S. A. B. de C. V. and subsidiaries ("Alpek" or the "Company") operates through two major business segments: polyester chain products and plastic products. The polyester chain business segment, comprises the production of purified terephthalic acid (PTA), polyethylene terephthalate (PET) and polyester fibers, which serves the food and beverage packaging, textile and industrial filament markets. The Plastics & Chemicals business segment, comprises the production of polypropylene (PP), expandable polystyrene (EPS), caprolactam (CPL), fertilizers and other chemicals, which serves a wide range of markets, including the consumer goods, food and beverage packaging, automotive, construction, agriculture, oil industry, pharmaceutical markets and others.

Alpek is the largest petrochemical company in Mexico and the second largest in Latin America, is the main integrated producer of polyester in North America. It operates the largest EPS plant in the continent, and one of the largest PP plants in North America and is the only producer of Caprolactam in Mexico.

The shares of Alpek, S. A. B. de C. V. are traded on the Mexican Stock Exchange ("MSE") and has Alfa, S. A. B. de C. V. ("Alfa") as its main holding company. As of December 31, 2017, the percentage of shares that traded on the MSE was 17.84%.

Alpek, S. A. B. de C. V. is located at Avenida Gómez Morín Sur No. 1111, Col. Carrizalejo, San Pedro Garza García, Nuevo León, Mexico and operates productive plants located in Mexico, the United States of America, Canada, Argentina, Chile and Brazil.

In the following notes to the financial statements when referring to pesos or "\$", it means millions of Mexican pesos. When referring to dollars or "US\$", it means millions of dollars from the United States of America. When referring to Euros or "€" it means millions of Euros.

### 2. Significant events

#### 2017

#### a. *Impairment of assets related to agreements with various subsidiaries from Mossi & Ghisolfi Group ("M&G")*

During 2015, the Company through its subsidiary Grupo Petrotemex, S. A. de C. V. ("Grupo Petrotemex"), held a PTA-PET supply agreement with M&G Resins USA, LLC ("M&G Resins"), by which Grupo Petrotemex would obtain supply rights for 500 thousand tons of PET (produced with 420 thousand tons of PTA) per year, in exchange for the payment of a consideration and supply of raw materials for its production.

Resulting from this agreement, the Company paid US\$435 to M&G Resins, of which US\$360 were recognized as intangible assets, to be amortized based on their production volumes, and US\$75 were recognized as an inventory prepayments. Nevertheless, during 2017, M&G suspended payments and started formal procedures for the restructuring of its operations including bankruptcy declarations in United States and Italy as a consequence of its liquidity problems. As a consequence of the aforementioned events, the Company recognized an impairment for the following concepts:

	Impairment amount		Effect on deferred tax	Recognized in net income
Intangible assets and prepayments	US\$435	\$7,745	\$1,658	\$6,087
Trade and other accounts receivable <sup>(1)</sup>	113	2,017	560	1,457
Long-term notes receivable <sup>(1)</sup>	95	1,694	517	1,177

<sup>(1)</sup> Held with certain M&G subsidiaries.





Subsequently, on October 9, 2017, Alpek celebrated a transfer of rights agreement with Banco Inbursa S.A., over a mortgage-secured, simple credit facility contract with interest, held with M&G Polímeros México, S.A. de C.V. ("M&G Mexico"). The consideration paid by Alpek for the transfer of rights amounts to \$1,870, which were recognized in the consolidated financial statements as other non-current assets. This agreement grants Alpek a right in the first instance over other M&G Mexico's creditors, and is guaranteed by a PET plant in Altamira, Mexico, whose fair value exceeds the amount of the right of payment held by Alpek.

***h. Secured financing to M&G Mexico***

On December 29, 2017, the Company signed an agreement to provide secured financing to M&G Mexico. The new credit facility is secured by a second lien on M&G Mexico's PET production facility in Altamira, Mexico, and has a two-year term for a maximum principal amount of US\$60 that will be disbursed in several intervals subject to certain conditions, including a restructuring plan that has yet to be presented by M&G Mexico and approved by its creditors.

***c. Cogeneration plant construction project***

During the last quarter of 2016, Alpek started the construction of a steam and electric cogeneration project through its subsidiary Grupo Petromex, in which it is estimated that an investment of approximately US\$350 will be made. This cogeneration plant will generate approximately 350 megawatts of electricity, as well as all the steam necessary to meet the requirements of its PTA plant located in Altamira, Tamaulipas, Mexico. The cogeneration plant will also supply energy to other Alfa entities outside of Altamira.

On November 9, 2017, Alpek and CountourGlobal began a 60-day exclusive period to carry out the confirmatory due diligence process and negotiate final agreements related to the potential purchase of the Company's clean power cogeneration plants in Altamira and Cosoleacaque. As of the date of these consolidated financial statements, both parties continue in the negotiation phase.

As of December 31, 2017, the cogeneration plant is in construction stage, and US\$272 have been invested. Payments for its conclusion will be made in accordance with the percentage of completion. It is estimated that the construction will be completed in 2018.

***d. Stock purchase contract of Petroquímica SUAPE and CITEPE***

On December 28, 2016, Alpek, through its subsidiary Grupo Petrotemex, signed a stock purchase contract with Petróleo Brasileiro, S. A. ("Petrobras") to acquire its equity in Companhia Petroquímica de Pernambuco ("Petroquímica Suape") and Companhia Integrada Textil de Pernambuco ("Citepe").

Petroquímica Suape and Citepe operate an integrated PTA-PET site in Ipojuca, Pernambuco, Brazil, with a capacity of 700,000 and 450,000 tons of PTA and PET per year, respectively. Citepe also operates a textured polyester filament plant with a capacity of 90,000 tons per year.

The agreed-upon price for the 100% of equity of Petrobras in Petroquímica Suape and Citepe amounts to US\$385. This amount will be paid in Brazilian reais at the date on which the transaction is closed, and it is subject to working capital and debt adjustments, among others.

On April 3, 2017, Alpek announced that it obtained all corporate approvals necessary to conduct the transaction; however, for the closing thereof, the approval from the competent government authorities is required. The contract sets forth a maximum twenty-month period to complete the transaction as of the date of the contract. In April 2017, the Company made an initial deposit of US\$39 (\$738) as a guarantee for the acquisition. As of the issuance date of these financial statements, the approvals and conditions are in process of being complied with.

***e. Acquisition of Selenis Canada, Inc.***

On July 29, 2016, through its subsidiary DAK Americas Exterior, S. L., Alpek acquired a controlling interest in Selenis Canada, Inc. ("Selenis", see note 3b) for a total of US\$17.2 (\$327). The acquired entity is the only producer of PET in Canada, which operates a manufacturing plant in Montreal, Canada with capacity to produce 144 thousand tons per year. This business acquisition is included in the Polyester segment. The consolidated financial statements include the financial information of Selenis beginning on August 1, 2016.



The acquisition of Selenis met the criteria of a business combination according to the requirements of IFRS 3, *Business Combinations*; therefore, the Company applied the acquisition method to measure the assets acquired and liabilities assumed in the transaction. The fair values of assets acquired and liabilities assumed as a result of this acquisition which were completed in 2017 are as follows:

	US\$
Trade accounts receivable, net	\$ 2.1
Inventories	10.0
Property, plant and equipment, net	69.0
Other assets	1.2
Trade accounts payable	(35.8)
Debt	(4.1)
Other accounts and expenses payable	(5.5)
Contingent liability	(7.5)
Net acquired assets	29.4
Bargain purchase gain	(12.2)
Consideration paid	<u>\$ 17.2</u>

As a result of this transaction, a gain on a bargain purchase of US\$12.2 was recognized in 2017. The 2016 consolidated financial statements have not been modified retrospectively due to the immaterial impacts of the acquisition method in the accounting adjustments.

## 2016

### *f. Monoethylene Glycol (MEG) manufacturing agreement*

On December 15, 2014, the Company through its subsidiary DAK Americas LLC ("DAK") entered into a Toll Manufacturing Agreement with Huntsman Petrochemical LLC ("Huntsman") in which will obtain the supply rights of Monoethylene Glycol (MEG), which is used in the production of PET polyester, at a preferred toll rate. Huntsman will develop, own and operate the equipment for the production of MEG in its Port Neches, Texas plant and DAK will supply the raw materials for the production. The installation of equipment and beginning of production took place during June 2016.

Additionally, DAK paid US\$65 to Huntsman during the installation of the equipment according to an established calendar and in compliance with certain milestones; therefore, DAK obtained the supply rights up to 28.8 million of pounds of product per year for a 15 years period commencing on the first day of the month in which the equipment was installed and the production began. The payments made are recorded under the intangible assets caption and are amortized within the cost of sales on a straight line basis during the life of the contract since the month of June 2016, once the supply of MEG began.

## 3. Summary of significant accounting policies

The following are the most significant accounting policies followed by the Company and its subsidiaries, which have been consistently applied in the preparation of their financial information in the years presented, unless otherwise specified:

### *a) Basis of preparation*

The consolidated financial statements of Alpek have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include all International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").





The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges which are measured at fair value, and for the financial assets and liabilities at fair value through profit or loss with changes reflected in the consolidated statement of (loss) profit and for financial assets available for sale.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

**b) Consolidation**

**i. Subsidiaries**

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's participation in subsidiaries is less than 100%, the share attributed to outside stockholders is reflected as non-controlling interest. Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations of entities using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company is recognized in stockholders' equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of (loss) profit.

If the business combination is achieved in stages, the value in books at the acquisition date of the equity previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in income of the year.

Transactions and intercompany balances and unrealized gains on transactions between Alpek's companies are eliminated in preparing the consolidated financial statements. Alpek's subsidiaries apply the same accounting policies as those disclosed in these consolidated financial statements.



At December 31, 2017 and 2016, the main companies that comprise the consolidated financial statements of the Company are as follows:

	Country (1)	Shareholding (%) (2)		Functional currency
		2017	2016	
Alpek, S. A. B. de C. V. (Holding Company)				Mexican peso
Grupo PetroteMex, S. A. de C. V. (Holding Company)				
DAK Americas, LLC	USA	100	100	US dollar
Dak Resinas Americas México, S. A. de C. V.		100	100	US dollar
DAK Americas Exterior, S. L. (Holding Company)	Spain	100	100	Euro
DAK Americas Argentina, S. A.	Argentina	100	100	Argentine peso
Compagnie Selenis Canada <sup>(3)</sup>	Canada	100	50	US dollar
Tereftalatos Mexicanos, S. A. de C. V.		91	91	US dollar
Akra Polyester, S. A. de C. V.		93	93	US dollar
Cogeneración de Energía Limpia de Cosoleacaque, S. A. de C. V.		100	100	Mexican peso
Indelpro, S. A. de C. V. (Indelpro)		51	51	US dollar
Polioles, S. A. de C. V. (Polioles)		50	50	US dollar
Grupo Styropek, S. A. de C. V. (Holding Company)		100	100	Mexican peso
Styropek México, S. A. de C. V.		100	100	US dollar
Styropek, S. A.	Argentina	100	100	Argentine peso
Aislapol, S. A.	Chile	100	100	Chilean peso
Styropek do Brasil, LTD	Brazil	100	100	Brazilian real
Unimor, S. A. de C. V. (Holding Company)		100	100	Mexican peso
Univex, S. A.		100	100	Mexican peso

(1) Companies incorporated in Mexico, except those indicated.

(2) Ownership percentage that Alpek has in the holding companies and ownership percentage that such holding companies have in the companies integrating the groups. Ownership percentages and the voting rights are the same.

(3) The purchase agreement of this entity whose legal name was "Selenis Canada Inc." (See note 2e) included an earn-out clause related to the production of PETG, which was initiated by Selenis (legal entity). Under this clause, the seller held in escrow the shares not acquired by the Company, which could be released as long as the Company completed the first PETG production run. During 2017, these conditions were fulfilled, releasing the shares held in escrow to the Company, so as of December 31, 2017, the Company maintains 100% of the shares.

As of December 31, 2017 and 2016, there are no significant restrictions for investment in shares of subsidiary companies mentioned above.

## ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, in example, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control, the dilution effect is recognized in income.





When the Company issues purchase obligations on certain non-controlling interests in a consolidated subsidiary and non-controlling stockholders retain the risks and awards on these shares in the consolidated subsidiary, these are recognized as financial liabilities for the present value of the refundable amount of the options, initially recorded with a corresponding reduction in the stockholders' equity, and subsequently accruing through financial charges to income during the contractual period.

### iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in the consolidated statement of (loss) profit. The fair value is the initial carrying value for the purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This results in the amounts previously recognized in comprehensive income being reclassified to income for the year.

### iv. Associates

Associates are all entities over which the Company has significant influence but not control. Generally an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the consolidated statement of (loss) profit and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "equity in results of associates recognized using the equity method" in the consolidated statement of (loss) profit.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment and the book value of the investment is recognized in the consolidated statement of (loss) profit.

### v. Joint ventures

Joint arrangements are those where there is joint control since the decisions over relevant activities require the unanimous consent of each one of the parties sharing control.

Investments in joint arrangements are classified in accordance with the contractual rights and obligations of each investor such as: joint operations or joint ventures. When the Company holds the right over assets and obligations for related assets under a joint arrangement, this is classified as a joint operation. When the company holds rights over net assets of the joint arrangement, this is classified as a joint venture. The Company has assessed the nature of its joint arrangements and classified them as joint ventures. Joint ventures are accounted for by using the equity method applied to an investment in associates.



c) **Foreign currency translation**

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's subsidiaries, associates and joint ventures should be measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Mexican pesos.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21, *Effects of Changes in Foreign Exchange Rates* ("IAS 21"), this change is accounted for prospectively, translating at the date of the functional currency change, all assets, liabilities, equity, and income items at the exchange rate of that date.

ii. Transactions and balances

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the consolidated statement of (loss) profit, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.

iii. Translation of subsidiaries with recording currency other than the functional currency

The financial statements of foreign subsidiaries, having a recording currency different from their functional currency were translated into the functional currency in accordance with the following procedure:

- a) The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rate.
- b) To the historical balances of monetary assets and liabilities and stockholders' equity translated into the functional currency the movements that occurred during the period were added, which were translated at the historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period, stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c) The income, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the consolidated statement of (loss) profit, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items was used.
- d) The exchange differences arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated statement of (loss) profit in the period they arose.

iv. Translation of subsidiaries with functional currency other than the presentation currency

The results and financial position of all Company entities (none of which is in a hyperinflationary environment) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a. Assets and liabilities for each statement of financial position presented are translated at the closing exchange rate at the closing date;
- b. Stockholders' equity of each statement of financial position presented is translated at historical rates.



- c. Income and expenses for each statement of (loss) profit are translated at average exchange rates (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and
- d. The resulting exchange differences are recognized in the consolidated statement of other comprehensive income.

The goodwill and adjustments to fair value arising at the date of acquisition of a foreign operation so as to measure them at fair value are recognized as assets and liabilities of the foreign entity and translated at the exchange rate at the closing date. Exchange differences arising are recognized in other comprehensive income.

The primary exchange rates in the various translation processes are listed below:

Country	Local Currency	Local currency to Mexican pesos			
		Closing exchange rate at December 31,		Average annual exchange rate	
		2017	2016	2017	2016
United States	U.S. dollar	19.74	20.66	18.94	18.66
Argentina	Argentine peso	1.06	1.30	1.14	1.26
Brazil	Brazilian real	5.96	6.35	5.91	5.41
Chile	Chilean peso	0.03	0.03	0.03	0.03

**d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high liquidity and high credit quality with original maturities of three months or less, all of which are subject to insignificant risk of changes in value. Bank overdrafts are presented as loans as part of the current liabilities.

**e) Restricted cash**

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement cash flows.

**f) Financial instruments**

**Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are written off in full when the right to receive the related cash flows expires or is transferred and the Company has also transferred substantially all risks and rewards of ownership, as well as control of the financial asset.

**i. Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated statement of (loss) profit. Gains or losses from changes in fair value of these assets are presented in the consolidated income statement as incurred.





*ii. Loans and receivables*

The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the consolidated statement of financial position date. These are classified as non-current assets.

Loans and receivables are measured initially at fair value plus directly attributable transaction costs and subsequently at amortized cost, using the effective interest method. When circumstances occur that indicate that the amounts receivable will not be collected at the amounts originally agreed or will be collected in a different period, the receivables are impaired.

*iii. Held to maturity investments*

If the Company intends and has the demonstrable ability to hold debt securities to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if expected to be settled within the next 12 months, otherwise they are classified as non-current. Initially they are recognized at fair value plus any directly attributable transaction costs, and subsequently they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or derecognized on the day they are transferred to or by the Company. As of December 31, 2017 and 2016, the Company had no such investments.

*iv. Available for sale investments*

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless their maturity is less than 12 months or management intends to dispose of the investment within the next 12 months after the consolidated statement of financial position date.

Available for sale investments are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are carried at fair value (unless they cannot be measured by their value in an active market and the value is not reliable, in which case they will be recognized at cost less impairment).

Gains or losses arising from changes in fair value of monetary and non-monetary instruments are recognized directly in the consolidated statement of comprehensive income in the period in which they occur.

When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reclassified to the consolidated statement of (loss) profit.

*Financial liabilities*

Financial liabilities that are not derivatives are initially recognized at fair value and are subsequently valued at amortized cost using the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months, otherwise they are classified as non-current.

Trade payables are obligations to pay for goods or services that have been acquired or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the consolidated statement of (loss) profit over the term of the loan using the effective interest method.

*Offsetting financial assets and liabilities*

Assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when the right to offset the recognized amounts is legally enforceable and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.





### *Impairment of financial instruments*

#### **a. Financial assets carried at amortized cost**

The Company assesses at the end of each year whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal.
- Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.
- There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:
  - i. Adverse changes in the payment of borrowers in the group of assets.
  - ii. National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the category of loans and receivables, when impairment exists, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced by that amount, which is recognized in the consolidated statement of (loss) profit.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company could determine the impairment of the asset given its fair value determined on the basis of a current observable market price.

If in the subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the loss impairment is recognized in the consolidated statement of (loss) profit.

#### **b. Financial assets available for sale**

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. In the case of equity financial instruments, a significant reduction of approximately to 30% of the cost of the investment against its fair value or a reduction of the fair value against the cost for a period longer than 12 months is considered objective evidence of impairment.

Subsequently, in the case of financial assets available for sale, an impairment loss determined by computing the difference between the acquisition cost and the current fair value of the asset, less any impairment loss previously recognized, is reclassified from the other comprehensive income to the consolidated statement of (loss) profit. Impairment losses recognized in the consolidated statement of (loss) profit related to equity financial instruments are not reversed through the consolidated statement of (loss) profit. Impairment losses recognized in the consolidated statement



of (loss) profit related to financial debt instruments could be reversed in subsequent years, if the fair value of the asset is increased as a result of a subsequent event.

**g) *Derivative financial instruments and hedging activities***

All derivative financial instruments are identified and classified as fair value hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices and its fair value is determined using valuation techniques accepted in the financial sector.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured.

***Fair value hedges***

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of (loss) profit. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of (loss) profit in the same line item as the hedged position. As of December 31, 2017 and 2016, the Company has no derivative financial instruments classified as fair value hedges.

***Cash flow hedges***

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded in income.

***Suspension of hedge accounting***

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedge designation.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to income over the period to maturity. In the case of cash flow hedges, the amounts accumulated in equity as a part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect income. In the event the forecasted transaction is not likely to occur, the income or loss accumulated in comprehensive income are immediately recognized in the consolidated statement of (loss) profit. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are transferred proportionally to the consolidated statement of (loss) profit, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the consolidated financial statements of the Company, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at the closing date.

**h) *Inventories***

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses. Costs of inventories include any gain or loss transferred from other comprehensive income corresponding to raw material purchases that qualify as cash flow hedges.





**i) Property, plant and equipment**

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of (loss) profit during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, and the cost is recognized in the book value of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of the classes of assets are as follows:

Buildings and constructions	40 to 50 years
Machinery and equipment	10 to 40 years
Vehicles	15 years
Furniture and lab and IT equipment	2 to 13 years
Other	3 to 20 years

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period (nine months or more), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the consolidated statement of (loss) profit in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value and useful lives of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the consolidated statement of (loss) profit.

**j) Leases**

The classification of leases as finance or operating depends on the substance of the transaction rather than the form of the contract.

Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the consolidated statement of (loss) profit based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical, in order to discount the minimum lease payments to present value, the interest rate implicit in the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases are added to the original amount recognized as an asset.



Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations are included in non-current debt, net of finance charges. The interest element of the finance cost is charged to the income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

**k) Intangible assets**

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

*i. Indefinite useful life*

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2017 and 2016, no factors have been identified limiting the life of these intangible assets.

*ii. Finite useful life*

These assets are recognized at cost less the accumulated amortization and impairment losses recognized. They are amortized on a straight, line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

The estimated useful lives of intangible assets with finite useful lives are summarized as follows:

Development costs	15.5 years
Supply rights	15 years
Non-competition agreements	5 to 10 years
Customer relationships	6 to 7 years
Software and licenses	3 to 7 years
Intellectual property rights	20 to 25 years
Maquila rights	15 years
Other	20years

*Development costs*

Research costs are recognized in income as incurred. Expenditures on development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.

*Licenses*

Licenses acquired in a separate transaction are recorded at acquisition cost. Licenses acquired in a business combination are recognized at fair value at acquisition date.

Licenses that have a defined useful life are presented at cost less accumulated amortization. Amortization is recorded by the straight-line method over its estimated useful life.

The acquisition of software licenses is capitalized based on the costs incurred to acquire and use the specific software.

*Software development*

Costs associated with the maintenance of software are recorded as expenses as incurred.





Development costs directly related with the design and tests of unique and identifiable software products controlled by the Company are recorded as intangible assets when they fulfill the following criteria:

- Technically, it is possible to complete the intangible asset so that it may be available for its use or sale;
- The intangible asset is to be completed for use or sale;
- The ability to use or sell the intangible asset;
- The way in which the intangible asset is to generate probable future economic benefits;
- The availability of adequate technical, financial or other type of resources, to complete the development and use or sell the intangible asset; and
- The ability to reliably calculate the disbursement attributable to the intangible asset during its development.

The amount initially recognized for an intangible asset generated internally will be the sum of disbursements incurred from the moment the element fulfills the conditions for recording, as established above. When no intangible asset internally generated may be recognized, the disbursements for development are charged to income in the period they are incurred.

**l) Goodwill**

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

**m) Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not depreciable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

**n) Income tax**

The amount of income taxes in the consolidated statement of (loss) profit represents the sum of the current and deferred income taxes.

The amount of income taxes included in the consolidated statement of (loss) profit represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by the legislation enacted or substantially enacted at the consolidated statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate, based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.





The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by the Company and it is probable that the temporary differences will not reverse in the near future.

Deferred tax assets and liabilities are offset when a legal right exists, and when the taxes are levied by the same tax authority.

***o) Employee benefits***

***i. Pension plans***

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that is required the contribution.

Defined benefit plans:

A defined benefit plan is a plan which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the consolidated statement of financial position date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates in conformity with IAS 19, *Employee Benefits* that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in other items of the comprehensive income in the year they occur and will not be reclassified to the results of the period.

The Company determines the net finance expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

Past-service costs are recognized immediately in the consolidated statement of (loss) profit.

***ii. Post-employment medical benefits***

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

***iii. Termination benefits***

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.



*iv. Short-term benefits*

The Company grants benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. The Company recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

*v. Employee participation in profit and bonuses*

The Company recognizes a liability and an expense for bonuses and employee participation in profits when it has a legal or assumed obligation to pay these benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

**p) Provisions**

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

**q) Share based payment**

The Company's compensation plans are based 50% on the market value of the shares of its holding entity and the other 50% on the market value of the shares of Alpek, S. A. B. de C. V., granted to certain senior executives of the Company and its subsidiaries. The conditions for granting such compensation to the eligible executives include compliance with certain financial metrics such as the level of profit achieved, and remaining in the Company for up to 5 years, among other requirements. The Board of Directors of Alfa has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is subject to the discretion of Alfa's senior Management. Adjustments to this estimate are charged or credited to the consolidated statement of (loss) profit.

The fair value of the amount payable to employees in respect of share-based payments which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as compensation expense in the consolidated statement of (loss) profit.

**r) Treasury shares**

The Company's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

**s) Capital stock**

The Company's common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.





**t) Comprehensive income**

Comprehensive income is composed of net income plus the annual effects of their capital reserves, net of taxes, which are comprised of the translation of foreign subsidiaries, the effects of derivative cash flow hedges, actuarial gains or losses, the effects of the change in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates and joint ventures as well as other items specifically required to be reflected in stockholders' equity, and which do not constitute capital contributions, reductions and distributions.

**u) Segment reporting**

Segment information is presented consistently with the internal reporting provided to the chief operating decision maker who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

**v) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the normal course of operations. Revenue is shown net of estimated customer returns, rebates and similar discounts.

Revenue from the sale of goods and products are recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred.
- The amount of revenue can be reliably measured.
- It is likely that future economic benefits will flow to the Company.
- The Company retains no involvement associated with ownership nor effective control of the sold goods.
- The costs incurred or to be incurred in respect of the transaction can be measured reasonably.

Revenues from services are recognized when all and each of the following conditions are met:

- The amount of revenue can be reliably measured.
- It is likely that future economic benefits will flow to the Company.
- The stage of completion of the service, on the date of the consolidated statement of financial position can be measured reliably.
- The costs incurred or to be incurred in respect of the transaction can be measured reasonably.

Dividend income from investments is recognized once the rights of stockholders to receive this payment have been established (when it is probable that the economic benefits will flow to the Company and the revenue can be reliably valued).

Interest income is recognized when it is likely that the economic benefits will flow to the entity and the amount of revenue can be reliably valued by applying the effective interest rate.

**w) Earnings per share**

Earnings per share are calculated by dividing the profit attributable to the stockholders of the controlling interest by the weighted average number of common shares outstanding during the year. As of December 31, 2017 and 2016, there are no dilutive effects from financial instruments potentially convertible into shares.





x) ***Changes in accounting policies and disclosures***

i. New standards and changes adopted by the Company.

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

ii. New standards and interpretations yet to be adopted by the Company.

A number of new standards, amendments and interpretations of standards have been issued, are not yet effective for reporting periods ended December 31, 2017, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

**IFRS 9, Financial Instruments**

IFRS 9, *Financial Instruments*, replaces IAS 39, *Financial Instruments: Recognition and Measurement*. This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future. Additionally, in terms of hedge accounting, the requirements of IFRS 9 are consistent with the Company's current accounting policy under IAS 39 and no impact is anticipated on its initial adoption nor future hedging operations.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined that the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

**IFRS 15, Revenues from contracts with customers**

IFRS 15, *Revenues from Contracts with Customers*, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

Based on management's evaluation of this new standard, the Company concluded there were no material impact as of January 1, 2018 resulting from the adoption of IFRS 15 to its consolidated financial statements.



## IFRS 16, Leases

IFRS 16, *Leases*, supersedes IAS 17, *Leases*, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17, *Leases* and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements to leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as personal computers or small office furniture items.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments as follows:

Less than a year	\$ 736
Between 1 and 4 years	1,920
More than 4 years	<u>1,130</u>
Total	<u>\$3,786</u>

However, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Company's capital structure, its results and cash flows. The Company will be applying a modified retrospective transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity as of such date.

## IFRIC 22, Interpretation on foreign currency transactions and advance consideration

This new interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company translates advance consideration at the exchange rate on the date of the transaction, either received or paid; as a result, management concluded there were no significant impacts on the Company's consolidated financial statements resulting from the adoption of this interpretation.

## IFRIC 23, Interpretation on uncertainty over income tax treatments

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12, *Income Tax*, when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such circumstances, the Company shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.



The Company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. On initial application, IFRIC 23 must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings.

The Company is assessing and determining the potential impacts for the adoption of this interpretation on its consolidated financial statements.

#### 4. Financial instruments and risk management

The Company's activities expose it to various financial risks: market risk (including exchange rate risk, price risk and interest rate variation risk), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance.

The objective of the risk management program is to protect the financial health of its business, taking into account the volatility associated with foreign exchange and interest rates. Sometimes, the Company uses derivative financial instruments to hedge certain exposures to risks. In addition, due to the nature of the industries in which it participates, the Company has performed hedges of input prices with derivative financial instruments.

Alfa has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and a Risk Management Officer ("RMO") acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of Alfa, including Alpek, in which a potential loss analysis surpasses US\$1. This Committee supports both the CEO and the President of Board of Alfa. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both Alpek's and Alfa's CEO, according to the following schedule of authorizations:

	Maximum possible loss US\$	
	Individual transaction	Annual cumulative transactions
Chief Executive Officer of the Company	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the operation is entered into.

Alfa's risk management policy indicates that the following maximum percentages must be hedged with respect to the projected exposure:

	Maximum coverage (as a percentage of the projected exposure)
	Current year
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100





### *Capital management*

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to stockholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce the cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

The Company monitors capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total stockholders' equity.

The financial ratio of total liabilities/total equity was 1.96 and 1.19 as of December 31, 2017 and 2016, respectively, resulting in a leverage ratio that meets the Company's management and risk policies.

### *Financial instruments by category*

Below are the Company's financial instruments by category.

As of December 31, 2017 and 2016, financial assets and liabilities consist of the following:

	As of December 31,	
	2017	2016
Cash and cash equivalents	\$ 8,795	\$ 2,935
Restricted cash	763	2
Financial assets measured at amortized cost:		
Trade and other accounts receivable	15,817	15,918
Other non-current assets	2,880	2,127
Equity investments	167	172
Financial assets measured at fair value:		
Derivative financial instruments	148	56
	<u>\$ 28,570</u>	<u>\$ 21,210</u>
Financial liabilities measured at amortized cost:		
Debt	\$ 34,366	\$ 24,338
Trade and other accounts payable	19,783	15,492
Financial liabilities measured at fair value:		
Derivative financial instruments	703	717
	<u>\$ 54,852</u>	<u>\$ 40,547</u>

### *Fair value of financial assets and liabilities valued at amortized cost*

The amount of cash and cash equivalents, restricted cash, trade and other accounts receivable, other current assets, trade and other accounts payable, current debt and other current liabilities approximate their fair value, due to their short maturity. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2017 and 2016.

The carrying amount and estimated fair value of assets and liabilities valued at amortized cost is presented below:

	As of December 31,		As of December 31,	
	2017		2016	
	Carrying amount <sup>(b)</sup>	Fair value	Carrying amount	Fair value
Financial assets:				
Non-current accounts receivable	\$ 2,880	\$ 2,880	\$2,127	\$2,131
Financial liabilities:				
Non-current debt	27,096	27,997	21,551	21,946



- (1) The carrying amount of the debt, for purposes of computing its fair value, is presented gross of interest payable and issuance costs.

The estimated fair values as of December 31, 2017 and 2016 were determined based on discounted cash flows and with reference to the yields at the closing of the debt securities, using rates reflecting a similar credit risk, depending on the currency, maturity period and country where the debt was acquired. The primary rates used are the Interbank Equilibrium Interest Rate ("TIE" for its acronym in Spanish) for instruments in Mexican pesos and London Interbank Offer Rate ("LIBOR") for instruments in U.S. dollars. Measurement at fair value for non-current accounts receivable is deemed within Level 3 of the fair value hierarchy, while for the financial debt, the measurement at fair value is deemed within Levels 1 and 2 of the hierarchy, as described herein below.

#### *Market risks*

##### *(i) Exchange rate risk*

The Company operates internationally, and is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity. In addition, the Company is exposed to changes in the value of financial instruments arising from foreign exchange variations.

The behavior of the exchange rates fluctuations between the Mexican peso, U.S. dollar and the euro represents a very important factor for the Company due to the effect that such currencies have on its consolidated results.

Historically, in times when the Mexican peso has appreciated against other currencies such as the U.S. dollar, the Company's profit margins have been reduced. On the other hand, when the Mexican peso has lost value, Alpek's profit margins have been increased. However, although this factor correlation has arisen several times in the recent past, there is no assurance that it will be repeated in the event the exchange rate between the Mexican peso and any other currency fluctuates again, because it also depends on the foreign currency monetary position of its subsidiaries.

Accordingly, the Company sometimes enters into transactions with derivative financial instruments on exchange rates in order to hedge the risk associated with exchange rates. Additionally, as most of the Company's revenues are in U.S. dollars, there is a natural hedge against its obligations in U.S. dollars.

The Company has the following assets and liabilities in foreign currency in relation to the functional currency of the subsidiary entities, translated to millions of Mexican pesos at the closing exchange rate as of December 31, 2017:

	MXN	USD	EUR
Financial assets	\$ 19,167	\$ 23,212	\$ 645
Financial liabilities	<u>18,821</u>	<u>29,206</u>	<u>187</u>
Foreign exchange monetary position	<u>\$ 346</u>	<u>\$ (5,994)</u>	<u>\$ 458</u>

The exchange rates used to translate the foreign currency financial positions to Mexican pesos are those described in Note 3.

Based on the financial positions in foreign currency maintained by the Company, a hypothetical variation of 10% in the MXN/USD and MXN/EUR exchange rate and keeping all other variables constant, would result in an effect of \$519 on the consolidated statement of (loss) profit and stockholders' equity.

#### *Derivative financial instruments to hedge exchange rate risks*

The effectiveness of derivative financial instruments designated as hedges is measured periodically.

As of December 31, 2016, the Company had forwards (USD / MXN) to cover short-term needs, which correspond to the sale of US dollars for the purchase of raw materials in Mexican pesos.





The Company's cross currency exchange rate derivative contracts are recognized at fair value through profit or loss in the consolidated statement of (loss) profit.

The positions in derivative financial instruments in foreign currency as of December 31, 2016 are summarized below:

Type of derivative, value or contract	Notional amount	As of December 31, 2016		Fair value	Maturity by year		
		Value of underlying asset			2017	2018	2019 +
		Units	Reference				
USD/MXN	(\$186)	Pesos / Dollar	20.66	<u>\$ (12)</u>	<u>\$ (12)</u>	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2017, the Company has no derivative financial instruments in cross currency exchange.

(ii) Price risk

In carrying out its activities, the Company depends on the supply of raw materials provided by its suppliers, both in Mexico and abroad, among which are intermediate petrochemicals, principally.

In recent years, the price of certain inputs has shown volatility, especially those related to oil and natural gas.

In order to fix the selling prices of certain of its products, the Company has entered into agreements with certain customers. At the same time, it has entered into transactions involving derivatives on natural gas that seek to reduce price volatility of the prices of this input.

Additionally, it has entered into derivative financial instruments transactions to hedge purchases of certain raw materials, since these inputs have a direct or indirect relationship with the prices of its products.

The derivative financial operations have been privately contracted with various financial institutions, whose financial strength was highly rated at the time by rating agencies. The documentation used to formalize the contract operations is that based generally on the "Master Agreement", generated by the "International Swaps & Derivatives Association" ("ISDA"), which is accompanied by various accessory documents known in generic terms as "Schedule", "Credit Support Appendix" and "Confirmation".

Regarding natural gas, Pemex is the only supplier in Mexico. The selling price of natural gas is determined based by the price of that product on the "spot" market in South Texas, USA, which has experienced volatility. For its part, the Mexican Electric Commission is a decentralized public company in charge of producing and distributing electricity in Mexico. Electricity rates have also been influenced by the volatility of natural gas, since most power plants are gas-based.

The Company entered into various derivative agreements with various counterparties to protect it against increases in prices of natural gas and other raw materials. In the case of natural gas derivatives, hedging strategies for products were designed to mitigate the impact of potential increases in prices. The purpose is to protect the price from volatility by taking positions that provide stable cash flow expectations, and thus avoid price uncertainty. The reference market price for natural gas is the Henry Hub New York Mercantile Exchange (NYMEX). The average price per MMBTU for 2017 and 2016 was 3.0 and 2.31 US dollars, respectively.

As of December 31, 2017 and 2016, the Company had hedges of natural gas prices for a portion expected of consumption needs in Mexico and the United States.





*Derivative forward contracts to hedge adverse changes in commodity prices*

The Company uses natural gas to carry out its operating processes, and some of its main raw materials are paraxylene and ethylene. The objective of the hedge is to hedge against the exposure in the price increase of the aforementioned commodities, for future purchases by contracting swaps where variable prices are received and a fixed price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives are contracted to expand the time or the amount of coverage. Currently, the Company is hedged until December 2020. At the end of 2016, it also had an ethane hedge, however, due to market movements, these hedges are not currently available.

These derivative instruments have been classified as cash flow hedges for accounting purposes.

Positions in financial instruments derived from natural gas, ethylene, ethane, and paraxylene are summarized below:

As of December 31, 2017							
Type of derivative, value or agreement	Notional amount	Value of underlying asset		Fair Value	Maturity by year		
		Units	Reference		2018	2019	2020 +
Cash flow hedges							
Ethylene	\$359	Cent Dollar/lb <sup>(1)</sup>	27.65	\$ 23	\$ 23	\$ -	\$ -
Natural gas	2,159	Dollar/MBTU <sup>(2)</sup>	2.74	(703)	(230)	(231)	(242)
Paraxylene	1,828	Dollar/MT <sup>(3)</sup>	910	125	125	-	-
				<u>\$ (555)</u>	<u>\$ (82)</u>	<u>\$ (231)</u>	<u>\$ (242)</u>

As of December 31, 2016							
Type of derivative, value or agreement	Notional amount	Value of underlying asset		Fair value	Maturity by year		
		Units	Reference		2017	2018	2019 +
Cash flow hedges							
Ethylene	350	Cent Dollar/lb <sup>(1)</sup>	25.33	\$ 20	\$ 20	\$ -	\$ -
Natural gas	2,106	Dollar/MBTU <sup>(2)</sup>	3.72	(646)	-	(187)	(459)
Ethane	3	Cent Dollar/Gallon <sup>(3)</sup>	26.37	1	1	-	-
Paraxylene	2,650	Dollar/MT <sup>(4)</sup>	795	(24)	(24)	-	-
				<u>\$ (649)</u>	<u>\$ (3)</u>	<u>\$ (187)</u>	<u>\$ (459)</u>

(1) Cent of dollar per pound

(2) Dollar per Mega British Thermal Unit

(3) Cent of dollar per Gallon

(4) Dollar per Metric Ton

As of December 31, 2017 and 2016, the net fair value of the aforementioned derivative financial instruments amounts to \$555 and \$661, respectively, which is shown in the consolidated statement of financial position as follows:

	As of December 31,	
	2017	2016
Current asset	\$ 148	\$ 56
Short-term liability	230	71
Long-term liability	<u>473</u>	<u>646</u>
Net position	<u>\$ (555)</u>	<u>\$ (661)</u>



(iii) Interest rate risk

The Company is exposed to interest rate risk mainly for long-term loans bearing interest at variable rates. Fixed-interest loans expose the Company to interest rate risk at fair value, which implies that Alpek might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2017, 69% of the financing is denominated at a fixed rate, and 31% at a variable rate.

As of December 31, 2017, if interest rates on variable rate loans are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$271.

*Credit risk*

Credit risk is managed on a group basis, except for the credit risk related to accounts receivable balances. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions. If wholesale customers are rated independent, these are the ratings used. If there is no independent rating, the Company's risk control group evaluates the creditworthiness of the customer, taking into account their financial position, past experience and other factors.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board of Directors. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card. During 2017 and 2016, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods

The impairment provision for doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for doubtful accounts, significant estimates have to be made. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. In addition, the Company considers a number of factors to determine the size and appropriate timing for the recognition of allowances, including historical collection experience, customer base, current economic trends and the ageing of the accounts receivable portfolio.

*Liquidity risk*

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, and it's that some flexibility is maintained through open and committed credit lines. The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not violated. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury department invests those funds in time deposits and marketable securities whose maturities or liquidity allow flexibility to meet the cash needs of the Company.

The following table analyzes the derivative and non-derivative, grouped according to their maturity, from the date of the consolidated statement of financial position to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the timing of the Company's cash flows. The amounts disclosed in the table are contractual undiscounted cash flows.



	Less than a year	From 1 to 5 years	More than 5 years
As of December 31, 2017			
Suppliers and other accounts payable	\$19,783	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	8,639	25,478	6,239
Derivative financial instruments	230	473	-
As of December 31, 2016			
Suppliers and other accounts payable	\$15,492	\$ -	\$ -
Current and non-current debt (excluding debt issuance costs)	3,820	5,918	20,882
Derivative financial instruments	71	646	-

#### *Fair value hierarchy*

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. The 3 different levels used are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets that are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The derivative financial instruments of the Company that are measured at fair value as of December 31, 2017 and 2016, are located within level 2 of the fair value hierarchy.

There were no transfers between Level 1 and 2 or between Level 2 and 3.

The specific valuation techniques used to value financial instruments include:

- Market quotations or trader quotations for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

## **5. Critical accounting estimates and judgments**

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

### **5.1 Critical accounting estimates and assumptions.**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will be, by definition, seldom equal to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:





a) *Estimated impairment of goodwill and intangible assets with indefinite useful lives*

The Company performs annual tests to determine whether goodwill and intangible assets with indefinite useful lives have suffered any impairment (see Note 11). For impairment testing, goodwill and intangible assets with indefinite lives are allocated to those groups of cash-generating units ("CGUs") from which the Company has considered that economic and operational synergies of business combinations are generated. The recoverable amounts of the CGUs have been determined based on the calculations of their value in use, which require the use of estimates. The most significant of these estimates are as follows:

- Estimates of future gross and operating margins, according to the historical performance and industry expectations for each CGU group.
- Discount rate based on the weighted average cost of capital (WACC) of each CGU or group of CGUs.
- Long-term growth rates.

b) *Recoverability of deferred tax assets*

Alpek has applicable tax-loss carryforwards, which can be used in the following years until maturity expires. Based on the projections of income and taxable income that Alpek will generate in the following years through a structured and robust business plan, management has considered that current tax losses will be used before they expire and, therefore, it was considered appropriate to recognize a deferred tax asset for such losses.

c) *Long-lived assets*

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To test for impairment, the Company uses projected cash flows, which consider the estimates of future transactions, including estimates of revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or CGU are compared to the book value of the asset or CGU being tested to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its value in use, unless its fair value is higher.

## 5.2 Critical judgments in applying the entity's accounting policies

a) *Determination of exercise of control over certain investments in shares*

The Company has evaluated critical control factors and has concluded that it should consolidate the financial statements of its subsidiaries Polioles and Indelpro. The analysis performed by the Company included the assessment of the substantive decision making rights of the respective shareholders set forth in their bylaws, resulting in management's conclusion that it has the power to govern their relevant activities.



## 6. Cash and cash equivalents and restricted cash

The cash and cash equivalents are comprised as follows:

	As of December 31,	
	2017	2016
Cash on hand and in banks	\$ 3,429	\$ 1,886
Short-term bank deposits	5,366	1,049
Total cash and cash equivalents	<u>\$ 8,795</u>	<u>\$ 2,935</u>
Restricted cash		

At December 31, 2017 and 2016, the Company has restricted cash of approximately \$763 and \$2, respectively. The balances include amounts that are required to be held in escrow as deposits related to workers compensation reserves. As of December 31, 2017, the increase in the balance as compared to the prior year, is due to the deposit made in relation to the event described in Note 2d. The restricted cash balance is classified as a current asset in the consolidated statement of financial position based on the maturity date of the restriction.

## 7. Trade and other receivables, net

Trade and other accounts receivable are comprised as follows:

	As of December 31,	
	2017	2016
Trade accounts receivable	\$ 13,175	\$ 11,377
Trade and other accounts receivable from related parties (Note 26)	926	1,101
Recoverable taxes	3,714	3,384
Interest receivable	-	2
Sundry debtors	469	240
Allowance for impairment of trade and other accounts receivable	<u>(2,467)</u>	<u>(186)</u>
Current portion	<u>\$ 15,817</u>	<u>\$ 15,918</u>

The aging analysis of the balances due from customers and other receivables not impaired is as follows:

	As of December 31,	
	2017	2016
1 to 30 days	\$ 1,045	\$ 1,101
30 to 90 days	495	239
90 to 180 days	277	161
Over 180 days	488	581
	<u>\$ 2,305</u>	<u>\$ 2,082</u>

Trade and other accounts receivable impaired correspond mainly to companies going through difficult economic situations. Movements in the provision for impairment of trade receivables are analyzed as follows:

	2017	2016
Opening balance as of January 1	\$ (186)	\$(155)
Allowance for impairment of trade and other accounts receivable	(2,073)	(60)
Receivables written off during the year	5	15
Write-off of unused impairment allowance	26	24
Foreign exchange variation	<u>(239)</u>	<u>(10)</u>
Ending balance as of December 31	<u>\$ (2,467)</u>	<u>\$(186)</u>

<sup>(1)</sup> Includes the impairment disclosed in Note 2a.





## 8. Inventories

	As of December 31,	
	2017	2016
Finished good	\$ 8,844	\$ 8,419
Raw material and other consumables	5,891	4,924
Materials and tools	1,049	1,002
Production in progress	580	508
	<u>\$ 16,364</u>	<u>\$ 14,853</u>

For the years ended December 31, 2017 and 2016, a provision amounting to \$17 and \$22, respectively, related to damaged, slow-moving and obsolete inventory was recognized in the consolidated statement of (loss) profit.

At December 31, 2017 and 2016, there were no inventories pledged as collateral.

## 9. Prepayments

The current portion and non-current portion of prepaid expenses is summarized as follows:

	As of December 31,	
	2017	2016
Current portion <sup>(1)</sup>	\$ 305	\$ 457
Non-current portion <sup>(2)</sup>	31	1,570
Total prepayments	<u>\$ 336</u>	<u>\$ 2,027</u>

<sup>(1)</sup> This item mainly consists of advertising and prepaid insurance.

<sup>(2)</sup> As of December 31, 2016, this line item was represented primarily by inventory prepayments of \$1,550 related to supply rights, as described in Note 2a. As of December 31, 2017, the decrease in the balance in comparison to the prior year is due to the event described in the same note.





# 10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture, lab and information technology equipment	Construction in progress	Other fixed assets	Total
For the year ended December 31, 2016								
Opening balance	\$ 3,264	\$ 4,136	\$ 21,144	\$ 75	\$ 288	\$ 1,648	\$ 767	\$ 31,322
Additions	1	11	31	8	5	4,574	35	4,665
Additions for business acquisitions	-	54	875	-	1	5	-	935
Disposals	(8)	-	(3)	-	(1)	(1)	(14)	(27)
Impairment	-	-	(1)	-	(1)	-	-	(2)
Translation effect	367	752	4,061	13	58	525	150	5,926
Depreciation charges recognized in the year	-	(241)	(1,904)	(13)	(87)	-	-	(2,245)
Transfers	100	137	1,068	(13)	64	(1,197)	(34)	125
Ending balance as of December 31, 2016	<u>3,724</u>	<u>4,849</u>	<u>25,271</u>	<u>70</u>	<u>327</u>	<u>5,554</u>	<u>904</u>	<u>40,699</u>
As of December 31, 2016								
Cost	3,724	14,198	68,412	329	1,774	5,554	904	94,895
Accumulated depreciation	-	(9,349)	(43,141)	(259)	(1,447)	-	-	(54,196)
Net carrying amount as of December 31, 2016	<u>\$ 3,724</u>	<u>\$ 4,849</u>	<u>\$ 25,271</u>	<u>\$ 70</u>	<u>\$ 327</u>	<u>\$ 5,554</u>	<u>\$ 904</u>	<u>\$ 40,699</u>
For the year ended December 31, 2017								
Opening balance	\$ 3,724	\$ 4,849	\$ 25,271	\$ 70	\$ 327	\$ 5,554	\$ 904	\$ 40,699
Additions	-	13	100	1	5	4,452	102	4,673
Additions for business acquisitions	-	59	655	2	1	(31)	-	686
Disposals	-	-	(2)	-	-	(409)	(14)	(425)
Impairment	(123)	(3)	(14)	(1)	-	(17)	-	(158)
Impairment reversal	-	-	201	-	-	-	-	201
Translation effect	(107)	(209)	(1,335)	(5)	(9)	(144)	(37)	(1,846)
Depreciation charges recognized in the year	-	(251)	(1,948)	(14)	(82)	-	-	(2,295)
Transfers	-	158	1,070	9	31	(1,291)	23	-
Ending balance as of December 31, 2017	<u>3,494</u>	<u>4,616</u>	<u>23,998</u>	<u>62</u>	<u>273</u>	<u>8,114</u>	<u>978</u>	<u>41,535</u>
As of December 31, 2017								
Cost	3,494	13,867	67,714	320	1,739	8,114	978	96,226
Accumulated depreciation	-	(9,251)	(43,716)	(258)	(1,466)	-	-	(54,691)
Net carrying amount as of December 31, 2017	<u>\$ 3,494</u>	<u>\$ 4,616</u>	<u>\$ 23,998</u>	<u>\$ 62</u>	<u>\$ 273</u>	<u>\$ 8,114</u>	<u>\$ 978</u>	<u>\$ 41,535</u>

Depreciation expenses of \$2,253 and \$2,217 were recorded in cost of sales, \$3 and \$4, in selling expenses and \$39 and \$24, in administrative expenses in 2017 and 2016, respectively.

The Company has capitalized costs of loans on qualified assets for \$233 and \$51 for the years ended December 31, 2017 and 2016, respectively. Costs from loans were capitalized at the weighted average borrowing rate of approximately 5.2% and 4.9%, respectively.





Of the total amortization expense, \$326 and \$295 have been recorded in cost of sales and \$14 and \$20 in administrative expenses in 2017 and 2016, respectively.

Incurred research and development expenses that have been recorded in the 2017 and 2016 consolidated statements of income were \$65 and \$62, respectively.

#### **Impairment testing of goodwill and indefinite lived intangible assets**

Goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units. As of December 31, 2017 and 2016, goodwill of \$339 and \$362, respectively, arises primarily from the Polyester segment.

The recoverable amount from the operating segments has been determined based on calculations of values in use. These calculations use cash flow projections based on pre-tax financial budgets approved by Management covering a period of 5 years.

The gross and operating margins included in the estimates of value in use have been estimated based on the historical performance and the growth expectations of the market in which each group of CGUs operates. The long-term growth rate used in estimating the value in use is consistent with the projections included in industry reports. The present value of the cash flows was discounted using a specific discount rate after taxes for each group of CGUs and reflects the specific risks associated with each of them.

The key assumptions used in calculating the value in use in 2017 and 2016 were as follows:

	2017	2016
Estimated gross margin	6.3%	6.3%
Growth rate	0.0%	0.0%
Discount rate	9.0%	9.0%

## **12. Other non-current assets**

	As of December 31,	
	2017	2016
Notes receivable <sup>(1)</sup>	\$ 2,143	\$ 1,382
Due from related parties (Note 26)	738	745
Equity investments <sup>(2)</sup>	167	172
Total other non-current financial assets	3,048	2,299
Investment in associates and joint ventures <sup>(3)</sup>	483	403
Total other assets	<u>\$ 3,531</u>	<u>\$ 2,702</u>

<sup>(1)</sup> As of December 31, 2017, this item mainly consists of a transfer of rights that bears monthly interest at a rate of LIBOR + 4.0% and expected maturity in April 2020. As of December 31, 2016, this item mainly consisted of a loan receivable that accrued semi-annual interest at a 6.99% rate (LIBOR + 5.3%), and maturity in December 2019.

#### **<sup>(2)</sup> Equity investments**

This item is related to investments in companies not listed in the stock exchange market and investments in social clubs that represent less than 1% of their outstanding capital stock. The Company has not recognized any impairment loss at December 31, 2017.





The movement of equity investments available for sale is as follows:

	2017	2016
Opening balance as of January 1	\$ 172	\$ 144
Translation effect	(5)	20
Additions	-	8
Balance as of December 31	<u>\$ 167</u>	<u>\$ 172</u>

<sup>(3)</sup> Investment in associates and joint ventures

The Company's account of investments in associates and joint ventures consists of the following:

	Shareholding %	2017	2016
Clear Path Recycling, LLC	49.90%	\$ 317	\$ 361
Terminal Petroquímica Altamira, S.A. de C.V.	42.04%	34	31
Agua Industrial del Poniente, S.A. de C.V.	47.59%	61	-
Galpek, LDA	50.00%	71	11
Investment in associates and joint ventures as of December 31		<u>\$ 483</u>	<u>\$ 403</u>

Below is summarized financial information of investments in associates and joint ventures, which are accounted for by the equity method:

	2017	2016
Net income (loss)	\$ 22	\$ (4)
Other comprehensive loss	-	(2)
Comprehensive income (loss)	<u>22</u>	<u>(6)</u>
Investment in associates and joint ventures as of December 31	<u>\$ 483</u>	<u>\$ 403</u>

There are neither commitments nor contingencies liabilities regarding the Company's investment in associates and joint ventures as of December 31, 2017 or 2016.

**13. Subsidiaries with significant non-controlling interest**

The significant non-controlling interest, is integrated as follows:

	Non- controlling ownership percentage	Non-controlling interest income for the period		Non-controlling interest as of December 31st,	
		2017	2016	2017	2016
Indelpro, S. A. de C. V. and subsidiary	49%	\$ 823	\$ 1,101	\$ 3,941	\$ 3,631
Polioles, S. A. de C. V. and subsidiary	50%	75	251	341	474
Other		34	16	466	544
		<u>\$ 932</u>	<u>\$ 1,368</u>	<u>\$ 4,748</u>	<u>\$ 4,649</u>



The summarized financial information at December 31, 2017 and 2016 and for the year then ended, corresponding to each subsidiary with a significant non-controlling interest is shown below.

	<b>Indelpro, S. A. de C. V. and subsidiary</b>		<b>Polioles, S. A. de C. V. and subsidiary</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Statement of financial position				
Current assets	\$ 4,456	\$ 3,739	\$ 1,940	\$2,248
Non-current assets	7,451	7,737	1,046	1,150
Current liabilities	1,555	1,489	880	909
Non-current liabilities	2,310	2,577	1,424	1,540
Stockholders' equity	8,042	7,410	682	949
Statements of income				
Revenues	12,322	11,991	3,525	3,517
Consolidated net income	1,679	2,246	150	502
Total comprehensive income of the year	1,392	3,542	77	596
Comprehensive income attributable to non-controlling interest	682	1,735	39	298
Dividends paid to non-controlling interest	379	1,022	165	945
Statements of cash flows				
Net cash flows generated by (used in) operating activities	1,895	2,328	260	(460)
Net cash flows (used in) generated by investing activities	(343)	(444)	174	1,967
Net cash flows used in financing activities	(936)	(2,356)	(394)	(1,702)
Increase (decrease) in cash and cash equivalents	597	(394)	48	(227)

#### 14. Trade and other accounts payable

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Trade accounts payable	\$ 17,255	\$ 13,151
Short-term employee benefits	416	610
Advances from customers	69	45
Taxes other than income taxes	746	600
Due to related parties (Note 26)	326	337
Other accrued accounts and expenses payable	971	750
	<u>\$ 19,783</u>	<u>\$ 15,492</u>

#### 15. Debt

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Current:		
Bank loans <sup>(1)</sup>	\$ 7,119	\$ 2,375
Current portion of non-current debt	276	230
Notes payable <sup>(1)</sup>	1	178
Interest payable	12	4
Current debt	<u>\$ 7,408</u>	<u>\$ 2,787</u>
Non-current:		
Senior Notes	\$ 18,810	\$19,677
Unsecured bank loans	8,424	2,104
Total	27,234	21,781
Less: current portion of non-current debt	(276)	(230)
Non-current debt <sup>(2)</sup>	<u>\$ 26,958</u>	<u>\$21,551</u>



- (1) As of December 31, 2017 and 2016, short-term bank loans and notes payable incurred interest at an average rate of 2.42%, and 2.21%, respectively.
- (2) The fair value of bank loans and notes payable approximates their current carrying amount because of their short maturity.
- (3) The carrying amounts, terms and conditions of non-current debt are as follows:

Description	Currency	Value in MXN	Debt issuance costs	Interest payable	Balance as of December 31, 2017	Balance as of December 31, 2016 <sup>(1)</sup>	Maturity date MM/DD/YY	Interest rate
Senior Notes 144A/Reg. S / fixed rate	USD	\$12,806	\$ (70)	\$ 64	\$ 12,800	\$ 13,389	Nov-20-22	4.50%
Senior Notes 144A/Reg. S / fixed rate	USD	<u>5,921</u>	<u>(37)</u>	<u>126</u>	<u>6,010</u>	<u>6,288</u>	Aug-08-23	5.38%
Total Senior Notes		<u>18,727</u>	<u>(107)</u>	<u>190</u>	<u>18,810</u>	<u>19,677</u>		
Bank loan, Libor +1.60%	USD	-	-	-	-	1,034	Dec-19-19	2.59%
Bank loan, Libor +1.10%	USD	-	-	-	-	415	Apr-02-18	1.95%
Bank loan, Libor + 1.00%	USD	-	-	-	-	358	Aug-14-18	1.77%
Bank loan, Libor + 1.60%	USD	-	-	-	-	169	Jan-31-18	2.22%
Bank loan, BADLAR + 1.00%	ARS	63	-	1	64	102	Apr-01-20	22.50%
Bank loan, Fixed 19.00%	ARS	16	-	0	16	26	Dec-08-20	19.00%
Bank loan, Libor +1.10%	USD	2,960	-	32	2,992	-	Nov-30-20	2.55%
Bank loan, Libor +3.75%	USD	1,974	-	17	1,991	-	Oct-25-22	5.13%
Bank loan, Libor +1.45%	USD	987	-	1	988	-	Dec-15-22	3.04%
Bank loan, Libor +1.10%	USD	987	-	1	988	-	Jul-06-21	2.67%
Bank loan, Libor +2.40%	USD	987	-	2	989	-	Jul-17-20	3.86%
Bank loan, Libor +1.00%	USD	<u>395</u>	<u>(1)</u>	<u>2</u>	<u>396</u>	<u>-</u>	Apr-03-20	2.34%
Total unsecured bank loans		<u>8,369</u>	<u>(1)</u>	<u>56</u>	<u>8,424</u>	<u>2,104</u>		
Total		<u>\$ 27,096</u>	<u>\$ (108)</u>	<u>\$ 246</u>	<u>\$ 27,234</u>	<u>\$ 21,781</u>		

(1) As of December 31, 2016, debt issuance costs were \$127.





As of December 31, 2017, the annual maturities of non-current debt are as follows:

	2019	2020	2021	2022 and thereafter	Total
Bank loans	\$ 232	\$ 4,751	\$ 2,072	\$ 1,283	\$ 8,338
Senior Notes	-	-	-	18,620	18,620
	<u>\$ 232</u>	<u>\$ 4,751</u>	<u>\$ 2,072</u>	<u>\$ 19,903</u>	<u>\$ 26,958</u>

As of December 31, 2017 and 2016, the Company has committed unused lines of credit totaling US\$166 and US\$383, respectively.

#### Covenants:

Loan contracts and debt agreements contain restrictions, primarily relating to compliance with financial ratios, which include the following:

- Interest hedge ratio: it is calculated by dividing the profit before financial result, net, share of result of associates and joint ventures, income taxes, depreciation and amortization (EBITDA) by the net interest charges for the last four quarters of the analyzed period. This factor cannot be less than 3.0 times.
- Leverage ratio: defined as the result of dividing the consolidated net debt (current and non-current debt, excluding debt issuance costs less restricted and unrestricted cash and cash equivalents) by the EBITDA of the last four quarters of the period analyzed. This factor cannot be greater than 3.5 times.

Additionally, there are other restrictions in regards of incurring additional debt or making loans that require mortgaging assets, dividend payments and submission of financial information, which if not met or remedied within a specified period to the satisfaction of creditors may cause the debt to become payable immediately. During 2017 and 2016, the financial ratios were calculated according to the formulas set forth in the loan agreements. As of December 31, 2017 and the date of issuance of these consolidated financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

## 16. Provisions

	Dismantling, demolition and environmental remediation	Severance payments and other benefits	Other	Total
As of January 1, 2016	\$ 471	\$ 35	\$ 17	\$ 523
Increases	-	-	-	-
Payments	(210)	(10)	(6)	(226)
Translation effect	69	5	(1)	73
As of December 31, 2016	330	30	10	370
Increases	-	-	178	178
Payments	(105)	(12)	(26)	(143)
Write-offs	(192)	(16)	-	(208)
Translation effect	(20)	(2)	5	(17)
As of December 31, 2017	<u>\$ 13</u>	<u>\$ -</u>	<u>\$ 167</u>	<u>\$ 180</u>



	2017	2016
Short-term provisions	\$ 25	\$ 363
Long-term provisions	<u>155</u>	<u>7</u>
As of December 31	<u>\$ 180</u>	<u>\$ 370</u>

As of December 31, 2017, the provisions shown in the table above mainly include \$147 (US\$7.5) for the contingent liability for the earn-out payment mentioned in note 2e in the acquisition of Selenis. As of December 31, 2016, \$360 (US\$17) were related to the closure of the Cape Fear plant located in Wilmington, North Carolina carried out in June 2013.

During 2017, the Company continued the works of dismantling and demolition of the plant in Cape Fear. As of December 31, 2017, the balance of this provision amounts to \$13 (US\$1), which according to the initial estimate made by management, will be extinguished in future years according to the plan of dismantling and demolition of the plant.

## 17. Employee benefits

The valuation of retirement plan employee benefits includes formal plans and constructive obligations that covers all employees and is based primarily on their years of service, current age and estimated salary at retirement date.

The principal subsidiaries of the Company have established irrevocable trust funds for payment of pensions and seniority premiums and health-care expenses.

Below is a summary of the main financial data of such employee benefits:

	As of December 31, 2017	2016
Employee benefit obligations:		
Pension benefits	\$ 753	\$ 940
Post-employment medical benefits	<u>148</u>	<u>177</u>
	901	1,117
Defined contribution plans	<u>160</u>	<u>110</u>
	<u>\$ 1,061</u>	<u>\$ 1,227</u>
Employee benefits in the consolidated statement of financial position		
Charge to the consolidated statement of (loss) profit for:		
Pension benefits	\$ (67)	\$ (56)
Post-employment medical benefits	<u>(7)</u>	<u>(8)</u>
	<u>(74)</u>	<u>(64)</u>
Remeasurements of employee benefit obligations recognized in other comprehensive income of the year	<u>\$ 100</u>	<u>\$ 100</u>
Remeasurements of accrued employee benefit obligations	<u>\$ (31)</u>	<u>\$ (131)</u>

### *Pension and post-employment medical benefits*

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent) and their composition.

The Company operates post-employment medical benefit schemes mainly in its subsidiary DAK Americas.

The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. Most of these plans are not being funded.



Amounts recognized in the consolidated statement of financial position are determined as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Present value of defined benefit obligations	\$ 3,998	\$ 4,141
Fair value of plan assets	(3,097)	(3,024)
Liability in the statement of financial position	<u>\$ 901</u>	<u>\$ 1,117</u>

The movements of defined benefit obligations are as follows:

	<b>2017</b>	<b>2016</b>
As of January 1,	\$ 4,141	\$ 3,714
Service cost	44	46
Interest cost	155	167
Contributions from plan participants	16	18
Remeasurements:		
Gains from changes in financial assumptions	174	49
(Losses) from changes in demographic assumptions and experience adjustments	(20)	(120)
Translation effect	(172)	650
Benefits paid	(337)	(359)
Plan curtailments	-	(18)
Settlements	(3)	(6)
As of December 31,	<u>\$ 3,998</u>	<u>\$ 4,141</u>

The movement in the fair value of plan assets for the year is as follows:

	<b>2017</b>	<b>2016</b>
As of January 1	\$ (3,024)	\$ (2,688)
Interest income	(122)	(126)
Remeasurements – return on plan assets, excluding interest income	(254)	(29)
Translation effect	112	(434)
Contributions	(57)	(33)
Benefits paid	248	286
As of December 31	<u>\$ (3,097)</u>	<u>\$ (3,024)</u>

The amounts recorded in the statement of (loss) profit for the years ended December 31 are the following:

	<b>2017</b>	<b>2016</b>
Service cost	\$ (44)	\$ (46)
Interest cost, net	(33)	(41)
Effect of plan curtailments and/or settlements	3	23
Total included in personnel cost	<u>\$ (74)</u>	<u>\$ (64)</u>





The principal actuarial assumptions are as follows:

	As of December 31,	
	2017	2016
Discount rate Mexico	7.25%	7.75%
Discount rate United States	3.30%-3.49%	3.72%-3.96%
Inflation rate	3.50%	3.50%
Wage increase rate	4.50%	4.50%
Medical inflation rate Mexico	6.50%	6.50%
Medical inflation rate United States	8.25%	8.00%

The sensitivity analysis of the discount rate for defined benefit obligations is as follows:

	Effect in defined benefit obligations		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	MX 1%	Decrease by \$21	Increase by \$24
Discount rate	US 1%	Decrease by \$364	Increase by \$439

Sensitivity analyses are based on a change in assumptions, while the all other assumptions remain constant. In practice, this is slightly probable, and the changes in some assumptions may be correlated. In the calculation of the sensibility from the defined benefit obligation, significant actuarial assumptions the same method (present value of calculated defined benefit obligation with the projected unit credit method at reporting period) has been applied as in the calculation of liabilities for pensions recognized within the consolidated statement of financial position.

#### *Defined benefit plan assets*

Plan assets are comprised as follows:

	As of December 31,	
	2017	2016
Equity instruments	\$ 2,043	\$ 1,949
Fixed income	1,054	1,075
Fair value of plan assets	<u>\$ 3,097</u>	<u>\$ 3,024</u>

## 18. Income taxes

The Company is subject to income tax, whose rate is 30% in Mexico. The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

	2017	2016
United States <sup>(1)</sup>	35.0%	35.0%
Brazil	34.0%	34.0%
Argentina <sup>(1)</sup>	35.0%	35.0%
Chile <sup>(1)</sup>	25.5%	24.0%
Canada	25.0%	25.0%
Spain	25.0%	25.0%

- <sup>(1)</sup> On December 22, 2017, the U.S. government enacted substantial changes to its existing tax law ("H.R. 1", originally known as the "Tax Cuts and Jobs Act", or the "Act"). Although most provisions of the Act, including the reduction of the corporate tax rate to 21%, are effective beginning on January 1, 2018, IFRS requires entities to recognize the effect of tax law changes in the period of enactment. Additionally, changes in applicable tax rates were enacted in other jurisdictions where the Company operates, such as Argentina and Chile. In Argentina the corporate tax rate will be 30% for 2018 and 2019, and 25% in 2020, while in Chile it will increase to 27% from 2018. The Company determined that the effect derived from the change in tax rates recognized in the consolidated statement of (loss) profit for 2017 was \$669.



a) Income taxes recognized in the consolidated statement of (loss) profit are as follows:

	2017	2016
Current income tax	\$ (1,511)	\$ (2,470)
True-up to prior years' income tax provision	188	(33)
Deferred income taxes	3,036	145
Income taxes	<u>\$ 1,713</u>	<u>\$ (2,358)</u>

b) The reconciliation between the statutory and effective income tax rates is as follows:

	2017	2016
(Loss) income before income taxes	\$ (6,268)	\$ 7,351
Income tax rate	30%	30%
Statutory income tax rate benefit (expense)	1,881	(2,205)
Add (less) income tax effect on:		
Annual adjustment for inflation	(323)	(107)
Non-deductible expenses	(11)	(24)
Non-taxable income	71	27
Effect of different tax rates of other countries other than Mexico	385	(51)
True up with respect to prior years' current income tax	188	(33)
True up with respect to prior years' deferred income tax	-	178
Translation effect from the functional currency	192	(142)
Effect of changes in tax rates	(669)	-
Investments in associates and joint ventures	(1)	(1)
Total income taxes	<u>\$ 1,713</u>	<u>\$ (2,358)</u>
Effective tax rate	27%	32%

c) The breakdown of the deferred tax asset and deferred tax liability is as follows:

	(Asset) liability December 31,	
	2017	2016
Property, plant and equipment	\$ 44	\$ -
Intangible assets	1,907	-
Debt issuance costs	(18)	-
Provisions	41	139
Derivative financial instruments	-	124
Tax loss carryforwards	354	1,798
Other items	601	-
Effect of tax rates of other countries and changes in tax rates	(505)	-
Deferred tax asset	<u>2,424</u>	<u>2,061</u>
Inventories	(95)	(66)
Property, plant and equipment, net	(5,884)	(6,328)
Intangible assets	(41)	(442)
Tax loss carryforwards	637	-
Other items	855	(675)
Effect of tax rates of other countries and changes in tax rates	125	-
Deferred tax liability	<u>(4,403)</u>	<u>(7,511)</u>
Deferred tax liability, net <sup>(1)</sup>	<u>\$ (1,979)</u>	<u>\$ (5,450)</u>

<sup>(1)</sup> To compute deferred taxes, the Company uses an average of the tax rates valid in the different jurisdictions in which it maintains accounts that generate deferred taxes.



Deferred income tax assets are recognized on tax loss carryforwards to the extent the realization of the related tax benefit through future tax income is probable. Tax losses amount to \$3,303 and \$5,993 in 2017 and 2016, respectively.

<u>Loss for the year incurred</u>	<u>Tax-loss carryforwards</u>	<u>Expiration year</u>
2013	\$ 69	2023
2014	268	2024
2015	1,188	2025
2016	1,396	2026
2017	382	2027
	<u>\$ 3,303</u>	

d) Income tax related to other comprehensive income is as follows:

	2017			2016		
	Before taxes	Tax charged	After taxes	Before taxes	Tax charged	After taxes
Foreign currency translation effect	\$(2,461)	\$ -	\$(2,461)	\$ 6,233	\$ -	\$ 6,233
Remeasurement of employee benefit obligations	100	(50)	50	100	(36)	64
Effect of derivative financial instruments designated as cash flow hedges	209	(86)	123	646	(262)	384
Equity in other comprehensive income of associates and joint ventures	-	-	-	(2)	-	(2)
Other comprehensive (loss) income	<u>\$(2,152)</u>	<u>\$ (136)</u>	<u>\$(2,288)</u>	<u>\$ 6,977</u>	<u>\$ (298)</u>	<u>\$ 6,679</u>

e) Income tax payable consists of the following:

	As of December 31,	
	2017	2016
Current portion	\$ 573	\$ 694
Non-current portion	623	553
Total income tax payable	<u>\$ 1,196</u>	<u>\$ 1,247</u>





## 19. Other non-current liabilities

	As of December 31,	
	2017	2016
Advances from customers <sup>(1)</sup>	\$ 419	\$ 500
Other	3	4
Total other liabilities	<u>\$ 422</u>	<u>\$ 504</u>

<sup>(1)</sup> This item corresponds to revenues charged in advance and relates to the future delivery of goods.

## 20. Stockholders' equity

As of December 31, 2017, capital stock is variable, with a fixed minimum of \$6,052 represented by 2,118,163,635 ordinary, nominative shares, "Class I" Series "A", with no par value, fully subscribed and paid in. The variable capital entitled to withdrawal will be represented, if issued, by registered "Class II" Series "A" shares without par value.

2017

As of December 31, 2017, the Company has 1,485,884 treasury shares and the market value per share was \$23.45 Mexican pesos.

In August 2017, the Company sold 40,500 shares in the amount of \$1, in connection to a repurchase program that was approved by the Company's stockholders and exercised discretionally by Management.

During 2016, the Company repurchased 1,526,384 shares in the amount of \$46, in connection with the abovementioned repurchase program.

The net income of the year is subject to decisions made by the General Stockholders' Meeting, the Company's by-laws and the General Law of Mercantile Corporations. In accordance with the General Law of Mercantile Corporations, the legal reserve should be increased annually by 5% of the net annual income until it reaches 20% of the fully paid in capital stock. As of December 31, 2017 and 2016, the legal reserve amounts to \$696 and \$514, respectively.

At the ordinary stockholders' meeting of Alpek on February 27, 2017, the stockholders agreed to declare dividends in cash in the aggregate amount of \$2,667 (US\$143), which were paid in two disbursements from March 8 and September 7 in the same year.

At the General Ordinary Meeting of Alpek held on February 24, 2016, the stockholders resolved to declare cash dividends on March 4, 2016 in a total amount of \$ 1,959.

The Income Tax Law establishes a tax rate of 10% to the dividends paid to foreign residents and Mexican individuals derived from the profits generated since 2014, also provides that for the years 2001-2013, the net taxable profit will be determined in terms of the Income Tax Law in force in the fiscal year concerned.

Dividends paid are not subject to income tax if they derived from the Net Tax Profit Account (CUFIN Spanish acronym). Any dividends paid in excess of this account will cause an income tax charge based on the tax rate valid in the period in which they are paid. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. At December 31, 2017, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA Spanish acronym) amounted to \$1,777 and \$19,244, respectively.



The movements in other reserves for 2017 and 2016 are shown as follows:

	<b>Effect of foreign currency translation</b>	<b>Effect of cash flow hedge derivative instruments</b>	<b>Total</b>
As of January 1, 2016	\$ 6,598	\$ (1,004)	\$ 5,594
Gains on fair value	-	646	646
Deferred tax on gains at fair value	-	(262)	(262)
Gains from translation of foreign entities	6,233	-	6,233
As of December 31, 2016	<u>12,831</u>	<u>(620)</u>	<u>12,211</u>
Gains on fair value	-	209	209
Deferred tax on gains on fair value	-	(86)	(86)
Loss from translation of foreign entities	(2,461)	-	(2,461)
As of December 31, 2017	<u>\$ 10,370</u>	<u>\$ (497)</u>	<u>\$ 9,873</u>

## 21. Shared-based payments

Alpek has a stock based compensation scheme referred to at 50% of the value of stock of Alfa and the other 50% of the value of the shares of Alpek, S.A.B. de C.V. for directors of the Company and its subsidiaries. In accordance with the terms of the plan, the eligible directors will obtain a cash payment contingent upon achieving both quantitative and qualitative metrics derived from the following financial measures:

- Improved share price
- Improvement in net income
- Permanence of the executives in the Company

The program consists in determining a number of shares which the executives will have a right to, that will be paid in cash over the next five years; i.e., 20% every year and will be paid at the average price of the shares during the year. These payments are measured at the fair value of the consideration, therefore, because they are based on the price of Alfa and Alpek shares, the measurement is considered to be within level 1 of the fair value hierarchy.

The average price of the shares in pesos used as reference is:

	<b>2017</b>	<b>2016</b>
Alfa, S. A. B. de C. V.	21.12	26.73
Alpek, S. A. B. de C. V.	22.95	26.10

The short-term and long-term liabilities are comprised as follows:

	<b>As of December 31,</b>	
	<b>2017</b>	<b>2016</b>
Short term	\$ 7	\$ 10
Long term	15	21
Total carrying amount	<u>\$ 22</u>	<u>\$ 31</u>





**22. Expenses classified by their nature**

The total cost of sales and selling and administrative expenses, classified by the nature of the expense, are comprised as follows:

	2017	2016
Raw material and other	\$ (70,121)	\$ (60,305)
Employee benefit expenses (Note 25)	(4,363)	(4,227)
Human resource expenses	(32)	(54)
Maintenance	(1,517)	(1,411)
Depreciation and amortization	(2,635)	(2,560)
Advertising expenses	(3)	(3)
Freight expenses	(5,319)	(4,325)
Consumption of energy and fuel (gas, electricity, etc.)	(4,228)	(3,514)
Travel expenses	(146)	(170)
Operating lease expenses	(888)	(775)
Technical assistance, professional fees and administrative services	(1,015)	(937)
Other (insurance and bonds, water, containers and packing, etc.)	(2,158)	(2,283)
Total	<u>\$ (92,425)</u>	<u>\$ (80,564)</u>

**23. Other income, net**

Other income for the years ended December 31, are comprised as follows:

	2017	2016
Gain on sale of waste	\$ -	\$ 3
Gain on sale of property, plant and equipment	-	1
Impairment of property, plant and equipment and other	-	(2)
Expenses related to acquisition projects	-	(5)
Gain on business acquisition	238	36
Income from loss recovery <sup>(1)</sup>	-	112
Other income	147	90
Other expenses	(50)	-
Total	<u>\$ 335</u>	<u>\$ 235</u>

<sup>(1)</sup> This item represents the recovery insurance related to DAK Argentina.

**24. Finance income and costs**

Financial result, net for the years ended December 31, are comprised as follows:

	2017	2016
Financial income:		
Interest income on short-term bank deposits	\$ 65	\$ 150
Interest income on loans from related parties	27	44
Other financial income	106	87
Gain on changes in the fair value of financial assets at fair value through profit or loss	-	4
Total financial income	<u>\$ 198</u>	<u>\$ 285</u>
Financial expenses:		
Interest expense on loans to related parties	\$ (2)	\$ (1)
Interest expense on bank loans	(295)	(143)
Non-bank interest expense	(941)	(926)
Net interest cost on employee benefits	(40)	(44)
Other financial expenses	(198)	(300)
Valuation effect of derivative financial instruments	(6)	-
Total financial expense	<u>\$ (1,482)</u>	<u>\$ (1,414)</u>
Gain (loss) in exchange fluctuation, net		
Foreign exchange gain	3,125	3,280
Foreign exchange loss	(3,557)	(4,660)
Loss in exchange fluctuation, net	<u>\$ (432)</u>	<u>\$ (1,380)</u>
Impairment of financial assets	(1,694)	-
Financial result, net	<u>\$ (3,410)</u>	<u>\$ (2,509)</u>





**25. Employee benefit expenses**

Employee benefits expenses for the years ended December 31, are as follows:

	2017	2016
Salaries, wages and benefits	\$ (3,188)	\$ (3,102)
Social security fees	(318)	(304)
Employee benefits	(41)	(22)
Other fees	(816)	(799)
Total	<u>\$ (4,363)</u>	<u>\$ (4,227)</u>

**26. Related party transactions**

Transactions with related parties during the years ended December 31, 2017 and 2016, were as follows:

	2017	2016
Income		
Income from sale of goods:		
Stockholders with significant influence over subsidiaries	\$ 1,438	\$ 1,343
Income from services:		
Affiliates	198	350
Stockholders with significant influence over subsidiaries	206	180
Income from financial interest:		
Alfa	24	28
Affiliates	-	10
Stockholders with significant influence over subsidiaries	3	6
Other income:		
Affiliates	-	1
Associates and joint ventures	10	-
Costs / expenses		
Purchase of finished goods and raw materials:		
Affiliates	\$ -	\$ (3)
Stockholders with significant influence over subsidiaries	(853)	(915)
Expenses from services:		
Affiliates	(348)	(328)
Associates and joint ventures	(21)	(18)
Stockholders with significant influence over subsidiaries	(18)	(15)
Financial interest expenses:		
Associates and joint ventures	(2)	(1)
Other expenses:		
Affiliates	(31)	(69)
Associates and joint ventures	(8)	-
Stockholders with significant influence over subsidiaries	(2)	(6)
Dividends declared:		
Alfa	(2,191)	(1,608)
Other stockholders	(476)	(351)
Dividends of subsidiaries to non-controlling interest:		
Stockholders with significant influence over subsidiaries	(544)	(1,967)
Other stockholders	(74)	(82)
Effect of transfer of common control <sup>(1)</sup>	-	(435)

- (1) During the month of November 2016, Alpek received from Alfa the transfer of shares representative of 100% of the capital stock of Petrocel, S. A. (company that has the operating rights of a maritime terminal in Altamira, Tamaulipas), thus since that date became a subsidiary of Alpek. The cost of this transactions amounted to \$1, and represented the acquisition of negative net assets amounting to \$434.



For the year ended December 31, 2017, the remunerations and benefits received by the top officers of the Company amounted to \$309 (\$336 in 2016), comprising of base salary and social security benefits, and supplemented by a variable consideration program based on the Company's results and the market value of the shares thereof and of its holding company.

As of December 31, balances with related parties are as follows:

		As of December 31,	
Nature of the transaction		2017	2016
<u>Short-term accounts receivable:</u>			
Holding company			
Alfa, S. A. B. de C. V.	Administrative services	\$ 190	\$ 190
Affiliates			
Innovación y Desarrollo de Energía			
Alfa Sustentable, S. A. de C. V.	Administrative services	115	115
Newpek, LLC	Administrative services	14	5
Nemak, S. A. B. de C. V.	Administrative services	4	7
Terza, S. A. de C. V.	Sale of goods	-	1
Shares with significant influence on subsidiaries			
BASF	Sale of goods	155	112
BASF	Sale of business	405	635
	Lease and administrative services	-	2
BASF	Sale of goods	43	25
Basell	Administrative services	-	9
Basell		<u>\$ 926</u>	<u>\$ 1,101</u>
<u>Long-term accounts receivable:</u>			
Holding company			
Alfa, S. A. B. de C. V. <sup>(1)</sup>	Financing and interest	<u>\$ 738</u>	<u>\$ 745</u>
<u>Short-term accounts payable:</u>			
Affiliates			
Alliax, S. A. de C. V.	Administrative services	\$ 16	\$ 18
Nemak Exterior, LTD	Administrative services	1	1
Alfa Corporativo, S. A. de C. V.	Administrative services	10	16
Newpek, S. A.	Administrative services	-	3
Servicios Empresariales del Norte, S. A. de C. V.	Administrative services	-	2
Alestra, S. de R. L. de C. V.	Administrative services	-	2
Other	Administrative services	4	-
Associates			
Clear Path Recycling, LLC	Financing and interest	79	83
Terminal Petroquímica Altamira, S. A. de C. V.	Administrative services	-	1
Stockholders with significant influence over subsidiaries			
BASF	Sale of goods	-	16
BASF	Sale of raw material	195	164
BASF	Commissions and other	4	2
Basell	Other	17	29
		<u>\$ 326</u>	<u>\$ 337</u>
<u>Long-term accounts payable:</u>			
Affiliates			
Alfa Corporativo, S. A. de C. V.	Administrative services	<u>\$ 3</u>	<u>\$ 4</u>

<sup>(1)</sup> As of December 31, 2017 and 2016, the loans granted bore interest at average fixed interest rate of 5.34%.



## 27. Segment reporting

Segment reporting is presented consistently with the financial information provided to the Chief Executive Officer, who is the highest authority in operational decision making, allocation of resources and performance assessment of operating segments.

An operating segment is defined as a component of an entity on which separate financial information is regularly evaluated.

Management controls and assesses its operations through two business segments: the Polyester business and the Plastics and Chemicals business. These segments are managed separately since its products vary and targeted markets are different. Their activities are performed through various subsidiaries.

The operations between operating segments are performed at market value and the accounting policies with which the financial information by segments is prepared, are consistent with those described in Note 3.

The Company has defined Adjusted EBITDA as the calculation of adding operating income, depreciation, amortization, and impairment of long lived assets.

The Company evaluates the performance of each of the operating segments based on Adjusted EBITDA, considering that this indicator is a good metric to evaluate operating performance and the ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, Adjusted EBITDA is not a measure of financial performance under IFRS and should not be considered as an alternative to net income as a measure of operating performance or cash flows as a measure of liquidity.

Following is the condensed financial information of the Company's operating segments:

	Polyester	Plastics and Chemicals	Other	Total
For the year ended December 31, 2017:				
Statement of (loss) profit:				
Income by segment	\$70,589	\$ 28,724	\$(315)	\$98,998
Inter-segment income	(113)	(202)	315	-
Income from external customers	\$70,476	\$ 28,522	\$ -	\$98,998
Operating (loss) income	\$(6,814)	\$ 3,966	\$ (6)	\$(2,854)
Depreciation and amortization	2,085	550	-	2,635
Impairment of long-lived assets	7,699	3	-	7,702
Adjusted EBITDA	\$ 2,970	\$ 4,519	(6)	\$ 7,483
Investments in fixed and intangible assets	\$ 3,420	\$ 1,011	\$ -	\$ 4,431

	Polyester	Plastics and Chemicals	Other	Total
For the year ended December 31, 2016:				
Statement of (loss) profit:				
Income by segment	\$64,336	\$ 26,151	\$(295)	\$90,192
Inter-segment income	(95)	(200)	295	-
Income from external customers	\$64,241	\$ 25,951	\$ -	\$90,192
Operating income	\$ 4,487	\$ 5,413	\$ (37)	\$ 9,863
Depreciation, amortization and impairment of non-current assets	2,027	535	-	2,562
Adjusted EBITDA	\$ 6,514	\$ 5,948	\$ (37)	\$12,425
Investments in fixed and intangible assets	\$ 5,234	\$ 747	\$ -	\$ 5,981





The reconciliation between adjusted EBITDA and income before taxes for the years ended December 31, is as follows:

	2017	2016
Adjusted EBITDA	\$ 7,483	\$ 12,425
Depreciation and amortization	(2,635)	(2,562)
Impairment of long-lived assets	(7,702)	-
Operating income	(2,854)	9,863
Financial result, net	(3,410)	(2,509)
Equity in loss of associates and joint ventures	(4)	(3)
	<u>\$ (6,268)</u>	<u>\$ 7,351</u>
(Loss) income before income taxes		

Following is a summary of revenues per country of origin for the years ended December 31:

	2017	2016
Mexico	\$ 47,516	\$43,657
United States	41,438	39,271
Argentina	5,341	4,405
Brazil	1,462	1,301
Chile	921	766
Canada	2,320	792
Total revenues	<u>\$ 98,998</u>	<u>\$90,192</u>

The Company's main costumer generated revenue amounting to \$7,596 and \$8,654 for the years ended December 31, 2017 and 2016, respectively. This revenue is obtained from the Polyester reporting segment and represents 8% and 10% of the consolidated revenue with external costumers for the years ended December 31, 2017 and 2016, respectively.

The following table shows the intangible assets and property, plant and equipment by country:

	As of December 31,	
	2017	2016
Mexico	\$ 2,188	\$ 2,344
United States	1,848	9,524
Chile	-	6
Canada	1	1
Brazil	28	-
Total intangible assets	<u>\$ 4,065</u>	<u>\$ 11,875</u>
Mexico	\$ 32,029	\$ 30,511
United States	7,546	8,425
Canada	1,229	968
Argentina	271	349
Chile	323	318
Brazil	137	128
Total property, plant and equipment	<u>\$ 41,535</u>	<u>\$ 40,699</u>



## 28. Commitments and contingencies

At December 31, 2017, the Company has the following commitments:

- a. At December 31, 2017 and 2016, the Company's subsidiaries had entered into various agreements with suppliers and customers for purchases of raw materials used for production and the sale of finished goods, respectively. The term of these agreements varies between one and five years and generally contain price adjustment clauses.
- b. In September 2007, Indelpro renewed an agreement it had held with PEMEX Refinación to cover the supply of propylene for the chemical and refining area maturing in 2018, such agreement establishes the obligation to purchase the maximum level of production available at a referenced market prices. Purchases of propylene during the years ended December 31, 2017 and 2016 amounted to \$2,732 and \$ 2,317, respectively. The purchase commitment for the year 2018 amounts to approximately \$2,553 and is based on the estimates and assumptions considered for the same year.
- c. The Company leases equipment under non-cancellable operating lease agreements, related mainly to transportation equipment for the PTA and PET businesses, which normally include renewal options. These options are generally under the same conditions of the existing leases.

As of December 31, 2017, the Company has the following contingencies:

- a. During the normal course of the business, the Company may be involved in disputes and litigations. While the results of these can't be predicted, the Company does not believe that there are actions pending to apply, claims or legal proceedings against or affecting the Company which, if it will result in an adverse resolution to the Company, would negatively impact the results of its operations or its financial position.
- b. Some of the Company's subsidiaries use hazardous materials to manufacture polyester filaments and staple fibers, polyethylene terephthalate (PET) and terephthalic acid (PTA) resin, polypropylene (PP) resin, expandable polystyrene (EPS), caprolactam (CPL), chemical specialties and they generate and dispose of waste, such as catalysts and glycols. These and other activities of the subsidiaries are subject to various federal, state and local laws and regulations governing the generation, handling, storage, treatment and disposal of hazardous substances and wastes. According to such laws, the owner or lessor of real estate property may be liable for, among other things, (i) the costs of removal or remediation of certain hazardous or toxic substances located on, in, or emanating from, such property, as well as the related cost of investigation and property damage and substantial penalties for violations of such law, and (ii) environmental contamination of facilities where its waste is or has been disposed of. Such laws impose such liability without regard to whether the owner or lessee knew of, or was responsible for, the presence of such hazardous or toxic substances.

Although the subsidiaries estimate that there are no existing material liabilities relating to noncompliance with environmental laws and regulations, there can be no assurance that there are no undiscovered potential liabilities related to historic or current operations that will require investigation and/or remediation under environmental laws, or that future uses or conditions will not result in the imposition of an environmental liability or expose them to third-party or related parties actions, such as tort suits. Furthermore, there can be no assurance that changes in environmental regulations in the future will not require the subsidiaries to make significant capital expenditures to change methods of disposal of hazardous materials or otherwise alter aspects of their operations.

## 29. Subsequent events

In preparing the financial statements the Company has evaluated the events and transactions for their recognition or disclosure subsequent to December 31, 2017 and through January 31, 2018 (date of issuance of the consolidated financial statements), and has identified the following subsequent events:

- a. In January 2018, M&G Mexico disposed of US\$29 from the secured credit facility granted by the Company, as described in Note 2b.



**30. Authorization to issue the consolidated financial statements**

On January 31, 2018, the issuance of the accompanying consolidated financial statements was authorized by José de Jesús Valdez Simancas, General Director and Eduardo Alberto Escalante Castillo, Administration and Finance Director.

These consolidated financial statements are subject to the approval of the Company's ordinary shareholders' meeting.

