2016
Annual Report

alpek

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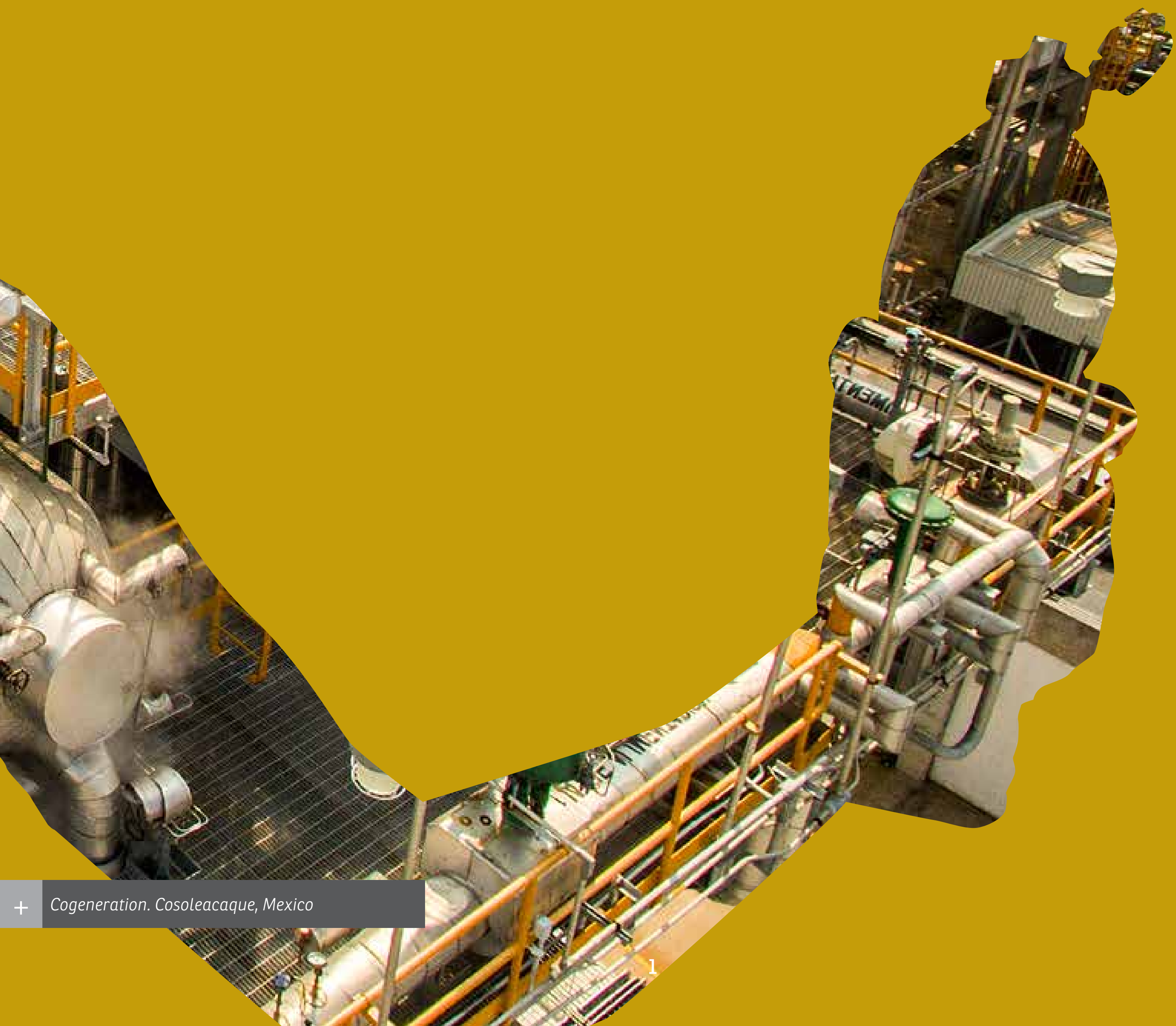
CORPORATE **PROFILE**

G4-4, 9

- Alpek is the leading petrochemical company in the Americas
- Operating in two business segments: Polyester, and Plastics & Chemicals
- North America's leading integrated polyester producer
- Only manufacturer of polypropylene (PP) and caprolactam (CPL) in Mexico
- Largest expandable polystyrene (EPS) producer in the Americas
- 90% of Alpek's products are used for food, beverage and consumer goods packaging
- Listed on the Mexican Stock Exchange since April 2012



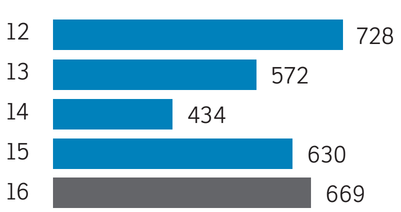
+ *Cogeneration. Cosoleacaque, Mexico*

FINANCIAL HIGHLIGHTS

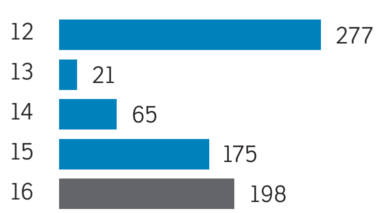
EC1

	MILLIONS OF DOLLARS			MILLIONS OF PESOS		
INCOME STATEMENT	**2016**	**2015**	**% var.**	**2016**	**2015**	**% var.**
Net sales	4,838	5,284	(8)	90,192	83,590	8
Operating income	532	481	11	9,863	7,590	30
EBITDA[1]	669	630	6	12,425	9,974	25
Majority net income[2]	198	175	13	3,625	2,748	32
Net income per share[3] [5]	0.09	0.08		1.71	1.30	
BALANCE SHEET						
Assets	4,428	4,353	2	91,500	74,894	22
Liabilities	2,409	2,348	3	49,778	40,395	23
Stockholders' equity	2,019	2,005	1	41,722	34,499	21
Majority interest[2]	1,794	1,741	3	37,073	29,954	24
Book value per share[4] [5]	0.85	0.82		17.51	14.14	

EBITDA[1]
Millions of dollars



Majority Net Income[2]
Millions of dollars



Assets
Millions of dollars

NOTE: In this annual report, monetary figures are expressed in nominal Mexican pesos ($) and in nominal dollars (US $) unless otherwise specified. The financial information for 2016 to 2012 was prepared in accordance with IFRS, in effect in Mexico since January 2012. Conversions from pesos to dollars were made using the weighted average exchange rate of the period in which the transactions were carried out. The percentage variations between 2016 and 2015 are expressed in nominal terms.

1) EBITDA = Operating income plus depreciation, amortization and impairment of non-current assets.

2) Attributable to the controlling interest.

3) Based on the weighted average number of outstanding shares (2,117 million shares in 2016 and 2,118 million shares in 2015).

4) Based on the number of outstanding shares (2,117 million shares in 2016 and 2,118 million shares in 2015).

5) Dollars or pesos per share, accordingly.

G4-6, 8

23 plants in 6 countries: Mexico, the United States, Canada, Brazil, Argentina and Chile

A qualified team of over 5,280 employees operating a total capacity of 5.8 million tons per year

OUR PRODUCTS IN DAILY LIFE

G4-4

POLYESTER

6:00 A nice workout to start the day	6:30 Vitamins for the little ones	13:30 Lemonade for lunch	18:30 Safety first in the car
PET bottle and polyester fiber clothes	**PET bottle**	**PET bottle**	**Polyester filament seatbelt**
			

+ *Alpek Polyester (PET). Columbia, United States*

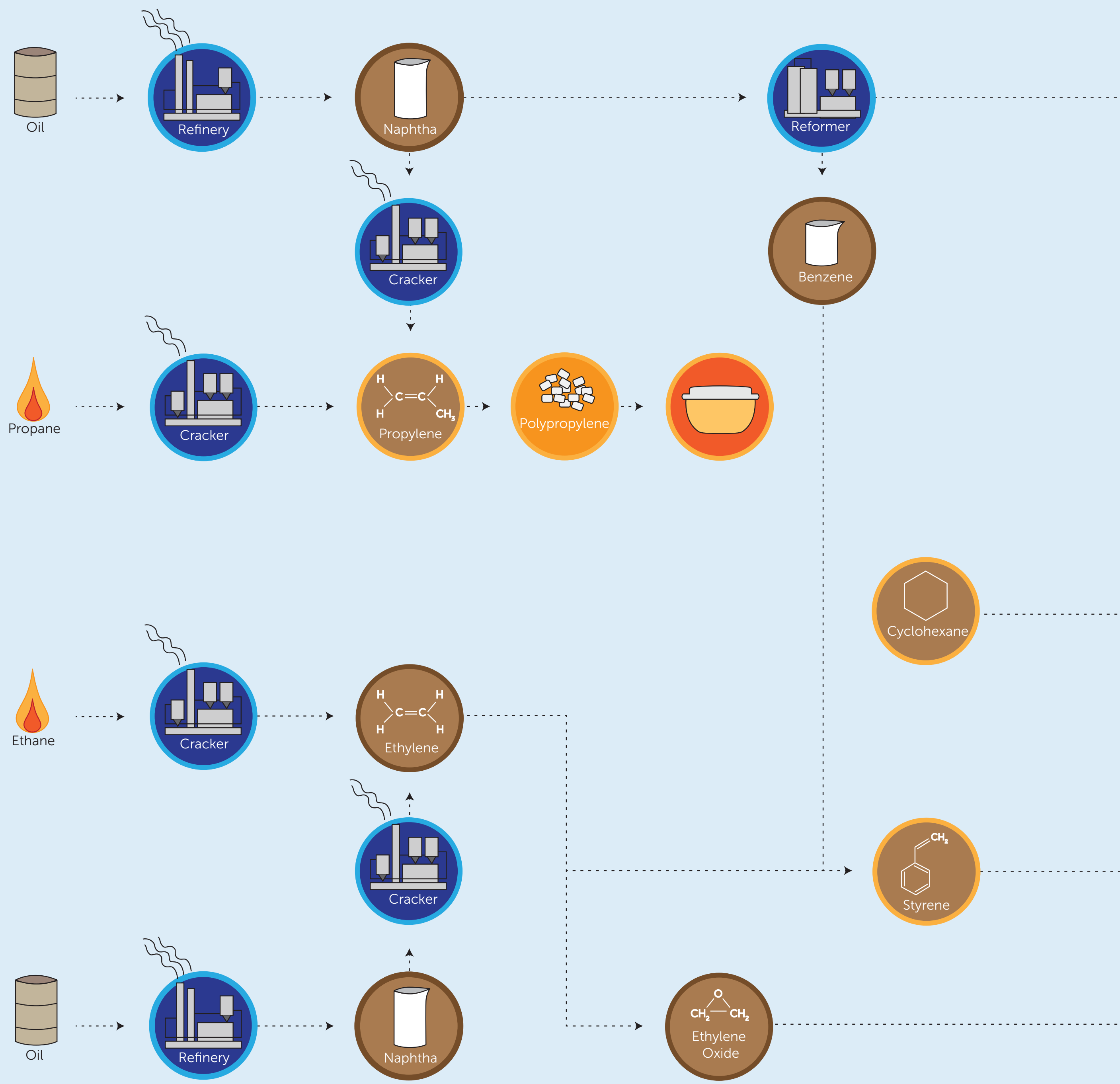
PLASTICS & CHEMICALS

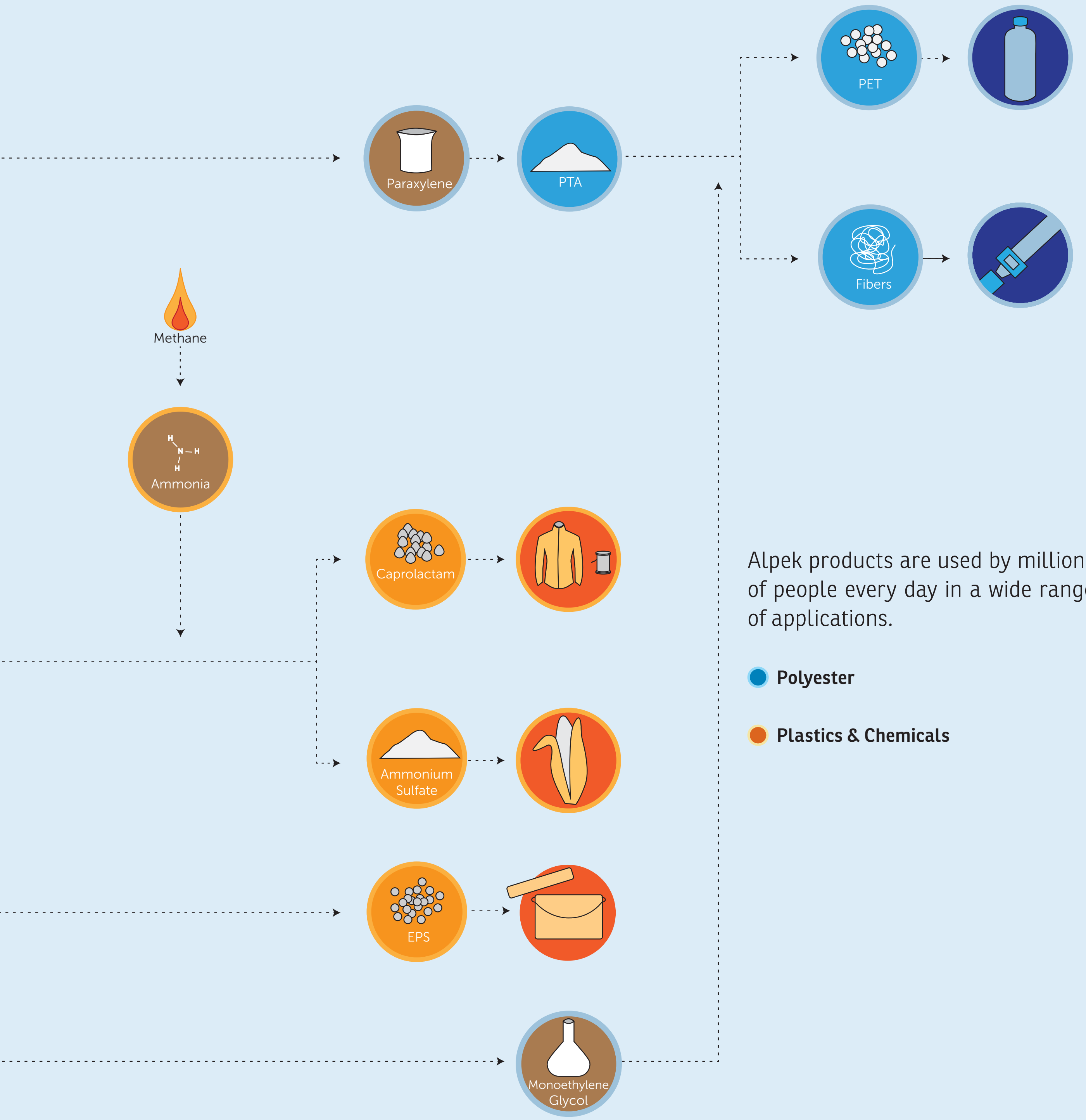
12:30 Lunch time	15:30 Doctor's appointment	18:00 Soccer practice	20:30 Teeth brushing
Polypropylene (PP) container	**PP syringe**	**Expandable polystyrene (EPS) cooler**	**Toothbrush with PP handle and nylon bristles**




PETROCHEMICAL CHAINS

G4-12





Alpek products are used by millions of people every day in a wide range of applications.

Polyester

Plastics & Chemicals

+ *Alpek Polyester (PET). Cosoleacaque, Mexico*

LETTER TO SHAREHOLDERS

Dear shareholders:

G4-1, 2, 13

2016 was a year of contrasts, with a significant difference between the results of the first half of the year compared to the second, as well as between our two business segments. Crude oil price volatility, combined with several extraordinary events such as Hurricane Matthew, adversely affected Alpek's Polyester segment. However, our polypropylene (PP) and expandable polystyrene (EPS) businesses posted record results for the year, driving the performance of our Plastics & Chemicals (P&C) segment.

The crude oil and feedstock price environment was challenging once again during 2016. The annual average Brent price was US $44 per barrel, fluctuating between a minimum of US $31 per barrel in January and a maximum of US $54 per barrel in December, following the agreement announced by the OPEC at the end of the year. This high volatility affected the price of our feedstocks, mainly paraxylene (Px) and propylene, causing temporary distortions in results.

Alpek's consolidated 2016 sales totaled US $4.838 billion, down 8% year-over-year, reflecting lower average prices in both business segments as a result of the decline in oil and feedstock prices. The annual sales volume was similar to the previous year, with a marginal increase in P&C.

Consolidated EBITDA was US $669 million in 2016, 6% more than in 2015 but 4% below the revised guidance of US $700 million, with a significant difference between the results of Alpek's two business segments.

Consolidated 2016 EBITDA includes benefits from inventory gains and non-operating items totaling US $32 million, such that comparable EBITDA was US $637 million, 3% below that of 2015.

Polyester segment sales were US $3.444 billion in 2016, 10% lower than 2015 due to a 10% decrease in average price. Volume was flat and below our growth expectations mainly as a result of low demand for polyester fiber in the United States and for PET in Argentina.

2016 Polyester EBITDA was US $349 million, 2% more than in 2015. However, this figure includes a benefit of US $18 million from non-cash inventory gains and non-operating items. Adjusting for this benefit, comparable EBITDA was US $331 million, 13% lower than the previous year.

Crude oil price volatility, the force majeure declared at three US PET plants as a result of Hurricane Matthew and low demand for polyester fiber in the United States were three external factors that were particularly negative for this segment.

Nevertheless, positive events for the Polyester segment during the year included final affirmative determinations in the US PET antidumping and countervailing duty investigations and the startup of the multiyear monoethylene glycol (MEG) supply agreement with Huntsman.

Despite Asian reference polyester margins remaining at historical lows, 2016 was the first year since 2010 in which PTA demand expansion exceeded installed capacity growth in China. This situation is necessary for the Chinese supply/demand balance to improve and support a gradual recovery in global polyester margins.

The P&C segment posted sales of US $1.394 billion in 2016, 3% less than the previous year, as a 1% increase in volume was more than offset by a 5% decrease in average price.

By contrast, P&C EBITDA grew 14% year-over-year, to US $322 million. This figure includes a US $14 million benefit from non-cash inventory gains and non-operating items. Thus, comparable 2016 P&C EBITDA was US $308 million, up 13% versus 2015.

P&C EBITDA growth was driven by record results from our PP and EPS businesses, which posted comparable annual increases of 14% and 27% respectively.

The PP business benefited from a margin expansion in North America, reflecting lower feedstock costs and a favorable balance between supply and demand in the region. However, reference margins reached an unsustainably high level during the first half of the year and fell shortly thereafter to stabilize above historical levels by year-end.

EPS results largely reflect the successful integration of the businesses acquired in North and South America in 2015, combined with a favorable margin environment resulting from higher Asian reference styrene prices.

On a macro level, global financial markets were impacted by the result of the US elections. In the particular case of Mexico, this caused a significant depreciation of the Mexican peso vis-à-vis the US dollar.

Alpek's solid financial position, supported by dollar-denominated cash flows, long-term, fixed-interest debt, low leverage and high interest coverage ratios, allowed us to overcome this situation.

As of year-end 2016, net debt was US $1.042 billion, US $320 million more than 2015, as a result of the ongoing investment in strategic projects. However, our financial ratios remain at healthy levels: a net debt to EBITDA of 1.6 times and interest coverage of 10.5 times.

Alpek's strategic Capex program continued throughout 2016. Annual Capex reached US $345 million, making this the third consecutive year in which we have invested more than US $300 million.

PROGRESS WITH STRATEGIC PROJECTS

We made significant progress with five projects involving vertical integration, operating efficiency and capacity expansion:

Firstly, in June 2016 Alpek began supplying monoethylene glycol (MEG) from Huntsman in accordance with the US $65 million, multiannual agreement. This was the second of our six major strategic projects to begin operating, following the startup of the Cosoleacaque cogeneration plant in 2015.

Secondly, Alpek completed its investment to obtain the supply rights to 500 thousand tons of integrated PET per year from the plant that M&G is building in Corpus Christi, Texas. The facility is expected to begin operations in 2017, starting with PET production and then PTA.

Thirdly, as of year-end 2016 we had invested 40% of the total amount required for the construction of our second cogeneration plant at the Altamira site in the state of Tamaulipas. This facility will have a capacity of 350 megawatts, 3.5 times that of our existing plant in Cosoleacaque, Veracruz, and is expected to begin generating electricity in 2018.

Fourthly, the construction of two propylene storage spheres progressed as planned during the year. This initiative will improve logistics and increase the capacity utilization of our PP facility. Startup during the first half of 2017 will make it the third of our six major projects to be concluded.

And finally, the investment in our 75-thousand-ton EPS capacity expansion in Altamira reached 40% of the total programmed amount at the close of 2016. When the expansion begins operating in 2018, Alpek's Altamira facility will be the largest EPS plant outside China.

ACQUISITIONS

In 2016, Alpek announced three acquisitions that complement its existing operations, two in the Polyester segment and one in P&C.

The first in the Polyester segment was the acquisition of a controlling interest in Selenis Canada Inc., which operates Canada's only PET plant with an annual capacity of 144 thousand tons. In addition to expanding Alpek's operations in North America, this asset allows us to complement our portfolio with differentiated PET products.

The second one involves an agreement signed with Petrobras to acquire its 100% interests in Companhia Petroquímica de Pernambuco (Petroquímica Suape) and Companhia Integrada Têxtil de Pernambuco (Citepe). These two companies operate South America's only integrated polyester site, which has an annual capacity of 700 thousand tons of PTA, 450 thousand tons of PET and 90 thousand tons of texturized polyester filament. Subject to pending corporate and governmental approvals, this acquisition will increase Alpek's installed capacity by approximately 22%.

These two transactions consolidate our presence in the Americas and provide synergies that reinforce the Company's integrated polyester platform.

Within the P&C segment, we acquired an EPS plant in Concón, Chile. The facility's installed capacity of 20 thousand tons per year complements the EPS operations that we acquired in South America during 2015.

At Alpek, we strive to operate in harmony with all our stakeholder groups: shareholders, customers, employees, communities and suppliers, as well as with the environment. Our sustainability strategy is based on identifying and addressing concerns from them all.

In 2015, we concluded a materiality assessment of social, environmental, economic and corporate governance matters through which we identified 13 issues that are particularly important to our stakeholders. This report presents information on a total of 108 indicators that pertain to these issues, and 39 others related to our operations.

Results presented this year include: related to internal well-being, 31 average training hours per employee versus 27 hours in 2015; and related to the community, the benefitting of more than 50 schools and 7,380 students.

We reaffirm our commitment to continuously improve across the four pillars that make up our sustainability model: i) internal well-being, ii) community, iii) environment and iv) sustainable economic value creation.

In summary, 2016 was a year characterized by a volatile crude oil price environment, as well as other external factors that adversely affected our Polyester results. However, it was a record year for our PP and EPS businesses, we made significant progress with strategic projects and we closed acquisitions that complement our operations in both business segments.

We expect downward pressure on our 2017 results, largely due to the normalization of polypropylene margins following their peak during the first half of 2016. We maintain a cautious view as we expect further volatility in global financial markets driven by the change of administration in the United States.

Under these conditions, financial discipline becomes increasingly important together with a number of other factors such as: our long-term, fixed-interest debt that protects us against interest rate hikes; dollar-denominated cash flows that mitigate the risks from foreign exchange rate fluctuations; low leverage and high interest coverage that provide financial flexibility; and geographical diversification that reduces our country risk.

In 2017, we will continue to implement our strategic projects. We are also committed to consistently paying dividends to our shareholders, which in 2016 totaled approximately US $110 million.

We would like to take this opportunity to thank our employees, customers, suppliers and creditors, the community and, in particular, you, our shareholders, for putting your trust once again in this Board of Directors.

Sincerely,

Armando Garza Sada
Chairman of the Board

José de Jesús Valdez Simancas
Chief Executive Officer

POLYESTER

Polyester is Alpek's main business segment, representing 71% of its sales.

G4-4, 8, EC2, EC8

The products of the segment are:

+ **PTA (purified terephthalic acid).** Produced from paraxylene, PTA is the main raw material for manufacturing PET and polyester fiber.

+ **PET (polyethylene terephthalate).** PET, a recyclable plastic used mainly for packaging beverage, food and consumer products, is produced from PTA and monoethylene glycol (MEG).

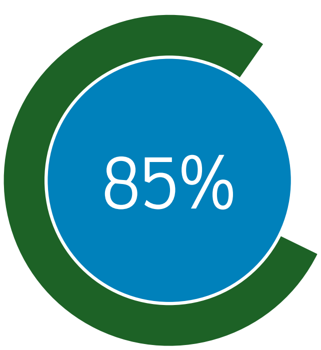
+ **Polyester fiber.** Synthetic fiber used to produce clothing, home furnishings and seat belts, as well as in other applications.

The Polyester segment operates 13 plants with an aggregate annual installed capacity of 4.6 million tons in the United States, Mexico, Argentina and Canada, and employs 3,650 people.

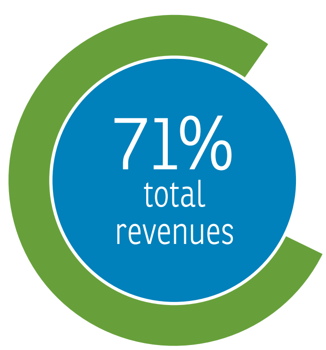
Alpek is the leading integrated PTA-PET producer in North America, from where it receives 85% of its Polyester revenues, and Argentina's only manufacturer of virgin PET and recycled PET (r-PET).

The Company is committed to sustainability, operating PET recycling plants in the United States and Argentina with a consolidated installed capacity of 89 thousand tons per year, equivalent to more than four billion bottles.

Alpek's leadership in North America's large and consolidated markets and focus on consumer-oriented segments contribute to stability in the demand for its polyester products.



Mexico, the United States and Canada account for 85% of Polyester sales



71% of Alpek's total 2016 revenues came from the Polyester segment

+ *Alpek Polyester (PET). Cosoleacaque, Mexico*

RESULTS

Polyester segment sales totaled US $3.444 billion in 2016, with a volume of 3.0 million tons. Sales declined 10% year-over-year, largely reflecting a 10% reduction in average price because of the decline in oil prices.

Polyester EBITDA was US $349 million, 2% above the previous year. This figure includes non-cash benefits of US $11 million from inventory gains and of US $1 million related to the acquisition of Selenis Canada Inc., as well as a cash benefit of US $6 million from an insurance compensation. Thus, comparable EBITDA was US $331 million, 13% below 2015.

Crude oil price volatility and the force majeure declared at three US PET plants as a result of Hurricane Matthew were particularly negative for Alpek's Polyester segment.

By contrast, positive events for the segment during the year included the startup of the US $65 million joint venture with Huntsman to supply monoethylene glycol (MEG).

Additionally, 2016 was the first year since 2010 in which PTA demand expansion exceeded installed capacity growth in China. This situation is necessary for the Chinese supply/demand balance to improve and support a gradual recovery of global margins.

Lastly, the United States International Trade Commission issued final affirmative determinations on PET imports from China, India, Oman and Canada, applying antidumping and compensatory duties ranging from 0% to 154% for a minimum period of five years. The ITC's stance is designed to prevent disloyal practices in the US PET market.

+ *Alpek Polyester (PET). Columbia, United States*

+ *PET container with PP cap*

+ *Indelpro (PP). Altamira, Mexico*

PLASTICS & CHEMICALS

The P&C segment accounts for 29% of Alpek's sales.

G4-13, EC2, EC7, EC8

Its main products are:

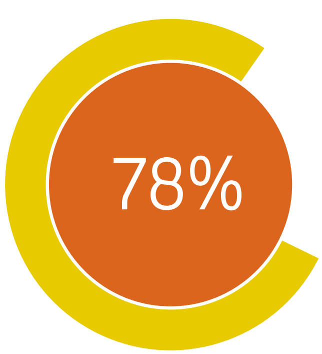
+ **Polypropylene (PP).** PP is a recyclable plastic made from propylene and used to produce containers, medical instruments and packaging for food and autoparts, among other applications. It is the segment's main product, accounting for 46% of its sales.

+ **Expandable polystyrene (EPS).** EPS is a low-density, impact-absorbing polymer used for packaging products such as domestic appliances and electronics, as well as for thermal insulation and lightening the load of structural slabs in building works. It represents 30% of the segment's sales.

+ **Caprolactam (CPL).** CPL is the main feedstock for making Nylon 6, a synthetic fiber used in clothing, tire cord and engineering plastics, as well as other applications.

+ **Specialty and industrial chemicals.** These products have a wide variety of applications across diverse industries, including the oil, pharmaceutical, automotive and consumer goods sectors.

+ **Ammonium sulfate.** Nitrogen rich derivative of the CPL production process that is used as a fertilizer.



Mexico, the United States and Canada account for 78% of Plastics & Chemicals sales

Plastics & Chemicals represented 29% of Alpek's total 2016 revenues

Alpek leads the market for most of the products in this segment. In particular, it is Mexico's sole producer of PP and CPL, and the largest EPS manufacturer in the Americas.

RESULTS

The P&C segment posted sales of US $1.394 billion in 2016, with a volume of 934 thousand tons. 2016 sales declined 3% year-over-year because a 1% increase in volume was more than offset by a 5% reduction in average price.

2016 P&C EBITDA was US $322 million, 14% above the previous year. This figure includes non-cash benefits of US $12 million from inventory gains and of US $2 million related to the acquisition of EPS assets in South America. Thus, comparable P&C EBITDA was US $308 million, up 13% versus 2015, driven by record results of the PP and EPS businesses.

Reference PP margins were unsustainably high during the first half of the year but began to fall in the final six months, stabilizing above historical levels by year-end.

Alpek's EPS results reflect the successful integration of the operations acquired in North and South America in 2015 and higher margins because of the increase in Asian reference styrene prices.

+ *Styropek Mexico (EPS). Altamira, Mexico*

+ *Polypropylene containers*

STRATEGIC INVESTMENTS

G4-13, EC2, EC7, EC8

Annual Capex, mainly for the projects in our strategic plan, reached US $345 million in 2016, making this the third consecutive year in which we invested over US $300 million.

We expect to have concluded the six most important initiatives of the plan by 2018. In its entirety, it involves an investment of more than US $1,000 million and will generate an incremental EBITDA estimated at US $250 million annually.

Two of the projects are already operating. The first is the cogeneration plant in Cosoleacaque, Veracruz, which came on line in 2015. In its second full year of operations, it produced savings of US $16 million through the production of 668 GigaWatts/h of electricity and 1.37 tons of steam.

The second project started up in the second quarter of 2016, supplying monoethylene glycol (MEG) in accordance with the US $65 million multiannual agreement with Huntsman. This initiative gives Alpek contractual rights to the production of approximately 150 thousand tons of MEG per year and will generate estimated annual savings of US $20 million.

Our strategic growth plan includes investments of more than one billion dollars to provide an incremental EBITDA of US $250 million per year.

PROGRESS WITH STRATEGIC PROJECTS

The third project, to be concluded during the first half of 2017, is the construction of two polypropylene storage spheres. This will improve logistics and increase the capacity utilization of our PP facility, producing estimated savings of US $10 million annually.

The fourth project involves supply from the integrated PET plant that M&G is building in Corpus Christi, Texas. During the year, we completed the investment of US $350 corresponding to the original supply contract and acquired rights to an additional 100 thousand tons of PET. The PET capacity is expected to begin operating in 2017, followed by PTA production.

The fifth project to come on line will be the 75-thousand-ton capacity expansion of our EPS site in Altamira, Tamaulipas, making it the largest such facility outside China. This initiative is part of the transformation process that has made us America's largest EPS producer with a total capacity of 250 thousand tons per year.

Finally, Alpek's second cogeneration plant, currently being built in Altamira, will begin operations in 2018. It represents our largest investment after Corpus Christi and will have a capacity of 350 MW. As of year-end 2016, we had invested approximately 40% of the US 350 million required.

+ *Cogeneration. Cosoleacaque, Mexico*

ACQUISITIONS

In 2016, we also announced two acquisitions in the Polyester segment and one in P&C.

The Polyester segment acquired a controlling interest in Selenis Canada Inc., which operates Canada's only PET plant, with an annual capacity of 144 thousand tons. In addition to expanding Alpek's operations in North America, the asset positions us to complement our portfolio with differentiated PET products.

This segment also signed an agreement with Petrobras to acquire Companhia Petroquímica de Pernambuco (Petroquímica Suape) and Companhia Integrada Textil de Pernambuco (Citepe), companies that operate Brazil's only integrated polyester site. The agreement, which is subject to pending corporate and governmental approval, will increase Alpek's annual capacity by approximately 22%, adding 700 thousand tons of PTA, 450 thousand tons of PET and 90 thousand tons of texturized polyester filament.

The P&C segment also acquired an EPS plant in Concón, Chile. The facility's annual installed capacity of 20 thousand tons complements our South American operations.

Going forward, we will continue with our proactive search for new investment opportunities, selecting them rigorously to ensure that our resources are invested in the most profitable projects, implementing them efficiently, and administering them with financial discipline in order to assure flexibility at all stages of their development.

+ *Cogeneration. Cosoleacaque, Mexico*

Alpek Polyester (PTA, PET and cogeneration). Cosoleacaque, Mexico

SUSTAINABILITY

G4-28 to 30, 32, 33 Fully aware of the importance of our legacy to future generations, we at Alpek endeavor to work in harmony with the environment and society. The company's products are a result of our responsible use of resources and ongoing cooperation with neighbors, business partners and employees and their families. To achieve this, we focus on continuous improvement, innovation and ethical, responsible conduct.

In this fifth edition of our annual sustainability report, we present our progress in sustainable development over the period of January 1st to December 31st, 2016, using version G4 of the Global Reporting Initiative (GRI) methodology for the second time. In accordance with this standard, we selected the core option of compliance, focusing our report on the issues that are of particular relevance to our stakeholders. For more information on how we identified and responded to these issues, please consult the section on our materiality study on page 27.

The GRI G4 indicators shown in this report are denoted in each section. The full list of GRI indicators to which we responded can be found at: http://www.alpek.com/es/gri-report.html. The link also includes the UN's Sustainable Development Goals to 2030, to which the actions we implemented in 2016 contribute.

In 2016, we invested more than US $40 million in programs and initiatives regarding social responsibility in our operations.

+ *Fauna at Alpek Polyester lagoon. Altamira, Mexico*

+ *Talk about enviromental care. Viva Verde project*

MATERIALITY STUDY

Material aspect: CRS management

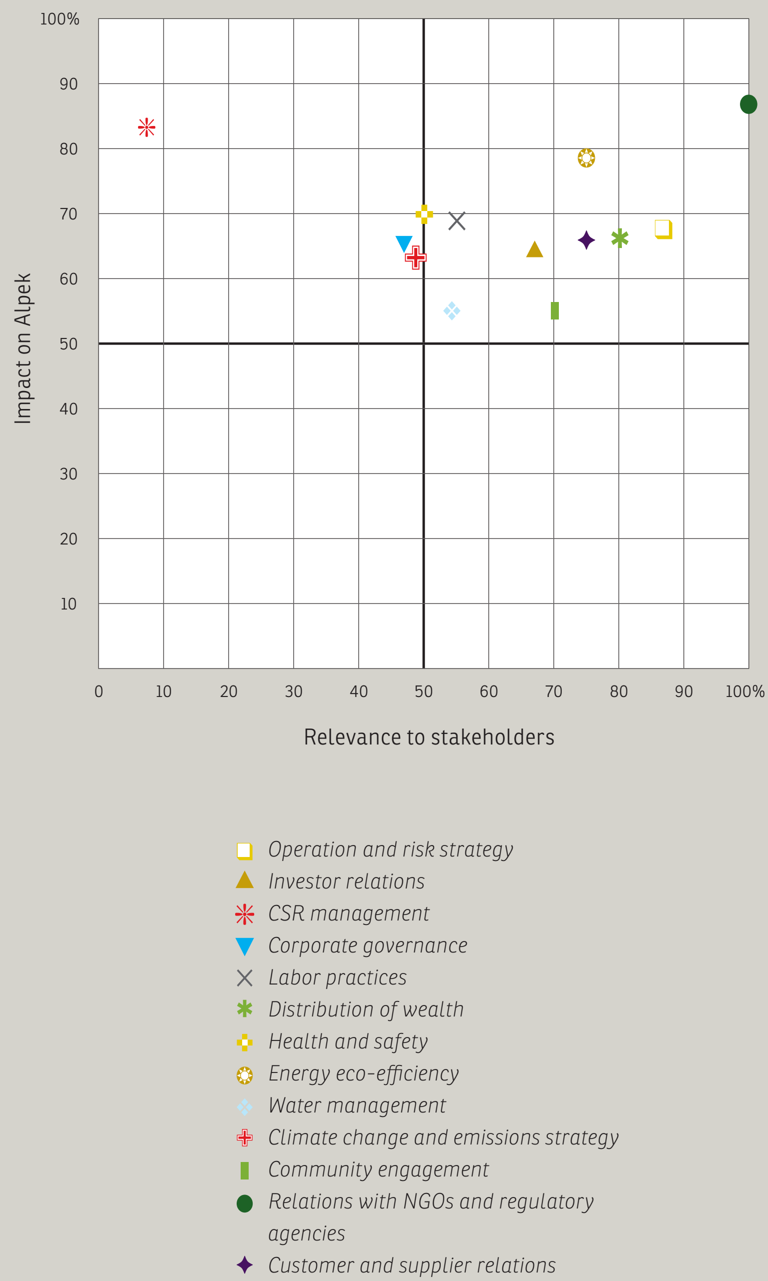
G4-18 to 21

Our 2015 Annual Report presented the results of our first materiality study, an exhaustive process of consultation and analysis involving all our stakeholders, which helped us to understand their priorities, the areas where we have been most effective, and those where we should continue improving. The process led to the identification of 13 material aspects of our activities in four key sustainability areas: society and employees, the environment, sustainable value creation and corporate governance.

MATERIAL ASPECTS
Operations and risk strategy
Investor relations
CSR management
Corporate governance
Labor practices
Distribution of wealth
Health and safety
Energy eco-efficiency
Water management
Climate change and emissions strategy
Community engagement
Relations with NGOs and regulatory agencies
Customer and supplier relations

The materiality study also helped us to define the focus of some of our programs, in order to better serve our stakeholders' needs. For example, after finding out that our stakeholders see climate change as a priority area, in 2016 we presented our first emissions report to the Carbon Disclosure Project (CDP) and continue to strengthen our emissions strategy, with the aim of aligning our activities to the international goal –established by the UN– of limiting global warming to 2°C or less by 2030.

Materiality matrix



The relevance of these aspects to our stakeholders was the determining factor in defining our sustainability priorities and the concrete actions we took in 2016.

OUR SUSTAINABILITY STRATEGY AND MODEL

Material aspects: Operations and risk strategy, CSR management

G4-25, 46, 56 Our sustainability strategy is based on listening to, identifying and responding to the needs and concerns of the diverse groups who contribute to making Alpek an industry leader.

The criteria we use to identify our stakeholders are based on the level of mutual involvement. In this way, we can pay particular attention to each group in order to achieve our goals and ensure mutual benefit.

Stakeholders

** The participation of our employees has been indispensible for the preparation of this report, because it is they who provided the correct, revised information required to comply with the methodology of the Global Reporting Initiative.*
*** A group of external consultants who are experts in Corporate Social Responsibility also help us with this initiative.*

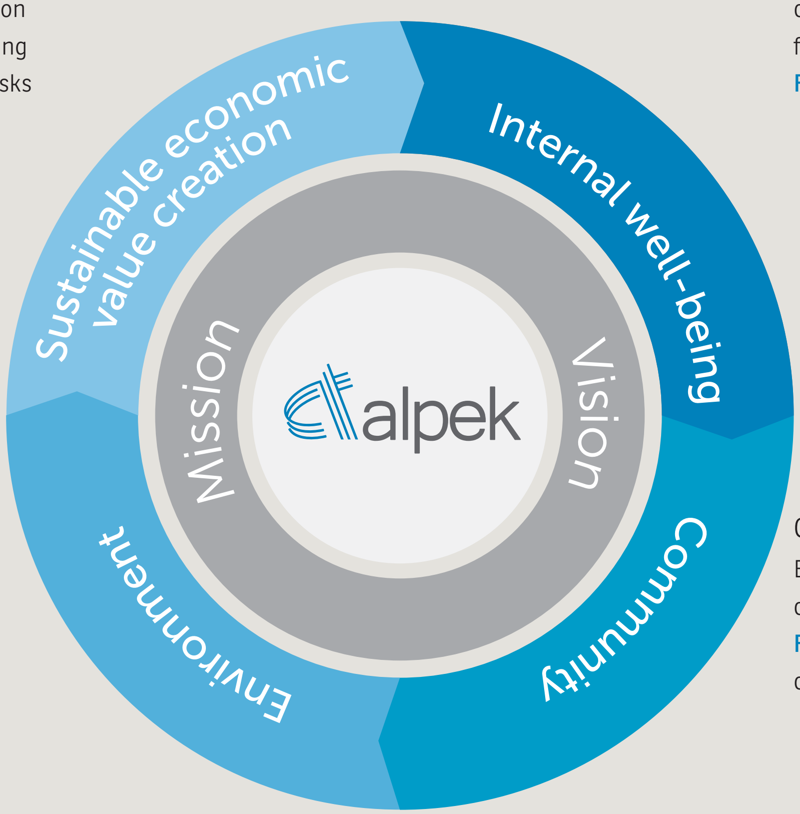
Our sustainability model

The implementation of our strategy is based on a sustainability model aligned to that of Alfa. It establishes a platform of action in social responsibility that contributes to the organic growth of the company and its stakeholders.

Our model comprises four pillars that assure the alignment of our business and sustainability strategies, a key factor for Alpek's success.

SUSTAINABLE ECONOMIC VALUE CREATION:
Obtain satisfactory returns on business activities considering the investment made and risks undertaken
Focused on: Shareholders

INTERNAL WELL-BEING:
Provide healthy, safe working conditions and opportunities for employee development
Focused on: Employees



ENVIRONMENT:
Decrease the impact of our operations, reducing emissions and conserving resources, soil and water
Focused on: Resources, emissions, energy and organic growth

COMMUNITY:
Be a responsible citizen in the community
Focused on: Communities, customers and suppliers

In addition, we comply with initiatives such as the United Nations Global Compact, through Alfa, and use tools such as the reporting methodology of the Global Reporting Initiative and that of the Sustainability Index of the Mexican Stock Exchange, among others.

Communication with stakeholders

Material aspect: CSR management

G4-24, 26, 27 We must respond to the concerns and suggestions of our stakeholder groups in order to assure our permanence over time, so we are in continuous communication with them through diverse media.

In 2016, we interacted with our stakeholders in the ways shown below:

On the basis of this communication, we selected the key aspects for 2016 as: operating safety for our communities; product and service quality for our customers and suppliers; and business strategy and sustainability for our shareholders. Our employees also expressed their ideas on innovation, business vision and labor relations.

CREATION OF SUSTAINABLE ECONOMIC VALUE

Material aspect: CSR management

G4-42, EC1 Creating economic value in a responsible way is our highest priority. We know that doing this in a sustainable manner is the only way to benefit our shareholders, communities and the environment in which we operate.

2016 was characterized by volatility in oil and feedstock prices, which largely affected our Polyester segment, while our Plastics and Chemicals segment posted record results for its PP and EPS businesses.

Our 2016 financial performance is summarized below:

Aspect (millions of USD)	2015	2016
Consolidated revenues	5,284	4,838
Consolidated net income	233	272
Majority net income	175	198
Basic and diluted earnings per share (dollars)	0.08	0.09
Income tax	54	164
Dividends	160	225
Capital expenditures and acquisitions	317	345
Net debt	722	1,042
Net debt/EBITDA (times)	1.1	1.6

Corporate governance

G4-35, 42 Alpek's economic well-being and the continuity of its operations are based on acting with responsibility towards its stakeholders.

This conviction begins with the Board of Directors and permeates throughout the entire organization. The Board continuously promotes initiatives to ensure the sustainability of our operations and is closely involved in the evaluation, development and approval of Alpek's mission, vision, values and comprehensive strategy.

Alpek's management team supports the Board of Directors in implementing initiatives and monitoring compliance with environmental, economic and social goals. Each one of these areas is administered from a specific department in Alpek and in each of its companies. Progress is monitored through specific measurable indicators and evaluated periodically to assure the improvement and continuity of our strategies.

Investor Relations is responsible for the Sustainability section, which has been part of the Annual Report for Shareholders for the past three years. The department has an open channel of communication with the shareholders and financial markets. In this way, we ensure that the information provided to these groups corresponds to exactly what we have done and its scope, in accordance with the goals established in our sustainability strategy, which is directly related to our business strategy.

+ *Cogeneration personnel. Cosoleacaque, Mexico*

Financial opportunities and risks due to climate change

Material aspects: Distribution of wealth, Operations and risk strategy, Climate change and emissions strategy

EC2 The Alpek team works with a dynamic and highly innovative focus to adapt our actions to the continuous progress and change in the world in which we operate. We understand the great challenge our business faces because we work with non-renewable resources, so every year we dedicate resources and design strategies to optimize our processes and operate in an increasingly sustainable manner.

By continuously analyzing the events, trends and factors that affect our industry, we identify the risks and opportunities that climate change represents for the efficiency of our operations. Ever-stricter environmental laws and standards, natural disasters that affect the logistics of product delivery, and water and oil shortages constitute great challenges not only for the sector but also for the entire planet.

To face these challenges, we invest in technology, the improvement of our equipment and processes, and making strategic acquisitions to enhance our competitiveness and optimize resources. Examples of these actions include: the construction of a second cogeneration plant in Altamira, Tamaulipas, that will come on line in 2018; and the building of two storage spheres for propylene, a very-delicate basic feedstock for our operations, that progressed according to plan and will be finished during the first half of 2017.

During the year, we also changed standard light bulbs for LED ones at a number of our facilities, and automated the process for collecting and managing the company's sustainability information using a cloud-based system that helps us to follow the indicators better. These, and other initiatives, help us to protect the environment while, at the same time, generating economic benefits.

INTERNAL WELL-BEING

Our employees

Material aspects: Distribution of wealth, Labor practices

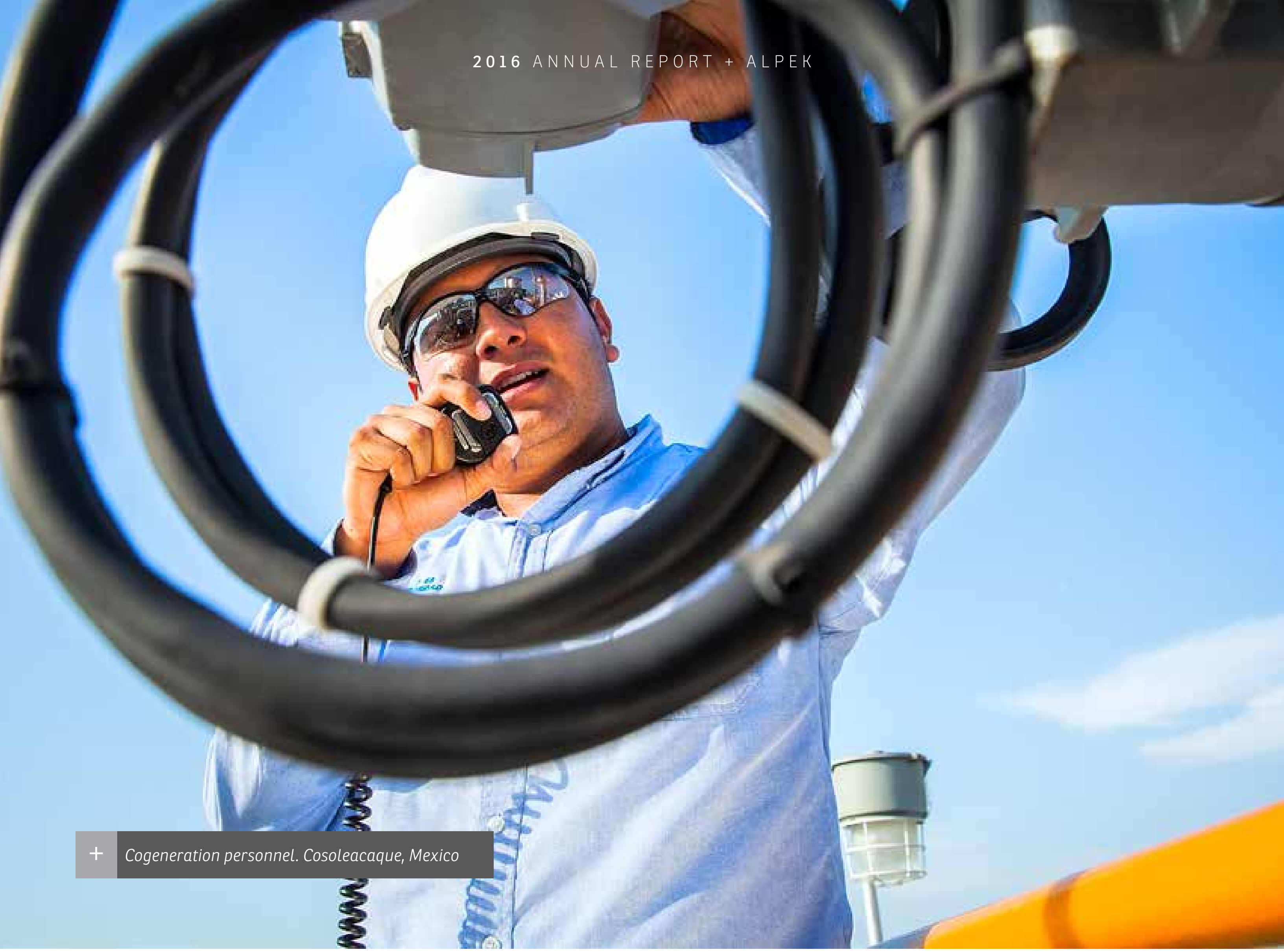
EC5, LA12, LA13 Alpek's employees are our main strength and greatest wealth so we are committed to providing them with the best possible working conditions. Although, due to the nature of our operations, our workforce consists mainly of men, we operate with solid gender-equality policies, such as DAK Americas' Equal Employment Opportunity Policy, maternity and paternity benefits, and other specific benefits, such as flextime and working from home. Wages and salaries are based on the profile of any given position and the competencies of the person who will occupy it, not on the gender. Benefits are granted according to an employee's category and the activities he/she carries out.

The ratio of the base salary of our male employees to that of our female employees is 1:1, in other words, there is no difference in salary at all.

Type of employee	Men	Women	Total
Executives and employees	1,489	543	2,032
Union members	3,121	131	3,252
Total	**4,610**	**674**	**5,284**
	87%	**13%**	**100%**

Type of contract	Total
Permanent	5,108/ 86.85%
Part-time	176/ 3.00%
External	597/ 10.15%

+ *Laboratory personnel, Alpek Polyester. Altamira, Mexico*



+ *Cogeneration personnel. Cosoleacaque, Mexico*

Training and development

LA9, LA10

One of our goals is to work continuously to assure the personal and professional growth of our people. Year after year, we improve our training processes, adapting them to the current needs of the labor environment and ensuring they have strategic relevance. In 2016, two of the main focuses of our training program were industrial safety and leadership in the workplace. For example, DAK Americas implemented the Emerging Talent Program across all its US facilities and held a training session for its management team in the Center for Creative Leadership.

The table below summarizes our 2016 training initiatives in terms of hours dedicated to each employee:

Average number of training hours per employee	2015	2016
Employees as a whole	27	31
Women	21	28
Men	33	29
Union members	20	38
Non-unionized	31	28

In addition to the training we offer in the workplace, part of our budget is used for scholarships for employees who wish to continue their training outside our facilities. In 2016, we granted 723 scholarships in diverse institutions.

+ Alpek Polyester, Indelpro and Styropek personnel taking part in an AINSTAC simulation exercise

We supported our employees' families in 2016, giving a total of 1,136 scholarships and educational grants to their children. We also invested more than double the 2015 amount in 34 family events for more than 5,300 participants. Additionally, at our US sites we offered financial education courses, such as SmartDollar, for family members.

In Mexico, we took part in the ANSPAC Woman program, the objective of which is to promote universal values for the betterment of women and their families.

Occupational health and safety

Material aspect: Health and safety

LA5, LA8 The most essential requirement for our employees to be able to carry out their functions effectively is to do so in a safe place of work. Consequently, we invest in the right safety equipment, encourage personnel from all areas of the company to join our health and hygiene committees, and create awareness of how to lead a healthy life.

In 2016, Alpek companies invested $18 million in 89 health and safety programs, including courses on the use of items of personal protection, chemical risks and carcinogenic substances, as well as in our brigade campaigns. More than 8,200 Alpek employees were benefited.

We also implemented programs for respiratory protection, vaccination campaigns and initiatives for practicing yoga in the office. We keep a record of the health of our workers and, if any of them carry out activities with elevated risk, we reinforce the necessary safety measures and conditions.

We regret to report an accident at the DAK Americas Columbia plant in South Carolina in 2016, which resulted in the death of one of our workers and two more injured. We are deeply sorry for this loss which drives us to redouble our efforts and continue working to avoid any further incidents.

The table below summarizes our results in the area of occupational safety in 2016:

Indicator	2015	2016
Loss ratio	43.8	17.4
Frequency	2.2	1.08
Accidents	21	12
Lost days	416	193
Fatalities	0	1

Among our company's most outstanding achievements are the following: i) 5.2 years without an accident with lost time at our Styropek plant in Argentina, ii) 75% reduction in loss ratio and 30% decrease in frequency at Akra Polyester, iii) 10 years without an incapacitating accident at Styropek Mexico and iv) 19 years without an incapacitating accident in Petrotemex's laboratory and engineering area.

+ *Styropek personnel wearing pink shirts for breast cancer awareness*

Vive Verde Project giving schoolchildren a presentation on the environment

ENVIRONMENT

EN27, EN31 The sustainability of our operations depends to a large extent on our maintaining and complying with strict environmental standards. We recognize that the use of petroleum derivatives implies a great commitment, which we make through actions that range from the continuous monitoring and review of the processes in our facilities to the promoting of an environmental culture outside them. In 2016, Alpek invested US $21.7 million in this issue, distributed as follows:

Area of investment (millions of dollars)	2015	2016
Reduction of emissions	19.2	3.3
Environmental management costs	7.2	3.9
Waste disposal and reduction	1.3	0.01
Prevention costs	1.0	0.2
Other environmental actions	0.3	4.7
Remediation costs	0	9.6
Total	**29.0**	**21.7**

We underpin this commitment with agreements with governments and municipalities, participating in processes such as the Energy Efficiency Certification System in several nations and the obtaining of ISO environmental certification.

For example, in 2016 Akra Polyester obtained certification under the new version of ISO 14001, becoming the first Mexican company to comply with this version of the standard.

Energy efficiency

Material aspect: Energy eco-efficiency

EN3, EN4, EN6 Through projects such as our cogeneration plants, one already functional in Cosoleacaque, Veracruz, and another one being built in Altamira, Tamaulipas, we make our use of non-renewable resources increasingly efficient. As well as generating electricity, these facilities produce steam that we use in the production processes. As a result, in June 2016 Alpek's PTA plant in Cosoleacaque stopped using its last conventional furnace and today obtains the steam used in its processes from the cogeneration plant. This represents a reduction of 76,070 GJ in external electricity use, equivalent to the annual consumption of 2,349 Mexican homes. The cogeneration plant produced a total of 686 GWh of electricity in 2016, which was used to supply most of our Mexican PTA and PET operations. The reduction of energy consumption per produced ton was one of the main targets for all Alpek companies this year.

The aggregate effect of the initiatives the Alpek companies have implemented resulted in savings of 345,536 GJ in 2016, equivalent to the annual electricity needs of 10,670 Mexican homes.

Energy source	Direct consumption (GJ x 10^6)		Indirect consumption (GJ x 10^6)	
	2015	2016	2015	2016
Natural gas	20.7	21.3		
Coal	0.5	0.5		
Alternative fuels	0.1	0.1		
Fuel oil	0.0	0.1		
Electricity			6.5	6.5
Steam			5.9	6.6
Total	**21.2**	**21.9**	**12.4**	**13.1**

Water care

Material aspect: Water management

EN8, EN10 Water is a crucial resource for our operations. Working to reduce our water footprint and using this resource in a more responsible way are core goals of all our operating processes. We have 12 company-owned water treatment plants and also use third-party support to reduce our water consumption and promote its reuse and recycling.

Water consumption by source (millions of m^3)	2015	2016
Rivers, lakes and seas	89.5	96.4
Underground water	3.5	3.1
Municipal water supply	1.2	2.7
Waste water from another organization	0	0.6
Other	0.5	0.2
Total	**94.6**	**103.0**

	2015	2016
Treated water (millions of m^3)	15.1	12.2

In 2016, Alpek's companies reduced their water consumption through actions and programs such as those described below:

In Mexico, Petrotemex implemented a water recovery and treatment project, which resulted in a total of 1.2 million m^3 of treated water by the end of the third quarter, equivalent to the annual average consumption of 40,823 Mexican families.

Univex treated and reused 1.7 million m^3 of water, 83% of the total consumption of its operations, and reduced water use by 2.5 m^3 per ton of produced caprolactam.

Meanwhile, Akra Polyester obtained 96% of the water consumed in its processes from another organization's waste water.

Two of our plants are close to areas with significant water resources and biodiversity. The Columbia plant in the United States is located 24 kilometers from the Congaree National Park, while the Zárate plant in Argentina is less than 25 kilometers from the Paraná Delta Biosphere Reserve. These two facilities contribute to the protection and preservation of their local habitats.

Water discharge

We work to ensure that our wastewater discharge is continuously declining and cleaner, complying 100% with current national and international standards. In 2016, 11.3 million m^3 of water were discharged into rivers and lakes once they had been treated in internal and external water treatment plants.

REDUCTION OF EMISSIONS

Material aspect: Climate change and emissions strategy

EN15, EN16, EN19, EN21

Caring for the atmosphere and the quality of the air we breathe is of great importance to Alpek and constitutes part of our international agenda. We work to this end through emissions reduction programs at all our plants and through our participation in the carbon credit system. Moreover, in 2016 the company presented its first report to the Carbon Disclosure Project, showing the results of our efforts to mitigate climate change and contribute to the UN goal of limiting global warming to 2°C or less by 2030.

Total 2016 CO_2 emissions are broken down in the table below:

CO_2 Emissions	2015	2016
Direct emissions (tons $CO_2e \times 10^6$)	1.21	1.25
Indirect emissions (tons $CO_2e \times 10^6$)	1.08	1.14
Total	**2.29**	**2.39**

Emissions of other pollutants		
Tons emitted per Pollutant	2015	2016
NOx	431.3	596
SOx	766.1	277
Volatile organic compounds (VOCs)	Not quantified	536
Hazardous air pollutants (HAPs)	Not quantified	362
Particulates (PM)	Not quantified	106

Even as our operations grew in 2016, the implemented initiatives allowed us to maintain a stable emissions level compared to 2015.

+ *Vive Verde Project talks*

Raw materials and use of resources

Alpek continuously looks for ways to make its operations more efficient and environmentally friendly. In 2016, we began building two spheres for storing propylene, a basic feedstock that requires very careful handling and storage. This project will improve logistics and increase the capacity utilization of our polypropylene plant.

Another initiative that we have implemented to optimize resources is the operation of two PET recycling plants, with an aggregate processing capacity of 89,000 tons per year. In 2016, Alpek processed 69,400 tons, equivalent to planting 417,000 trees because the emissions that would have been generated in producing new PET were not generated.

We also reduced our production of hazardous and non-hazardous waste by using our resources better. In 2016, Petrotemex set the goal of lowering its hazardous waste by 300 tons, which it partially fulfilled by reducing hazardous waste generation by 205 tons.

Another outstanding program is DAK Americas' Zero Waste program, through which this company had reduced the waste its sends to landfills by 98% as of year-end 2016.

Alpek's efforts in this area vary greatly in scale, ranging from the recycling of office waste such as paper and cardboard to the recycling and reuse of raw materials. For example, in 2016 Styropek Mexico recovered 60.64 tons of styrene and 1,230 tons of organic phase polymer which were used directly in the manufacturing process.

\+ *Vive Verde event*

OUR COMMUNITY

Material aspect:
Community engagement

EC7, SO1

Our neighboring communities grant us license to operate. In exchange, Alpek implements programs to serve their needs and improve their quality of life.

For example, in 2016 more than 50 schools and 7,380 students benefited from Alpek's support. DAK Americas alone repaired, painted and supported civic activities at 30 schools close to its plants in the United States.

Petrotemex held an event called *Vive Verde* (Live Green) in which employees visited schools, giving talks to students on how to live with an environmental culture and take care of the planet.

During the year, Styropek Mexico partnered with the association CARITAS of Tampico to help communities affected by Hurricane Earl and sent support for those displaced by heavy rainfall in Tampico, Madero and Altamira.

Univex has a program for donating agricultural products, resulting from the testing of fertilizers in pilot programs, to neighboring communities and to the DIF (a family-focused government charity) of Salamanca. In 2016, it donated 1.2 tons of beans and gave medical orientation sessions and healthcare talks to the inhabitants of Godoy, a local community.

A total of 309 employees gave an aggregate time of 2,463 man-hours to voluntary work in 2016.

With regard to the safety of our operations, all Alpek facilities have channels of communication open to the leaders and authorities of their neighboring communities, as well as contingency and training plans for emergencies. For example, Akra Polyester is part of a Local Committee for Mutual Support. This entity was legally constituted before the department of Civil Protection to assure mutual support between companies and the community in case of emergencies or environmental contingencies.

DAK Americas sites, with the exception of Pearl River, have Community Advisory Panels, forums with local leaders to discuss the impact of operations and any other concerns that the members of neighboring communities might have.

OUR CUSTOMERS AND SUPPLIERS

Material aspects: Customer and supplier relations,
Relations with NGOs and regulatory agencies

G4-12, 15, 24 to 26, EN33, LA14, LA15, HR4, HR10, HR11, SO9, SO10

Alpek builds long-term, win-win relationships of shared responsibility with its value-chain partners. We assure the quality of the products we offer by continuously reviewing our processes and building a close relationship with our suppliers. Consequently, all Alpek companies have an executive in charge of supervising the performance of the value chain.

In 2016, we continued auditing our transport companies to ensure that they comply with the requirements to enter our facilities; made monthly inspections of the contractors who supply our safety equipment and tools; and evaluated the quality of the work, services and materials at the end of a given assignment. At our PET and PTA facilities in Mexico, every year we audit the management, quality, environmental impact, vehicles, raw materials and policies of the eighteen freight companies responsible for delivering our feedstock.

It is important to note that in 2016 Petrotemex gave safety training to the more than 1,500 external contractors who work in its facilities, and Indelpro obtained the AISTAC* award for companies that give significant support to their suppliers in Mexico.

In the case of our customers, all Alpek companies gave out satisfaction surveys, making sure that at least 50% of them were answered. The overall rating for 2016 was 94% positive, compared to 91% in 2015. Not only is this a good result, but it also encourages us to continue working in accordance with our sustainability strategy.

**AISTAC: Asociación de Industriales del Sur de Tamaulipas, A.C.*

PARTICIPATION IN CHAMBERS AND ASSOCIATIONS

One of the most effective ways of driving our industry, developing the value chain and complying with current rules and regulations is by collaborating with other companies in our sector. This keeps us up to date on any changes in the industry and related legal rulings, as well as on industry requirements, and positively and proactively helps us to support its sustainable growth. For example, in 2016 Indelpro actively participated as a promoter of the setting up of the supplier committee of AISTAC, through which they boost their suppliers' development by sharing best practices with other affiliated companies.

In 2016, we actively participated in the following organizations:

Company	Association	Participation in steering committees or special projects	Above minimum financial support
Akra	ANIQ (*Asociación Nacional de la Industria Química*)	No	No
DAK Americas	AFMA (American Fiber Manufacturers Association)	Yes	Yes
	CAIRPLAS (*Cámara Argentina de la Industria de Reciclados Plásticos*)	Yes	No
	CAPCA (Carolinas Air Pollution Control Association)	Yes	No
	CCAM (*Cámara de Comercio Argentina-Mexicana*)	No	No
	CEMPRE (*Compromiso Empresario para el Reciclado*)	No	No
	CERA (*Cámara de Exportadores de la República Argentina*)	No	No
	CICAZ (*Comité Interindustrial de Conservación del Ambiente Zárate Campana*)	Yes	No
	CIPETAR (*Cámara de la Industria del PET Argentina*)	Yes	No
	CIQyP (*Cámara de la Industria Química y Petroquímica*)	No	No
	CIRA (*Cámara de Importadores de la República Argentina*)	No	No
	IAE (*Instituto Argentino del Empaque*)	No	No
	INDA (Association of the Nonwoven Fabrics Industry)	No	No
	IPA (*Instituto Petroquímico Argentino*)	No	No
	MMA (Mississippi Manufacturers Association)	No	No
	NAPCOR (National Association for PET Container Resources)	Yes	No
	NCMA (North Carolina Manufacturers Alliance)	Yes	No
	NCTO (National Council of Textile Organizations)	Yes	Yes
	SCMA (South Carolina Manufacturers Alliance)	Yes	Yes
	STA (Southern Textile Association)	No	No
	SYFA (Synthetic Yarn and Fiber Association)	Yes	Yes
	PETRA (The PET Resin Association)	Yes	Yes
	UET (*Unión Empresaria de Municipio Tigre*)	No	No
	UIZ (*Unión Industrial de Zárate*)	Yes	No

Company	Association	Participation in steering committees or special projects	Above minimum financial support
Petrotemex	ANIQ (*Asociación Nacional de la Industria Química*)	Yes	No
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes	No
Indelpro	ANIQ (*Asociación Nacional de la Industria Química*)	Yes	No
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes	No
Polioles	ANIQ (*Asociación Nacional de la Industria Química*)	Yes	No
Styropek	ABIQUIM (*Asociación Brasileña de la Industria Química*)	Yes	No
	AISTAC (*Asociación de Industriales del Sur de Tamaulipas, A.C.*)	Yes	No
	AAPE (*Asociación Argentina del Poliestireno Expandido*)	Yes	Yes
	CAIP (*Cámara Argentina de la Industria Plástica*)	Yes	Yes
	CIQyP (*Cámara de la industria Química y Petroquímica*)	Yes	Yes
Univex	ANIQ (*Asociación Nacional de la Industria Química*)	Yes	No

BOARD OF DIRECTORS

G4-34, 38

Armando Garza Sada (3)

Chairman of the Board of Alpek, S.A.B. de C.V.

+ Board member of Alpek since April 2011. Chairman of the Board of ALFA and NEMAK. Member of the Boards of CEMEX, FEMSA, Frisa Industrias, Grupo Lamosa, Liverpool, Proeza and ITESM. Member of the Board of Consejo Mexicano de Negocios (CMN).

Álvaro Fernández Garza (3)

President of ALFA, S.A.B. de C.V.

+ Board member of Alpek since April 2011. Co-Chairman of the Board of Axtel. Member of the Boards of ALFA, NEMAK, Cydsa, Grupo Aeropuertario del Pacífico, Vitro, Universidad de Monterrey (UDEM), Georgetown University (Latin American Board) and Museo de Arte Contemporáneo de Monterrey.

Francisco José Calderón Rojas (2)

Chief Financial Officer of Grupo Franca Industrias, S.A. de C.V.

+ Board member of Alpek since April 2012. Member of the Boards of Franca Industrias, Franca Servicios, Franca Desarrollos and Universidad de Monterrey (UDEM), and an Alternate Member of the Boards of FEMSA and Coca Cola FEMSA.

Rodrigo Fernández Martínez (3)

President of Sigma Mexico and Latin America

+ Board member of Alpek since April 2012. Previously Marketing and Finance Director of Sigma.

Andrés E. Garza Herrera (1A)

Chief Executive Officer of Qualtia Alimentos, S.A. de C.V.

+ Board member of Alpek since April 2012. President of Mexican Consumer Products Industry Council / Consejo Mexicano de la Industria de Productos de Consumo, A.C. (ConMéxico). Member of the Boards of Xignux, Banorte Regional, Universidad de Monterrey (UDEM) and Ciudad de los Niños.

Merici Garza Sada (4)

Investor

+ Board member of Alpek since April 2012.

Pierre Francis Haas García (1)

Advisory Services Director of Hartree Partners LP

+ Board member of Alpek since April 2012.

Jaime Serra Puche (1A)

Founding Partner and Chief Executive Officer of SAI Consultores, S.C.

+ Board member of Alpek since April 2012. Member of the Boards of Fondo México, Tenaris, Vitro, Rotoplas, Fresnillo plc and Grupo Financiero BBVA Bancomer.

Enrique Zambrano Benítez (1A)

Chairman of the Board and Chief Executive Officer of Grupo Proeza, S.A. de C.V.

+ Board member of Alpek since April 2012. Member of the Boards of Grupo Proeza, CFE and ITESM.

Carlos Jiménez Barrera

Secretary of the Board

Key

1. Independent Board Member
2. Independent Patrimonial Board Member
3. Related Patrimonial Board Member
4. Patrimonial Board Member

A. Audit and Corporate Practices Committee

MANAGEMENT **TEAM**

G4-34, 39

1. José de Jesús Valdez Simancas
Chief Executive Officer

CEO of Alpek since 1988. Former CEO of Petrocel, Indelpro and Polioles, and former Chairman of the National Association of the Chemical Industry (ANIQ). Holds an undergraduate degree and MBA from ITESM and a Master's in Industrial Engineering from Stanford University.

2. Eduardo Escalante Castillo
Chief Financial Officer

Chief Financial Officer of Alpek since 2013. Former President of the Caprolactam Division of Alpek and President of AOL Mexico. Holds an undergraduate degree from ITESM and a Master's in Engineering from Stanford University.

3. Felipe Garza Medina
Co-President of Alpek Polyester

President of Alpek's PTA Business Unit from 2008 to 2016. Joined Alfa in 1977 and is former CEO of Indelpro and Galvacer. Holds an undergraduate degree from Stanford University and an MBA from Cornell University.

4. Jorge P. Young Cerecedo
Co-President of Alpek Polyester

President of Alpek's PET and Staple Fibers Business Unit from 2012 to 2016. Former Executive Vice President of PET Resins and Vice President of Planning and Administration of DAK Americas LLC. Holds an undergraduate degree from ITESM and an MBA from the University of Pennsylvania.

5. Jorge González Escobedo
President of the Filaments Fibers Business Unit

President of Alpek's Filaments Fibers Business Unit since 2005. Joined Alfa in 1974 and is a former Vice President of Alpek's Industrial Filaments Business Unit. Holds an undergraduate degree and an MBA from ITESM.

6. Alejandro Llovera Zambrano
President of the Polypropylene Business Unit

President of Alpek's Polypropylene Business Unit since 2008. Joined Alfa in 1985, is a former Director of Human Resources at Alfa, held several executive positions in Alpek's Synthetic Fibers Business Unit and former Chairman of ANIQ. Holds an undergraduate degree and an MBA from ITESM.

7. José Luis Zepeda Peña
President of the EPS and Chemicals Business Unit

President of Alpek's EPS and Chemicals Business Unit since 1999. Joined Alpek in 1986 and is former Vice President of Planning, Finance and Administration, and Sales at Grupo Petrotemex. Holds an undergraduate degree and Master's in Chemical Sciences from UNAM and an MBA from ITESM.

8. Gustavo Talancón Gómez
President of the Caprolactam and Fertilizers Business Unit

President of the Caprolactam and Fertilizer Business Unit since 2013. Joined Alfa in 1989, is former CEO of Terza, and held several executive positions in Alpek's Polypropylene and Nylon and Polyester Filaments Business Units. Holds an undergraduate degree from ITESM and a graduate degree from IPADE.

CORPORATE **GOVERNANCE**

G4-38, 42, 47, 49, 58

Once a year, all companies that are listed on the *Bolsa Mexicana de Valores*, *S.A.B. de C.V.* (BMV) must disclose the extent to which they adhere to the CMPC by answering a questionnaire. The responses of the different companies may be consulted on the BMV's website.

A summary of Alpek's principles of corporate governance is presented below, reflecting the answers the company gave to the questionnaire in June 2016 and updated where necessary:

+ The Board of Directors is made up of nine members, who have no alternates. Of the nine directors, four are independent board members, four are related proprietary board members and one is an independent proprietary board member. This annual report provides information on all the board members, identifying those who are independent and their participation in the Audit and Corporate Practices Committee.

+ The Board of Directors is advised by the Audit and Corporate Practices Committee. The Committee Chairman is an independent board member.

+ The Board of Directors meets every three months. Meetings of the Board may be called by the Chairman of the Board, the Chairman of the Audit and Corporate Practices Committee, the Secretary of the Board or at least 25% of its members. At least one such meeting every year is dedicated to defining the company's medium and long-term strategies.

+ Members must inform the Chairman of the Board of any conflicts of interest that may arise, and abstain from participating in any related deliberations. The average attendance at Board Meetings in 2016 was 94.4%.

+ The Audit and Corporate Practices Committee studies and issues recommendations to the Board of Directors on matters such as selecting and determining the fees to be paid to the external auditor, coordinating with the company's internal audit area and studying accounting policies.

+ Additionally, the Audit and Corporate Practices Committee is responsible for issuing recommendations to the Board of Directors on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies

+ The company has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control system and issues reports thereon.

+ The Board of Directors is advised by the planning and finance department when evaluating matters relating to the feasibility of investments, strategic positioning of the company, alignment of investing and financing policies, and review of investment projects. This is carried out in coordination with the planning and finance department of the holding company, Alfa, S.A.B. de C.V.

+ Alpek has a department specifically dedicated to maintaining an open line of communication between the company and its shareholders and investors. This ensures that investors have the financial and general information they require to evaluate the company's development and progress. Alpek uses press releases, notices of material events, quarterly results conference calls, investor meetings, its website and other communication channels.

+ Alpek promotes good corporate citizenship and adheres to the recommendations of its holding company, Alfa, S.A.B. de C.V. It has a mission, vision and values, and code of ethics that are promoted within the organization.

GLOSSARY

Caprolactam (CPL)
CPL is made by reacting cyclohexane, ammonia and sulfur and is the raw material for the production of Nylon 6 polymer. Nylon 6 is a synthetic resin that, because of its strength, flexibility and softness, has a range of end uses, including for sportswear, underclothes and engineering plastics.

Clean Industry Certification
Certification granted by the Mexican Environmental Protection Agency (PROFEPA) to companies that comply with environmental legislation.

Cogeneration
Process that produces both electricity and steam.

Comprehensive Responsibility Administrative System (Mexican National Association of the Chemical Industry, ANIQ)
Certification given to companies that comply with the six comprehensive responsibility requirements established by the ANIQ, covering Process safety, Health and safety in the workplace, Product safety, Transportation and distribution, Prevention and control of environmental pollution and Community protection.

CO_2 Emissions
Unit to measure the carbon dioxide produced by the burning of solid, liquid and gaseous fuels, including natural gas.

Cyclohexane
Compound produced by the hydrogenation of benzene and used in caprolactam production.

Ethane
Colorless, odorless hydrocarbon with a molecular formula of C2H6 that is a component of natural gas.

Ethylene Oxide
Compound produced from ethylene and used as an intermediate in the production of MEG and other chemicals.

Expandable Polystyrene (EPS)
Light, rigid, cellular plastic, product of the polymerization of styrene monomer. EPS is a versatile material because of its properties as an impact reducer and thermal insulator, with customized molding capacity. These properties, combined with the ease with which it can be processed, make EPS a popular packaging for impact-sensitive items and for protecting perishables. It is also widely used in construction systems, to lighten floor and roof structures, and as an insulator.

IntegRex®
Alpek-owned technology for producing PTA and PET from paraxylene (pX) and monoethylene glycol (MEG), offering significant cost savings and fewer intermediate steps in the production process.

Investment Grade
Rating given to a company as a result of an evaluation made by credit-risk rating agencies such as Fitch Ratings, Standard & Poor's and Moody's.

ISO 9001 Certification
Certification issued by rating agencies to those companies that operate with proven procedures for assuring the quality of their products, in accordance with the standard defined by the International Organization for Standardization (ISO).

ISO 14001 Certification
Internationally accepted standard for establishing an efficient Environmental Management System (EMS). The standard is designed to support companies' profitability and at the same time minimize environmental impact.

Megawatt (MW)
Unit of power, equal to 1 million watts.

Monoethylene Glycol (MEG)
Raw material with diverse industrial uses, especially for producing polyester (PET and fiber), antifreeze, refrigerants and solvents.

Paraxylene (pX)
Hydrocarbon in the xylene family used to produce PTA. It is also a component of gasoline.

Polyethylene Terephthalate (PET)
Material widely used in the manufacture of bottles and other containers for liquids, food and personal hygiene, household and healthcare products. PET flakes and films are used to produce caps, trays and recipients. Because of its transparency, strength, durability and high protection barriers, PET presents no known health risks, is light and recyclable, and has a wide range of applications in reusable, temperature-sensitive packaging. PET has replaced glass and aluminum, as well as other plastics such as PVC and polyethylene, for making containers.

Polypropylene (PP)
Thermoplastic polymer, produced from the polymerization of propylene monomer. Its properties include a low specific gravity, great rigidity, resistance to relatively high temperatures and good resistance to chemicals and fatigue. PP has diverse applications, including for packaging, textiles, recyclable plastic parts and different kinds of containers, auto-parts and polymer (plastic) banknotes.

Polyurethanes (PURs)
Rigid, flexible or elastic, durable materials that are produced by the reaction of a polyol with an isocyanate. They are very versatile, offering the elasticity of rubber, combined with the hardness and durability of a metal. PURs may be hard like fiberglass, spongy like upholstery foam, protective like varnish, elastic like tire rubber or sticky like glue.

Propylene
Unsaturated, 3-carbon hydrocarbon, co-product of the cracking process at petrochemical complexes and a by-product at oil refineries. It is used in the petrochemical industry to produce PP, propylene oxide, cumene, isopropanol, acrylic acid and acrylnitrile. It is also converted into a gasoline component by alkylation with butanes or pentanes.

Propylene Oxide
Compound produced from propylene and used to manufacture commercial and industrial products, including polyols, glycols and glycoethers.

Purified Terephthalic Acid (PTA)
Aromatic dicarboxylic acid, the main raw material in polyester production. PTA is produced by the oxidation of paraxylene. It is used to manufacture PET, which is then used to make bottles for water, soft drinks and other beverages, containers and other packaging, and polyester fiber for rugs, clothing, furniture and industrial applications, as well as other consumer products.

Single Step®
One-step technology for the production of EPS, where the EPS pearls are impregnated with a pre-expanded agent during the polymerization process.

Styrene Monomer
Unsaturated hydrocarbon used to make a variety of plastics, synthetic rubber, protective coatings and resins. It is the main raw material in EPS production and also used as a solvent and chemical intermediate.

Watt
Unit of power in the International System of Units (SI).

CONSOLIDATED FINANCIAL STATEMENTS

Alpek, S. A. B. de C. V. and subsidiaries

At December 31, 2016 and 2015

MANAGEMENT'S ANALYSIS

2016

The following analysis complements the Letter to Shareholders, Audited Financial Statements and Complementary Information. Unless otherwise specified, figures are expressed in millions of nominal pesos for information corresponding to 2014 through 2016, with certain figures expressed in millions of dollars (US $) due to the high dollarization of Alpek's revenues. Percentage variations are stated in nominal terms and all information is presented in accordance with International Financial Reporting Standards (IFRS).

Economic Environment

In 2016, world economic growth continued to show weakness and financial market volatility persisted, mostly as a result of events such as Brexit, the US presidential elections and the standardization of monetary policy by the US Federal Reserve (Fed). During the year, the US dollar increased in value with respect to most currencies, including the Mexican peso, due mainly to expectations of enhanced economic growth in the US and the Fed's increase in interest rates. Lastly, the reference price of crude oil increased significantly towards the end of the year after OPEC announced it had reached an agreement to cut production. Thus, at the close of 2016 the price of Brent oil was 55% above that of December 31, 2015.

The behavior of the Mexican GDP and other variables that are key to better understanding Alpek's results are described in the following paragraphs:

US Gross Domestic Product (GDP) increased 1.6%[a] (estimated) in 2016, below the 2.6% growth of the previous year. Consumer inflation was 2.1%[b], 0.6%[b] above 2015.

Mexico's GDP growth decreased from 2.5% in 2015 to 2.3% (estimated) in 2016. Consumer inflation was 3.4%[d] in 2016, higher than the 2.1%[d] recorded in 2015. The Mexican peso depreciated 19.5%[e] in nominal terms in 2016, compared to a depreciation of 17.0%[e] in 2015. In real terms, the average annual overvaluation of the Mexican peso against the US dollar decreased from 11.8%[e] in 2015 to 6.3%[e] in 2016.

With regard to Mexican interest rates, the average TIIE (Interbank Equilibrium Interest Rate) for the year was 4.5%[b] in 2016 in nominal terms, as compared to 3.3% in 2015. In real terms, interest rates decreased from an annual accumulated rate of 1.9% in 2015 to 0.5% in 2016.

The annual average nominal 3-month dollar LIBOR rate was 0.7%[d] in 2016, above the 0.3%[d] of 2015. Incorporating the nominal depreciation of the peso against the dollar, the LIBOR rate in constant pesos rose from 14.9%[c] in 2015 to 16.5%[c] in 2016.

Sources:

(a) Bureau of Economic Analysis (BEA)
(b) Bureau of Labor Statistics (BLS)
(c) *Instituto Nacional de Estadística y Geografía* (INEGI)
(d) *Banco de México* (Banxico)
(e) Banxico: foreign exchange rate for settling liabilities denominated in foreign currency payable in Mexico

Volume – (thousands of tons)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Polyester	3,004	3,015	3,082	0	(2)
Plastics & Chemicals	934	922	849	1	9
TOTAL VOLUME	3,938	3,937	3,931	0	0

Revenue	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Polyester					
Millions of pesos	64,241	60,769	63,228	6	(4)
Millions of dollars	3,444	3,840	4,752	(10)	(19)
Plastics & Chemicals					
Millions of pesos	25,951	22,821	22,844	14	0
Millions of dollars	1,394	1,444	1,719	(3)	(16)
TOTAL REVENUE					
Millions of pesos	90,192	83,590	86,072	8	(3)
Millions of dollars	4,838	5,284	6,471	(8)	(18)

Price Index	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Polyester					
Millions of pesos	104	98	100	6	(2)
Millions of dollars	74	83	100	(10)	(17)
Plastics & Chemicals					
Millions of pesos	103	92	100	12	(8)
Millions of dollars	74	77	100	(5)	(23)
TOTAL					
Millions of pesos	105	97	100	8	(3)
Millions of dollars	75	82	100	(8)	(18)

Revenue

Alpek's net revenue in 2016 amounted to $90,192 million (US $4.838 billion), 8% above the $83,590 million (US $5.284 billion) posted in 2015. The increase was due to an 8% rise in average prices. However, average dollar-denominated prices fell 8% as a result of the decline in the prices of crude oil and main feedstocks, but these effects were offset by the depreciation of the peso against the dollar.

Revenue by Business Segment

Polyester net revenue in 2016 was $64,241 million (US $3.444 billion), 6% more than the $60,769 million (US $3.840 billion) of 2015. The segment posted a 6% increase in average sales price, while volume remained flat. The average Polyester price fell 10% in 2016 in dollar terms, pressured by lower prices of main feedstocks such as paraxylene. However, the depreciation of the peso against the dollar offset this effect.

In 2016, net revenue from Plastics & Chemicals reached $25,951 million (US $1.394 billion), compared to $22,821 million (US $1.444 billion) in 2015. The 14% increase was due to a 1% growth in volume and 12% rise in average sales price. Excluding the foreign exchange effect, the average price of this segment was 5% less than in 2015, also reflecting the decline in crude and feedstock prices.

Operating Profit and EBITDA

2016 operating profit was $9,863 million (US $532 million), 30% above the $7,590 million (US $481 million) of 2015. Alpek's two business segments posted year-over-year operating profit improvement.

EBITDA was $12,425 million (US $669 million) in 2016, an increase of 25% compared to the $9,974 million (US $630 million) posted in 2015. Consolidated 2016 EBITDA includes non-cash benefits of $622 million (US $32 million) from inventory gains and other non-operating items, such that comparable EBITDA was $11,803 million (US $637 million), 13% more than in 2015.

Polyester EBITDA grew $1,095 million (US $5 million) year-over-year. Excluding the effect of non-cash benefits from inventory gains and other non-operating items, comparable EBITDA for the Polyester segment rose by $133 million because of the depreciation of the peso against the dollar. Comparable dollar-denominated EBITDA for the Polyester segment fell 13% year-over-year due to the negative impact of low crude prices, the force majeure declared on US PET resin products after Hurricane Matthew and the weak demand for polyester fiber.

Plastics & Chemicals EBITDA was $5,948 million (US $322 million) in 2016, driven by record results in the polypropylene and expandable polystyrene businesses. Excluding the non-cash benefits from inventory gains and other non-operating items, comparable EBITDA for Plastics & Chemicals reached a record $5,695 million (US $308 million), 31% more than the $4,344 million (US $273 million) of 2015.

Operating income (EBITDA) – (millions of pesos)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Polyester	6,514	5,420	3,541	20	53
Plastics & Chemicals	5,948	4,508	2,110	32	114
Other and eliminations	(37)	46	59	(180)	(22)
TOTAL EBITDA	**12,425**	**9,974**	**5,710**	**25**	**75**

Operating Income (EBITDA) – (millions of dollars)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Polyester	349	344	270	2	27
Plastics & Chemicals	322	284	159	14	79
Other and eliminations	(2)	3	5	(162)	(35)
TOTAL EBITDA	**669**	**630**	**434**	**6**	**45**

Finance Cost, Net

The finance cost, net was -$2,509 million (-US $133 million) in 2016, 35% more than the previous year. The net financing expenses that make up this item grew from -$931 million (-US $59 million) in 2015 to -$1,133 million (-US $61 million) in 2016, largely reflecting the depreciation of the Mexican peso and the effect thereof on financial expenses related to dollar-denominated debt. The change in foreign exchange rate also resulted in the recognition of a non-cash foreign exchange loss of -$1,380 million (-US $72 million) in 2016, compared to a foreign exchange loss of -$1,114 million (-US $68 million) in 2015.

Finance cost, net (millions of pesos)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Finance cost	(1,414)	(1,176)	(926)	(20)	(27)
Finance income	281	245	135	15	82
Finance Cost, Net	(1,133)	(931)	(791)	(22)	(18)
Foreign exchange gain (loss)	(1,380)	(1,114)	(629)	(24)	(77)
Valuation of financial derivative instruments	4	183	(77)	(98)	339
FINANCE COST, NET	**(2,509)**	**(1,862)**	**(1,497)**	**(35)**	**(24)**

Taxes

2016 income tax was $2,358 million (US $126 million), 16% above the $2,040 million (US $130 million) of 2015 as a result of the 29% rise in income before taxes.

Taxes- (millions of pesos)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Income taxes					
Income before taxes	7,351	5,705	2,197	29	160
Statutory tax rate	30%	30%	30%		
Income tax at the statutory rate	(2,205)	(1,711)	(659)	(29)	(160)
Taxes for permanent differences between accounting-taxable profit	(153)	(329)	(224)	54	(47)
Total income tax	**(2,358)**	**(2,040)**	**(883)**	**(16)**	**(131)**
Effective tax rate	32%	36%	40%		
Made up as follows:					
Current income tax	(2,470)	(2,252)	(975)	(10)	(131)
Adjustment to the provision of income tax from prior years	(33)	9	(6)	(473)	237
Deferred tax	145	203	98	29	(108)
Total income tax	**(2,358)**	**(2,040)**	**(883)**	**(16)**	**(131)**

Net Income Attributable to the Controlling Interest

Net income attributable to the controlling interest reached $3,625 million (US $198 million) in 2016, 32% above the income of $2,748 million (US $175 million) posted in 2015. The 2016 growth in operating income was greater than the increases in finance cost, net and taxes.

Statement of income - (millions of pesos)	2016	2015	2014	VAR. % 2016 vs 2015	VAR. % 2015 vs 2014
Operating profit	9,863	7,590	3,739	30	103
Finance cost, net	(2,509)	(1,862)	(1,497)	(35)	(24)
Share in losses of associates	(3)	(23)	(45)	86	49
Income taxes	(2,358)	(2,040)	(883)	(16)	(131)
Net consolidated profit	4,993	3,665	1,314	36	179
Profit attributable to controlling interest	3,625	2,748	801	32	243

Investment in Fixed and Intangible Assets

In 2016, investments in fixed and intangible assets totaled $5,981 million (US $320 million), 33% above the $4,482 million (US $275 million) of 2015. These resources were used for strategic projects, such as the PTA/PET plant in Corpus Christi, the electricity cogeneration plant that is being built in Altamira and the MEG supply agreement with Huntsman. In addition to the investments in fixed and intangible assets, Alpek also invests in shares, such as in the case of the acquisition of a controlling interest in Selenis Canada Inc. that is not included in these figures.

Net Debt [1]

Net debt rose to $21,527 million (US $1.042 billion) as of December 31, 2016, 73% above the net debt of $12,420 million (US $722 million) as of December 31, 2015. Excluding the impact of the depreciation of the peso against the dollar, the balance of net debt increased 44% year-over-year, or the equivalent of US $320 million, largely reflecting investments made in strategic projects during 2016. Alpek's cash balance at the close of the year was $2,937 million (US $142 million).

(1) Net Debt = Current debt plus non-current debt, excluding debt issuance costs, plus accrued interest payable, less cash and cash equivalents, plus restricted cash and cash equivalents.

Short- and long-term debt	Millions of dollars 2016	2015	Var.	% integrated 2016	2015
Short-term debt	135	39	242	11	4
Long-term: 1 year	72	21	237	6	2
2 years	27	71	(62)	2	6
3 years	1	27	(97)	0	2
4 years	0	1	(72)	0	0
5 years or more	950	949	0	80	86
Total	**1,184**	**1,108**	**7**	**100**	**100**
Avg. maturity long-term debt (years)	5.3	6.3			
Avg. maturity total debt (years)	5.2	6.1			

Financial Indicators - (Times)	2016	2015	2014
Net debt / EBITDA (US$)	1.6	1.1	1.6
Interest coverage (US$)	10.5	10.7	6.5
Total liabilities / Stockholders' equity	1.2	1.2	1.2

2016 HIGHLIGHTS

Acquisition of an EPS plant in Concón, Chile

On April 1, 2016, Alpek took control of a 20,000 ton per year EPS plant in Concón, Chile, acquired from BASF Chile, S.A. This facility increases the Company's EPS installed capacity in South America by more than 30% and complements the operations acquired in 2016.

Startup of MEG supply agreement with Huntsman

During the year, Alpek began supplying monoethylene glycol (MEG) in accordance with the US $65 million multi-annual agreement with Huntsman for rights over approximately 150,000 tons of MEG per year from its plant in Port Neches, TX. The capacity expansion associated with this agreement began operating in June 2016.

Acquisition of Selenis Canada Inc.

In 3Q16, Alpek acquired a controlling interest in Selenis Canada Inc., Canada's only PET producer, which operates a plant in Quebec, Montreal, with an annual capacity of 144,000 tons. In addition to expanding Alpek's operations in North America, this transaction results in synergies from PTA integration and provides the opportunity to complement the Company's portfolio with differentiated PET products.

Completion of the investment in Corpus Christi integrated PTA/PET plant

In 2016, Alpek completed the investment to acquire the rights to 500,000 tons of integrated PET per year from the plant that M&G is building in Corpus Christi, TX. The aggregate amount of the contractual supply rights comprises agreements signed in 2013 and 2015 for 400,000 and 100,000 tons per year, respectively. The new facility is expected to begin operating in 2017, starting with PET production and then PTA.

Agreement signed with Petrobras

On December 28, Alpek announced the signing of an agreement with Petróleo Brasileiro, S.A. (Petrobras) to acquire its 100% stakes in Companhia Petroquímica de Pernambuco (Petroquímica Suape) and in Companhia Integrada Têxtil de Pernambuco (Citepe). These two companies operate South America's only integrated polyester site, with an annual capacity of 700 thousand tons of PTA, 450 thousand tons of PET and 90 thousand tons of texturized polyester filament. The price agreed upon for Petrobras' 100% interest in Petroquímica Suape and Citepe is US $385 million. The transaction is subject to additional corporate approval and several conditions precedent, including the approval of the corresponding government entities.

Dividends

The Ordinary Shareholders' Meeting approved the payment of a cash dividend of approximately US $110, which was paid as of March 4, 2016.

REPORT OF THE **INDEPENDENT AUDITORS**

To the Shareholders and Directors of
Alpek, S. A. B. de C. V. and subsidiaries

Monterrey, N.L., February 17, 2017

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, 2016 and 2015, and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended and the notes to the consolidated financial statements, which include 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 at December 31, 2016 and 2015, and its financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants, A. C. together with other requirements applicable to our audits of consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Key audit matter	How our audit addressed the key audit matter

Agreements for the production of PTA-PET materials and Technology IntegRex® license with M&G Resins USA, LLC.

As mentioned in Note 2 to the consolidated financial statements, during 2015, the Company entered into agreements with M&G Resins USA, LLC (M&G), through which the latter agrees to supply 500 thousand tons of PET (manufactured with 420 thousand tons of PTA) during the five years following the two plants' (PTA/PET) startup of operations, which is expected to occur in 2018. PTA is one of the main materials for the production of PET manufactured by the Company. As a result of this agreement, the Company paid M&G $8,989 million (US$435 million), of which $7,439 million (US$360 million) was recognized as intangible assets, amortizable on the basis of the production volumes and $1,550 million (US$75 million) was recognized as prepayment for the purchase of inventories. The calculations required to determine the classification of these payments, of the fair values and the assumptions used are complex, as a result of which, the Company hired the services of an independent expert.

We focused on this area due to the importance of the amount of the payments made and due to the fact that classification of the payments, either in intangible assets or prepayments, based on their fair value, required the application of significant judgments by Management.

In particular, we concentrated our efforts on the significant judgments related to the following aspects: methodologies used, interest rate range, estimated volumes of production and costs.

As part of our audit, we obtained and read the contractual agreements pertaining to the transaction.

Due to the significant judgments used in the valuation models for the determination of fair values, and with the support of our valuation experts, we questioned the premises, assumptions and criteria used by Management and the independent expert, following the procedures set down below, among others:

- We evaluated and considered the design and operating effectiveness of the internal controls over identification, classification and valuation of these transactions. In particular, we considered the key controls related to interest rates, production volumes and costs.
- We verified the capability and objectivity of the independent expert.
- We compared that the methodologies applied to the determination of the fair values of these payments correspond to methodologies and recognized to value assets of similar characteristics in the industry.
- We challenged the significant judgments related to the most relevant assumptions, premises or variables, and we compared the ranges of interest rates, estimated production volumes and costs with independent market sources commonly used and accepted for assets with these characteristics for the industry to which the company pertains.
- We reprocessed a sample of items to determine their fair value and classification, whether in intangible assets or short or long-term prepayments.
- We defied Management's financial projections, including the residual value, comparing it to the performance and historical trends of the businesses, obtaining Management's explanations, if any, of the variations, as well as the supporting evidence.
- We discussed with Management, the sensitivity calculations, assessing the degree to which the assumptions would need to be modified for an adjustment to be considered for its evaluation.

Other Information

Management is responsible for the other information presented. The other information comprises the Annual Report presented to Comisión Nacional Bancaria y de Valores ("CNBV") and the Annual Information presented to shareholders (but does not include the financial statements and our auditor's report thereon), which is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

However, in connection with our audit of the financial statements of the Company, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, we will issue the report required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and, if required, describe the issue in our report.

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 International Financial Reporting Standards as issued by the International Accounting Standards Board and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, 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.

- 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 consolidated 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.

The engagement partner on the audit resulting in this independent auditor's report is Héctor Rábago Saldívar.

PricewaterhouseCoopers, S. C.

Héctor Rábago Saldívar
Audit Partner

Alpek, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

At December 31, 2016 and 2015

In millions of Mexican pesos

	Note	At December 31, 2016	2015
Asset			
CURRENT ASSET:			
Cash and cash equivalents	6	Ps 2,935	Ps 6,650
Restricted cash and cash equivalents	6	2	3
Trade and other receivables, net	7	15,918	13,384
Inventories	9	14,853	12,086
Derivative financial instruments	16	56	203
Prepayments	10	457	338
Total current asset		34,221	32,664
NON-CURRENT ASSET:			
Property, plant and equipment, net	11	40,699	31,322
Goodwill and intangible assets, net	12	11,875	8,812
Deferred income taxes	21	433	361
Prepayments	10	1,570	1,228
Other assets	13	2,702	507
Total non-current asset		57,279	42,230
Total asset		Ps 91,500	Ps 74,894
Liability and Stockholders' equity			
CURRENT LIABILITY:			
Debt	19	Ps 2,787	Ps 678
Suppliers and other accounts payable	17	15,492	11,693
Derivative financial instruments	16	71	848
Income tax payable	22	694	1,371
Provisions	18	363	338
Total current liability		19,407	14,928
NON-CURRENT LIABILITY:			
Debt	19	21,551	18,276
Derivative financial instruments	16	646	711
Provisions	18	7	185
Deferred income taxes	21	5,883	4,707
Income tax payable	22	553	28
Employee benefits	20	1,227	1,108
Other liabilities	23	504	452
Total non-current liability		30,371	25,467
Total liability		49,778	40,395
STOCKHOLDERS' EQUITY			
Controlling interest:			
Capital stock	24	6,048	6,052
Share premium		9,071	9,071
Retained earnings	24	11,292	10,009
Other reserves	24	10,662	4,822
Total controlling interest		37,073	29,954
Non-controlling interest	14	4,649	4,545
Total stockholders' equity		41,722	34,499
Total liability and stockholders' equity		Ps 91,500	Ps 74,894

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

José de Jesús Valdez Simancas
Chief Executive Officer

Eduardo Alberto Escalante Castillo
Chief Financial Officer

Alpek, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2016 and 2015

In millions of Mexican pesos

	Note	2016	2015
Revenue	3 u)	Ps 90,192	Ps 83,590
Cost of sales	26	(76,943)	(73,029)
Gross profit		13,249	10,561
Selling expenses	26	(1,578)	(1,377)
Administrative expenses	26	(2,043)	(1,839)
Other income, net	27	235	245
Operating profit		9,863	7,590
Finance income	28	3,565	2,795
Finance cost	28	(6,074)	(4,657)
Finance cost, net		(2,509)	(1,862)
Share of losses of associates accounted for by the equity method		(3)	(23)
Profit before income taxes		7,351	5,705
Income taxes	30	(2,358)	(2,040)
Net consolidated profit		Ps 4,993	Ps 3,665
Profit attributable to:			
Controlling interest		Ps 3,625	Ps 2,748
Non-controlling interest		1,368	917
		Ps 4,993	Ps 3,665
Basic and diluted earnings per share in pesos		Ps 1.71	Ps 1.30
Weighted average of outstanding shares (in millions of shares)		2,117	2,118

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

José de Jesús Valdez Simancas
Chief Executive Officer

Eduardo Alberto Escalante Castillo
Chief Financial Officer

Alpek, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2016 and 2015

In millions of Mexican pesos

	Note	2016	2015
Net consolidated profit		Ps 4,993	Ps 3,665
Other items of comprehensive income of the year:			
Items that will not be reclassified to the statement of income:			
Remeasurement of obligations for employee benefits, net of taxes	20, 30	64	(3)
Items that will be reclassified to the statement of income:			
Effect of derivative financial instruments designated as cash flow hedges, net of taxes	16, 30	384	(400)
Translation effect of foreign entities	24, 30	6,233	3,843
Share of other comprehensive results of associates		(2)	-
Total other comprehensive income for the year		6,679	3,440
Total comprehensive income for the year		Ps 11,672	Ps 7,105
Attributable to:			
Controlling interest		Ps 9,527	Ps 5,628
Non-controlling interest		2,145	1,477
Total comprehensive income for the year		Ps 11,672	Ps 7,105

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

José de Jesús Valdez Simancas
Chief Executive Officer

Eduardo Alberto Escalante Castillo
Chief Financial Officer

Alpek, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2016 and 2015

In millions of Mexican pesos

	Note	Capital stock	Share premium	Retained earnings	Other reserves	Total controlling interest	Non-controlling interest	Total stockholders' equity
Balances at January 1, 2015		Ps 6,052	Ps 9,071	Ps 8,881	Ps 1,945	Ps 25,949	Ps 3,896	Ps 29,845
Net profit		-	-	2,748	-	2,748	917	3,665
Total other comprehensive income for the year		-	-	3	2,877	2,880	560	3,440
Total comprehensive income for the year		-	-	2,751	2,877	5,628	1,477	7,105
Dividends declared	24	-	-	(1,473)	-	(1,473)	-	(1,473)
Dividends from subsidiaries to the non-controlling interest	3 b)	-	-	-	-	-	(978)	(978)
Effect of business transference under common control	2 e)	-	-	(150)	-	(150)	150	-
Balances at December 31, 2015		6,052	9,071	10,009	4,822	29,954	4,545	34,499
Net profit		-	-	3,625	-	3,625	1,368	4,993
Total other comprehensive income for the year		-	-	62	5,840	5,902	777	6,679
Total comprehensive income for the year		-	-	3,687	5,840	9,527	2,145	11,672
Repurchase of own shares		(4)	-	(42)	-	(46)	-	(46)
Dividends declared	24	-	-	(1,959)	-	(1,959)	-	(1,959)
Dividends from subsidiaries to the non-controlling interest	3 b)	-	-	-	-	-	(2,049)	(2,049)
Changes in the non-controlling interest		-	-	-	-	-	40	40
Effect of business transference under common control	8	-	-	(403)	-	(403)	(32)	(435)
Balances at December 31, 2016		Ps 6,048	Ps 9,071	Ps 11,292	Ps 10,662	Ps 37,073	Ps 4,649	Ps 41,722

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

José de Jesús Valdez Simancas
Chief Executive Officer

Eduardo Alberto Escalante Castillo
Chief Financial Officer

Alpek, S. A. B. de C. V. and subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2016 and 2015

In millions of Mexican pesos

	Note	2016	2015
Cash flows from operating activities			
Profit before income taxes		Ps 7,351	Ps 5,705
Depreciation and amortization	11, 12	2,560	2,254
Impairment of property, plant and equipment	27	2	130
Allowance for doubtful receivables		6	(273)
Loss (gain) on sale of property, plant and equipment	2 e)	1	(381)
Share of losses of associates accounted for by the equity method	13	3	23
Finance cost, net		2,265	1,908
Gain on changes in the fair value of derivative financial instruments		(4)	(178)
Employees' profit sharing and provisions		(365)	(385)
Subtotal		11,819	8,803
(Increase) decrease in trade receivables		(1,313)	2,765
Decrease in accounts receivable from related parties		1,051	572
(Increase) decrease in other accounts receivable		(953)	61
Increase in inventories		(1,439)	(103)
Increase (decrease) in accounts payable		772	(1,242)
Decrease in accounts payable to related parties		(695)	(698)
Employees' profit sharing paid		(6)	(4)
Prepayments		(225)	(1,102)
Income tax paid		(2,992)	(874)
Net cash flows generated from operating activities		6,019	8,178
Cash flows from investing activities			
Interest received		230	202
Acquisition of property, plant and equipment		(4,543)	(1,523)
Acquisition of intangible assets	2 a) and 2 b)	(1,438)	(1,857)
Business acquisitions, net of cash acquired	2 e) and 3 b)	(390)	(605)
Investment in associates		(82)	(27)
Derivative financial instruments		108	(167)
Proceeds from loans (paid) to related parties		1,123	(30)
Notes receivables		(1,220)	8
Net cash flows used in investing activities		(6,212)	(3,999)
Cash flows from financing activities			
Proceeds from debt		3,534	1,913
Payments of debt		(2,549)	(1,950)
Interest paid		(1,213)	(1,017)
Dividends paid by Alpek, S. A. B. de C. V.		(1,959)	(1,473)
Dividends paid to the non-controlling interest		(2,049)	(978)
Repurchase of shares	24	(46)	-
Proceeds from related parties	8	73	-
Net cash flows used in financing activities		(4,209)	(3,505)
(Decrease) increase in cash and cash equivalents		(4,402)	674
Exchange rate fluctuations on cash and cash equivalents		687	232
Cash and cash equivalents at beginning of year		6,650	5,744
Cash and cash equivalents at end of year		Ps 2,935	Ps 6,650

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

José de Jesús Valdez Simancas
Chief Executive Officer

Eduardo Alberto Escalante Castillo
Chief Financial Officer

Alpek, S. A. B. de C. V. and subsidiaries

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
At December 31, 2016 and 2015
In millions of Mexican pesos, except where otherwise indicated

NOTE 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 most important petrochemical company in Mexico and the second largest in Latin America, is the main integrated producer of polyester in North America. Besides, 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 and has Alfa, S. A. B. de C. V. ("Alfa") as its main holding company.

Alpek, S. A. B. de C. V. is located in Avenida Gómez Morín Sur No. 1111, Col. Carrizalejo, San Pedro Garza García, Nuevo León, Mexico and operates 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 "Ps", 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.

NOTE 2 – Significant events

2016

a) IntegRex® technology license and signature of a supply agreement with M&G

During 2015, Alpek through its subsidiary Grupo Petrotemex, S. A. de C. V. ("Grupo Petrotemex"), held a licensing agreement for IntegRex® PTA technology and another PTA-PET supply agreement with M&G Resins USA, LLC ("M&G"). These agreements will allow M&G to use the IntegRex® PTA technology in the PTA-PET integrated plant to be constructed in Corpus Christi, Texas in the United States of America (the Plant).

On the other hand, Grupo Petrotemex will pay US$435 to M&G during the construction of the Plant according to an established calendar and in compliance with certain milestones, by which Grupo Petrotemex will obtain supply rights of the Plant for 500 thousand tons of PET (manufactured with 420 thousand tons of PTA) per year for a period of five years starting from the first day of the month in which the plant is completed and ready to manufacture and sale their products. In accordance to the supply agreement, Grupo Petrotemex will supply raw materials for the manufacturing of its PTA-PET volume. It is estimated that the M&G plant in Corpus Christi will start operations in 2018.

At December 31, 2016, Grupo Petrotemex has completed the payments amounting to Ps 8,989 (US$435), of which Ps 7,439 (US$360) are recorded in the intangible assets caption and correspond to the before mentioned supply rights and will be amortized once the PET supply begins, and Ps 1,550 (US$75) as a prepayment of inventory within the prepayments caption.

b) 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.

On the other hand, 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. At December 31, 2016, payments 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.

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 will be made in an amount approximating US$350. 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.

At December 31, 2016, the Cogeneration plant is in the construction stage, and payments have been made amounting to Ps 2,449 (US$126) as part of the startup of the construction of the plant. Payments will be made in accordance with the percentage of completion and it is estimated that its construction will be completed in 2018.

d) Stock purchase contract of Petroquimica 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 Petroquimica de Pernambuco ("Petroquimica Suape") and Companhia Integrada Textil de Pernambuco ("Citepe").

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

Additional corporate approvals are required to close this transaction, in addition to the approval of government authorities with competent jurisdiction. That contract sets forth a maximum fifteen month period to complete the transaction as of the date of the contract. At the issue date of these financial statements, the approvals and conditions are in the process of being complied with.

2015

e) Agreements between Alpek and BASF for the expanded polystyrene (EPS) and polyurethane (PU) businesses

During July 2014, Alpek ("Alpek") and BASF ("BASF") signed the agreements related to the expanded polystyrene (EPS) and polyurethane (PU) businesses previously held through their joint venture Polioles, S.A de C.V. ("Polioles") in Mexico, as well as the EPS business of BASF in North and South America, except for the Neopor ® (gray EPS) of BASF business.

Alpek acquired all EPS business activities from Polioles, including an EPS plant in Altamira, Mexico. Likewise, BASF acquired all PU business activities from Polioles, including certain assets located in Lerma, Mexico's facility, as well as all marketing and sales rights for the PU, isocyanate and polyol systems. Once the transaction was completed, Polioles continued operating as a joint venture between Alpek and BASF, with a product portfolio comprising of industrial chemicals and specialties.

Alpek also acquired the EPS business of BASF in North and South America, including:

- EPS sales and distribution channels of BASF in North and South America
- The EPS plants of BASF in Guaratinguetá, Brazil and General Lagos, Argentina, and
- The EPS transformation business of BASF in Chile (Aislapol, S. A.)

The combined capacity of all EPS production units acquired by Alpek is approximately 230,000 tons a year. This figure includes 165,000 tons a year of Polioles plant in Altamira, Mexico. Approximately, 440 employees work in the businesses subject to the agreements, 380 of them in the EPS businesses and 60 in the PU businesses. Most of them continue performing their roles under the new ownership framework.

A series of transactions can be carried out with the purpose of forming a business combination in the most effective manner from the economic point of view. According to IFRS, an agreement to acquire a business through a series of related transactions is a business combination, and the way to recognize it should be as if it was a single transaction. Therefore, the events previously mentioned were considered as transactions that are related and were carried out in a combined way one only agreement with reference to the fair value according to each business.

Transactions included in this agreement were as follows:

PU business sale to BASF

In March 2015, through its subsidiary Polioles, Alpek completed the sale to BASF MEXICANA of all the polyurethane (PU) business activities, including assets selected in the Lerma, Mexico plant, as well as all marketing and sales rights of PU, isocyanate and polyol systems. From Alpek's standpoint, the PU business sold was not considered as a business line or segment; therefore, IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" dispositions respect to the presentation as a discontinued operation, are not applicable. Rather, the transaction was carried out through the sale of a group of assets at market terms, and the total consideration received was Ps 407, which it was outstanding at December 31, 2015 and the net book value transferred was Ps 26, this transaction resulted in a gain of Ps 381 and was recorded in the consolidated income statement as other income (expense), net.

Mexico EPS business sale to Styropek

On March 31, 2015, Alpek transferred all its EPS business activities of Polioles, including the EPS plant in Altamira, Mexico to its subsidiary Grupo Styropek, S. A. de C. V. (Styropek). Since BASF holds the 50% of the equity in Polioles, the transaction between stockholders for the EPS business had an effect of a Ps 150 reduction in the controlling interest and an increase in the non-controlling interest for the same amount, as shown in the consolidated statements of changes in stockholders' equity.

This transaction had no accounting effects over the financial statements of Alpek, since they were transactions among entities under common control, except for the increase in non-controlling interest of Ps 150.

EPS business acquisition from BASF

On March 31, 2015, through Styropek, Alpek finalized the acquisition of BASF's EPS business in Argentina, Brazil, USA, Canada, and Chile. This acquisition included the working capital. A total of 450 employees work in the EPS line of business. The consolidated financial statements include the financial information of BASF's EPS business starting on March 31, 2015. This acquisition is included in the Plastics and Chemicals segment. See Note 31.

At December 31, 2015, Alpek concluded the purchase price allocation to fair values of acquired assets.

Final purchase price allocation to fair values of acquired assets assumed liabilities is as follows:

Current assets [1]	Ps	622
Property, plant and equipment		424
Current liabilities [2]		(183)
Other current liabilities		(140)
Deferred income tax		(88)
Other liabilities		(30)
Consideration paid	Ps	605

(1) Current assets consist mainly of accounts receivable and inventories amounting to Ps 333 and Ps 289, respectively.

(2) Current liabilities consist mainly of suppliers amounting to Ps 101.

Total purchase consideration was paid in cash.

The value of the accounts receivable acquired approximates to its fair value due to its short-term maturity. Acquired accounts receivable are estimated to be recovered in the short term.

No contingent liability has resulted from this acquisition that requires recognition. There are neither contingent consideration agreements.

The costs related to the acquisition amounted to Ps 22 and were recorded in the consolidated statement of income as "other expenses, net".

Revenues contributed by BASF assets included in the consolidated statement of income since the acquisition date through December 31, 2015 amounted to Ps 5,482 and net income to Ps 732. If the acquisition had taken place on January 1, 2015, revenues would have increased by Ps 1,600 and net income by Ps 185, approximately.

NOTE 3 - Summary of significant accounting policies

The accompanying consolidated financial statements and notes were authorized for issuance on February 17, 2017, by officials with the legal power to sign the basic financial statements and accompanying notes.

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

a) Basis for preparation

The consolidated financial statements of Alpek have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The IFRS include all International Accounting Standards ("IAS") in force and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRS IC"), 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 derivative financial instruments designated as 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 income and for financial assets available for sale.

The preparation of the consolidated financial statements according to 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 the power to govern the financial and operating policies of the entity. 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. Where the Company's interest in subsidiaries is less than 100%, the share attributed to outside shareholders is presented as non-controlling interest.

The subsidiaries are consolidated from the date on which control is transferred to the Company and until the date it loses that control.

The Company applies the acquisition method in accounting for business combinations. The Company defines a business combination as a transaction in which obtains control over the business, which is defined as a set of activities and assets which are conducted and managed in order to obtain benefits in the form of dividends, less costs or other economic benefits directly to investors.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred with the ex-owners of the acquired business 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 under common control using the predecessor method. 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 consideration transferred and the carrying amount of the net assets acquired at the level of the subsidiary is recognized in stockholders' equity.

The acquisition-related costs are recognized as expenses when they are 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 acquired. 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 income.

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, as well as unrealized gains (losses) on transactions between Alpek's companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the amounts reported by the subsidiaries have been changed where it was deemed necessary.

At December 31, 2016 and 2015, the main companies that comprise the consolidated of the Company are as follows:

	Country [1]	Percentage of Ownership [2]		Functional currency
		2016	2015	
Alpek, S. A. B. de C. V. (Holding company)				Mexican peso
Grupo Petrotemex, S. A. de C. V. (Holding company)		100	100	US dollar
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
Selenis Canada Inc. [3]	Canada	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 Brazil, LTD	Brazil	100	100	Brazilean 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 which in turn has in other companies. Ownership percentages and the voting rights are the same.
(3) On July 29, 2016, through its subsidiary DAK Americas Exterior, S. L., Alpek acquired a controlling interest in Selenis Canada, Inc. (Selenis), the only producer of PET in Canada, which operates a plant located in Montreal, Quebec with capacity to produce 144 thousand tons annually. The acquisition of Selenis met the criteria of a business acquisition, and the amount of the consideration paid amounted to US$17.2. The consolidated financial statements include the financial information of Selenis beginning on August 1, 2016. This business acquisition is included in the Polyester segment.

At December 31, 2016 and 2015, there are no significant restrictions on the investment in shares of the subsidiaries companies above mentioned.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, i.e., 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 carrying amount of the investment according to percentage of ownership before the event of dilution or absorption against the carrying amount with the new percentage of ownership after the relevant event. In the case of loss of control, the dilution effect is recognized in income.

iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is remeasured at fair value, and the change against the carrying amount is recognized in the consolidated income statement. The fair value is the initial carrying amount 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 implies that the amounts recognized in the comprehensive income are 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. The Company has an investment of which it owns 50% and it is consolidated. See critical judgment in Note 5.2.

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 in profits or losses of associates, post-acquisition, is recognized in the consolidated income statement and its share in the other comprehensive income of associates is recognized as other comprehensive income. The cumulative movements after acquisition are adjusted against the carrying amount of the investment. 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 amount and recognizes it in "share in loss of associates" in the consolidated income statement.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's share 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 any retained interest plus any proceeds from disposing apart interest in the associate less the carrying amount of the investment at the date the equity method was discontinued is recognized in the consolidated income statement.

c) Foreign currency translation

i. Functional and presentation currency

The amounts included in the financial statements of each of the Company's subsidiaries and associates 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, which is the Company's presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing date exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as foreign exchange gains and losses in the consolidated income statement, except when those transactions arise from cash flow hedges, are recognized in other comprehensive income.

Foreign exchange gains and losses resulting from changes in the fair value of monetary financial assets and liabilities denominated in a foreign currency are recognized in the consolidated income statement, except when those transactions arise from cash flow hedges or hedges of a net investment in a foreign operation.

Translation differences on monetary financial assets and liabilities classified as fair value through profit or loss are recognized in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets classified as available for sale are included in other comprehensive income.

iii. Translation of subsidiaries with a functional currency different from their recording currency

The financial statements of 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 rates.

b. The balances and movements of nonmonetary assets, liabilities and stockholders' equity 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 revenue, costs and expenses of the periods, expressed in the recording currency, were translated at the exchange rate of the date they were accrued and recognized in the consolidated income statement, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items was used.

d. The differences in exchange arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated income statement in the period they arose.

iv. Translation of subsidiaries with a functional currency different from their presentation currency.

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

a. Assets and liabilities for each consolidated statement of financial position presented are translated at the closing exchange rate at the statement of financial position date;

b. The stockholders' equity of each consolidated statement of financial position presented is translated at historical exchanges rates.

c. Income and expenses for each consolidated income statement are translated at average exchange rate (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. All resulting exchange differences are recognized in 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.

Listed below are the most important exchange rates:

		Local currency to Mexican pesos			
		Closing exchange rate at December 31		Annual average exchange rate (*)	
Country	Functional currency	2016	2015	2016	2015
USA	US dollar	20.66	17.21	18.66	15.85
Argentina	Argentine peso	1.30	1.33	1.26	1.72
Brazil	Brazilean real	6.35	4.34	5.41	4.80
Chile	Chilean peso	0.03	0.02	0.03	0.02

(*) This data is informative. For translation purposes monthly average exchange rates are used.

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 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 other current liabilities.

e) Restricted cash and cash equivalents

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 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. Derivative financial instruments are classified in this category, 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 income statement. Gains or losses from changes in fair value of these assets are presented in the consolidated income statement as incurred.

ii. Accounts receivable

The accounts 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.

Accounts receivable are initially calculated at fair value plus directly attributable transaction costs and subsequently at amortized cost. 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. Investments held to maturity

If the Company intends and has the demonstrable ability to hold debt securities to maturity, they are classified as investments 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. At December 31, 2016 and 2015, the Company had no such investments.

iv. Financial assets available for sale

Financial assets available for sale are non-derivative financial instruments 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.

Financial assets available for sale 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 instruments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the consolidated income statement.

Financial liabilities

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

Suppliers and other accounts payable are obligations to pay for goods or services that have been acquired or received in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Debt is subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the consolidated income statement 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 there is a legally enforceable right to offset the recognized amounts 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 measured 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 default in 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 otherwise would not be considered.
- There is 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, such as:

    i. Adverse changes in the payment status of borrowers in the group of assets.
    ii. National or local conditions that correlate with default on the assets in the group.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the category accounts receivable, 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 income statement under administrative expenses.

If a 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 income statement.

Impairment amounts of accounts receivable are shown in Note 7.

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 income statement. Impairment losses recognized in the consolidated income statement related to equity financial instruments are not reversed through the consolidated income statement. Impairment losses recognized in the consolidated income statement 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, or for trading 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 hedging derivatives are 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, hedge item, 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 income statement. The change in fair value of the hedging instruments and the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated income statement. At December 31, 2016 and 2015, 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 the consolidated income statement when the hedged item affects this. The ineffective portion is immediately recorded in income.

Net investment hedge

Net investment hedge in a foreign operation is recorded similarly to cash flow hedges. Any gain or loss of the hedged instrument related to the effective portion of the hedge is recorded in other comprehensive income. The gain or loss of the ineffective portion is recorded in the consolidated statement of income. Accumulated gains and losses in equity are transferred to the consolidated statement of income on the disposal or partial disposal of the foreign operation. At December 31, 2016 and 2015, the Company has no derivative financial instruments classified as net investment hedges.

Discontinuation of hedge accounting

The Company discontinues the hedge accounting when the derivative has expired, has been sold, cancelled or exercised, or when the hedge does not meet the criteria for hedge accounting, or when the Company decides to cancel the hedge designation.

On discontinuing hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged item 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 income statement.

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 income statement to the extent, the forecasted transaction impacts it.

The fair value of derivative financial instruments presented in the 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 respective consolidated statement of financial position date.

h) Inventories

Inventories are stated at the lower of cost and 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 loan 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 equity 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 income statement during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

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 average useful lives of assets families are as follows:

Buildings and constructions	40 to 50 years
Machinery and equipment	10 to 40 years
Transportation equipment	15 years
Furniture and laboratory equipment and information technology	2 to 13 years
Others	3 to 20 years

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

Borrowing costs directly attributable to the acquisition related to property, plant and equipment whose acquisition or construction requires a substantial period (minimum nine months), 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 income statement 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 its 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 income statement.

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 income statement 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) Goodwill and 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 assessments. As of December 31, 2016 and 2015, no factors have been identified limiting the useful 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 according to 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
No compete 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
Tolling rights	15 years
Others	20 years

a. 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 reverted. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

b. 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.

c. Intangible assets acquired in a business combination

When an intangible asset is acquired in a business combination it is recognized at fair value at the acquisition date. Subsequently intangible assets acquired in a business combination such as: trademarks, customer relations, intellectual property rights, no-competition agreements, among others, are carried at cost less accumulated amortization and accumulated impairment losses.

l) Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not amortizable 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 assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m) Income taxes

The caption of income taxes in the consolidated income statement represents the sum of the current income taxes and the deferred income taxes.

The amount of the income tax reflected in the consolidated income statement represents the current tax in the year, as well as the effects of deferred income tax, which is determined in each subsidiary using the asset and liability method, applying the tax rate established by the legislation enacted or substantially enacted at the date of the statement of consolidated financial position where the Company operates and generates taxable income to the total of the temporary differences resulting from comparing the carrying amounts and tax bases of assets and liabilities that are expected to be applied when the deferred asset tax is realized or the deferred liability tax is settled, considering the tax losses carry forward to be recoverable. The effect of a change in current tax rates is recognized in income of the period in which the rate change is enacted.

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 it is appropriate, based on the amounts expected to be paid to the tax authorities.

Deferred income tax assets are recognized only to the extent that is probable that future taxable profit will be available against which the temporary differences can be utilized.

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 foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right, and when taxes are levied by the same tax authority, either the same taxable entity or entities that may be settled or recovered their liabilities and tax assets, on a net basis.

n) 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 when they are due.

Defined benefit plans:

A defined benefit plan is a plan under which the Company has a legal or constructive obligation for paying a pension when the employee reach the retirement age, considering factors such as compensation, years of services and age.

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 according to IAS 19 that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

The remeasurements of defined benefit obligations and plan assets are recognized directly in stockholders' equity within other items of the comprehensive income in the year they occur.

The Company determines the net finance expense (income) by applying the discount rate to the liability (asset) for net defined benefits.

Past-service costs are recognized immediately in the consolidated income statement.

ii. Other post-employment benefits

The Company provides medical benefits after termination of employment to its retired employees of certain subsidiaries. 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. Any benefits to be paid more than 12 months after the consolidated statement of financial position date are discounted to their present value.

iv. Short-term benefits

The Company provides 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. Employees' profit sharing and bonuses

The Company recognizes a liability and an expense for bonuses and employees' profit sharing when it has a legal or constructive obligation to pay these benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

o) Provisions

Provisions represent a present, legal or assumed obligation as a result of past events, where an outflow of resources to meet the obligation is likely and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenses that are expected to be required to settle the obligation using a pre-tax rate that reflects current market value considerations, the time value of money and the specific risk of the obligation. The increase in the provision over the course 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.

Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) as a result of past events, it is likely that an outflow of economic resources will be required to settle the obligation and the amount can be reasonably estimated.

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.

p) Share-based payments

The Company's compensation plans are referred in 50% to the value of the shares of Alfa and the other 50% to the value of the shares of Alpek, in favor of certain senior executives of the Company and its subsidiaries. The conditions for granting such compensation to the eligible executives include among other things, compliance with certain metrics such as the level of profit achieved, the permanence in the Company up to 5 years, etc. The Board of Directors of Alfa has appointed a technical committee for the administration of the plan, which reviews the estimated cash settlement of this compensation at the end of the year. Payment of the plan is always subject to the sole discretion of ALFA's top Management. Adjustments to such estimate are charged or credited to the consolidated income statement.

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 under 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 income statement.

q) Treasury shares

The Shareholders' Meeting periodically authorizes 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 charged to stockholders' equity at purchase price: a portion to capital stock at its modified historical value, and the balance to retained earnings. These amounts are stated at their historical value.

r) Capital stock

The Company's ordinary shares are classified as capital. Incremental costs directly attributable to the issuance of new shares are included in equity as a deduction from the consideration received, net of taxes.

s) Comprehensive income

Comprehensive income is composed of net income plus other items of comprehensive income, net of taxes, which comprise the effects of the translation of foreign subsidiaries, the effects of derivative financial instruments for cash flow hedging, remeasurements of obligations for employee benefits, the effects of changes in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates, and other items specifically required to be reflected in stockholders' equity and which do not constitute capital contributions, reductions or distributions.

t) Segment reporting

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

u) 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 value added tax, customer returns, rebates and similar discounts and after eliminating intercompany revenue.

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 as follows:

- 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.

The revenue recognition criteria depend on the contractual conditions with the Company's costumers. In some cases, depending on the agreements with each costumer, the risks and benefits associated to the property are transferred when the goods are taken by the costumers in the Company's plant. In other cases, the risks and benefits associated to the property are transferred when the goods are delivered in the plant of the costumers.

Dividend income from investments is recognized once the rights of shareholders to receive this payment have been established (when it is probable that the economic benefits will flow to the entity 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.

v) Earnings per share

Earnings (losses) per share are calculated by dividing the profit (loss) attributable to the shareholders of the parent by the weighted average number of common shares outstanding during the year. At December 31, 2016 and 2015, there are no dilutive effects from financial instruments potentially convertible into shares.

w) Changes in accounting policies and disclosures

The following standards were adopted by the Company for the first time beginning on January 1, 2016, which did not have a material impact on the Company:

- Annual improvements to the IFRS - cycle 2012-2014.
- Disclosure initiative - Changes to IAS 1.

The adoption of these changes had no impact in the current period or any previous periods and it is not likely to affect future periods.

x) New accounting pronouncements

A number of new standards, modifications, and interpretations of standards have been published, which are not effective for reporting periods at December 31, 2016, and they have not been adopted early by the Company. The evaluation of the Company on the effects of these new standards and interpretations are discussed below:

IFRS 9 - "Financial instruments ", addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes to the classification and measurement rules and also introduced a new impairment model. These last changes now comprise the entire new financial instruments standard. Following the approved changes, the Company no longer expects any impact from the new rules of classification, measurement and decrease of its financial assets or liabilities. There will be no impact on the Company's accounting from financial liabilities, since the new requirements only affect financial liabilities at fair value through income and the Company has no such liabilities. The new hedge rules pair up the Company's hedge accounting and risk management. As a general rule, the hedge accounting will be much easier to apply since the standard introduces an approach based on principles. The new standard introduces extensive disclosure requirements and changes in presentation, which will continue to be assessed by the Company. The new impairment model is a model of expected credit losses; therefore, it would result in advance recognition of credit losses.

The Company continues assessing how its hedge agreements and impairment provisions are affected by the new rules. The standard is effective for the periods beginning on or after January 1, 2018. Early adoption is allowed.

IFRS 15 - "Revenue from contracts with customers", is a new standard issued by the IASB for revenue recognition. This standard replaces IAS 18 "Revenues", IAS 11 "Construction contracts", as well as the interpretations to the aforementioned standards. The new standard is based on the fact that revenue should be recorded when the control over the good or different service is transferred to the customer, so that this control notion replaces the existing notion of risks and benefits.

The standard allows for a complete retrospective approach and a modified retrospective approach for its adoption. The Company has assessed the two approaches and it considers that the modified retrospective approach will be used for adoption. Under this approach the entities will recognize adjustments from the effect of initial application (January 1, 2018) in retained earnings in the financial statements at December 2018 without restating comparative periods, by applying the new rules to contracts effective as of January 1, 2018 or those that even when held in prior years continue to be effective at the date of initial application.

For disclosure purposes in the financial statements at 2018, the amounts of affected items must be disclosed, considering the application of the current revenue standard, as well as an explanation of the reason for the significant changes made.

During 2016, Management performed a diagnosis to identify areas that require a major analysis to determine the possible impact of the new standard IFRS 15. The matters considered most relevant and require a major analysis are: identify if there are additional obligations to be met in contracts with customers, the transfer of control over products and at which it should be recognized as revenue, based on the new guidelines on this standard.

At December 31, 2016, the Company is in process of assessing the impacts of this new standard in its financial statements. The standard is effective for periods beginning on or after January 1, 2018. Early adoption is permitted.

IFRS 16 - "Leases". The IASB issued in January 2016 a new standard for lease accounting. This standard will replace current standard IAS 17, which classifies leases into financial and operating. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred, and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for "right of use" in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is shown in an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses relative to leases previously recognized as operating leases.

At the issue date of these financial statements, the Company has non-cancelable operating lease agreements amounting to Ps 2,682. However, it has still not been determined to what degree these commitments will have as a result of recognizing an asset and a liability for future payments, and how this affects net income and classification of the Company's cash flows.

The standard is effective for periods that begin on or after January 1, 2019. The Company does not have the intent to adopt the standard early at this stage.

There are no additional standards, amendments or interpretations issued but not yet effective that could have a significant effect on the Company.

NOTE 4 - Risks management

4.1 Financial risk factors

The Company's activities expose it to various financial risks: market risk (including foreign exchange risk, price risk, interest rate risk on cash flows and interest rate risk on fair value), credit risk and liquidity risk. The Company's risk management plan considers the unpredictability of the financial markets and seeks to minimize the potential negative effects on the financial performance of the Company. The Company uses derivative financial instruments to hedge some risk exposures.

The objective is to protect the financial health of the business taking into account the volatility associated with exchange rates and interest rates. Additionally, due to the nature of the industries in which it participates, the Company has entered into derivative hedges of input prices.

ALFA the ultimate controlling company of Alpek has a Risk Management Committee, constituted by the Chairman, the Chief Executive Officer, the Chief Financial Officer of the holding Company and a financial executive from the holding Company who acts as technical secretary. The Committee oversees derivative transactions proposed by the subsidiaries of ALFA in which the maximum possible loss exceeds (US$1). This Committee supports both the Executive Director and the Chairman of the Board of Directors of ALFA. All new derivative transactions that the Company proposes to make, and the renewal of existing derivatives, require to be approved by both the Company and the holding Company in accordance with the following schedule of authorizations:

	Possible Maximum Loss US$	
	Individual transactions	Cumulative annual transactions
Company's Chief Executive Officer	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 exposures, and that they are the result of a fundamental analysis and properly documented. Sensitivity analyses and other risk analyses should be performed before the operation is carried out.

a) Market risk

i. Exchange rate risk

The Company operates internationally and is exposed to the exchange rate risk, mainly in relation to Mexican pesos and with currencies different to the functional currency in which its subsidiaries operate. The Company is exposed to foreign exchange risk arising from future commercial transactions in assets and liabilities in foreign currencies and investments abroad.

The respective exchange rates of the Mexican peso and the U.S. dollar are very important factors for the Company due to the effect they have on their results. Moreover, Alpek has no influence whatsoever, over their movements. On the other hand, Alpek estimates that most of its revenues are denominated in foreign currency, either because they come from products that are exported from Mexico, or because they come from products that are manufactured and sold abroad, or because even if sold in Mexico the price of such products are set based on international prices in foreign currencies such as the U.S. dollar.

For this reason, in the past, when the Mexican peso has appreciated in real terms 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, the Company's profit margins have been increased. However, although this factor correlation has appeared on several occasions in the recent past, there is no assurance that it will be repeated if the exchange rates between the Mexican peso and other currencies fluctuate again.

The Company participates in operations with derivative financial instruments on exchange rates for the purpose of controlling the total comprehensive cost of its financing and the volatility associated with exchange rates. Additionally, it is important to note the high "dollarization" of the Company's revenues, since a large proportion of its sales are made abroad, providing a natural hedge against its obligations in dollars, while at the same time its income level is affected in the event exchange rate appreciation. Based on the overall exchange rate exposure at December 31, 2016 and 2015, a hypothetical variation of 5% in the exchange rate MXN/USD, holding all other variables constant, would result in an effect on the consolidated income statement by Ps 69 and Ps 56, respectively. See Note 16.

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 the most recent years, the price of some inputs has shown volatility, especially those arising from 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. The practice in the industry in North America has been to set prices on a cost plus margin basis, by reference to a price formula for transferring the variations in the costs of the main raw materials and energy to achieve a predictable margin. At the same time, the Company has entered into transactions involving derivatives on natural gas, gasoline, ethylene, ethane, paraxylene and brent crude seeking to reduce the volatility of prices of these inputs, the Company does not suffer fluctuations upward or downward.

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 Annex” and “Confirmation”.

Regarding natural gas, Pemex is the only supplier in Mexico. The selling price of natural gas at first hand is determined by the price of that product on the “spot” market in South Texas, USA, which has experienced volatility. For its part, the CFE 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 2016 and 2015 was 2.31 and 2.60 US dollars, respectively.

At December 31, 2016, the Company had hedges of natural gas, ethylene, ethane and paraxylene prices for a portion expected of consumption needs in Mexico and the United States. Based on the general input exposure at December 31, 2016 and 2015, a hypothetical increase (decrease) of 10% in market prices applied to fair value and keeping all other variables constant, such as exchange rates, the increase (decrease) would result in an immaterial effect on the consolidated income statement for 2016 and 2015.

iii. Interest rate risk and cash flow

The interest rate risk of the Company arises from long-term loans entered into with banking institutions. Loans at variable rates expose the Company to interest rate risk on cash flows that are partially offset by cash held at variable rates. Loans at fixed rates expose the Company to interest rate risk at fair value.

At December 31, 2016 and 2015, if interest rates on variable rate loans were increased/decreased by 10%, interest expense, in the consolidated income statement, would increase/decrease by Ps 7 and Ps 7, respectively.

b) 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 independently, 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. The credit risk analysis is performed regularly.

During 2016 and 2015, 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.

c) Liquidity risk

In the past, the Company has generated and expects to continue generating positive operation cash flows. Operation cash flows mainly represent the inflow of net income (adjusted for depreciation and other items not related to cash) and the outflow of working capital increases necessary to grow the business. Cash flows used in investment activities, represent capital expenditures (Capex) required for the growth, as well as business acquisitions. Financing activities cash flows are related mainly with the indebtedness changes to grow the business or indebtedness paid with cash of operations or refinancing operations, as well as dividends paid.

The main cash flow needs of the Company are for working capital, Capex, maintenance, business combinations and payment of debt. The Company's abilities to finance cash flow needs depend on the continuous ability to generate cash from operations, general capacity and terms of finance agreements, as well as access to capital markets. The Company believes that the future cash flows of operations together with the access to funds available under such finance agreements and capital markets, will provide it with adequate resources to finance predictable operating requirements, Capex, acquisitions and new business development activities.

The following tables analyze the derivative and non-derivative financial liabilities, grouped according to their maturity, from the consolidated statement of financial position date to the contractual maturity date. Derivative financial liabilities are included in the analysis to know the timing of the Company's cash flows for these liabilities.

The detail of maturities of existing financial liabilities at December 31, 2016 and 2015, is as follows [1]:

	Less than 1 year		Between 1 and 2 years		Between 2 and 5 years		More than 5 years	
At December 31, 2016								
Suppliers and other accounts payable	Ps	15,492	Ps	-	Ps	-	Ps	-
Derivative financial instruments		71		187		459		-
Current and non-current debt (excluding issuance expenses)		3,820		2,491		3,427		20,882
At December 31, 2015								
Suppliers and other accounts payable	Ps	11,693	Ps	-	Ps	-	Ps	-
Derivative financial instruments		848		204		507		-
Current and non-current debt (excluding issuance expenses)		1,550		1,235		4,191		18,185

[1] Amounts included are undiscounted contractual cash flows; therefore, they differ from the amounts included in the consolidated financial statements and in Note 19.

The Company expects to meet its obligations with cash flows generated by operations. Additionally, the Company has access to credit lines with various banks to meet possible requirements.

At December 31, 2016 and 2015, the Company has unused committed credit lines for a total of US$383 and US$346 million, respectively.

4.2 Capital management

The Company's objectives when managing equity are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure so as to reduce the cost of equity.

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

The Company monitors equity based on the degree of leverage. This ratio is calculated by dividing total liabilities by total stockholders' equity.

The financial ratio of total liabilities/total stockholders' equity was 1.19 and 1.17 at December 31, 2016 and 2015, respectively.

4.3 Fair value estimation

The following is an analysis of financial instruments measured by the fair value valuation method. The three 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 wherein one or more of their significant data inputs are non-observable.

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2016:

	Level 1	Level 2	Level 3	Total
Assets				
Derivative with hedge accounting treatment	Ps -	Ps 56	Ps -	Ps 56
Financial assets available for sale	-	-	172	172
Total	Ps -	Ps 56	Ps 172	Ps 228
Liabilities				
Financial liabilities at fair value through profit or loss -Negotiable derivative	Ps -	Ps 12	Ps -	Ps 12
Employees' benefits based on shares	31	-	-	31
Derivative with hedge accounting treatment	-	705	-	705
Total	Ps 31	Ps 717	Ps -	Ps 748

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss -Negotiable derivative	Ps -	Ps 203	Ps -	Ps 203
Derivative with hedge accounting treatment	-	-	-	-
Financial assets available for sale	-	-	144	144
Total	Ps -	Ps 203	Ps 144	Ps 347
Liabilities				
Financial liabilities at fair value through profit or loss -Negotiable derivative	Ps -	Ps 17	Ps -	Ps 17
Employees' benefits based on shares	55	-	-	55
Derivative with hedge accounting treatment	-	1,542	-	1,542
Total	Ps 55	Ps 1,559	Ps -	Ps 1,614

There are no transfers between levels 1 and 2, or between levels 2 and 3 in the reported periods.

Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated statement of financial position date. A market is considered active if quoted prices are clearly and regularly available from a stock exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regular market transactions at arm-length conditions. The trading price used for financial assets held by Alpek is the current bid price.

Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data when available and rely as little as possible on estimates specific to the Company. If all significant inputs required to measure an instrument at fair value are observable, the instrument is classified at Level 2.

Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is classified at Level 3.

Specific valuation techniques used to value financial instruments include:

- Market quotations or offers from retailers for similar instruments.
- The fair value of swaps is calculated as the present value of future cash flows estimated in observable return curves.
- The fair value of forward contracts is determined using exchange rates at the consolidated statement of financial position date, when the resulting value is discounted at present value.
- Other techniques, such as the analysis of discounted cash flows, used to determine the fair value of the remaining financial instruments.

Financial assets included within this level are only financial assets available for sale, which correspond to investment in company's shares that are not quoted in the active market and therefore, the fair value may not be reliably determined.

NOTE 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 based on 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 the following:

a) Property, plant, equipment and finite life intangibles

The Company estimates the useful lives of its property, plant and equipment and finite life intangibles in order to determine the depreciation and amortization expense, respectively, to be recorded during the reporting period. The useful life of these assets is calculated when the asset is acquired and is based on the past experience with similar assets, considering advance technological changes or changes of other kind. If technological changes would occur faster than estimated, or differently from anticipated, the useful lives assigned to these assets may need to be reduced. This would result in the recognition in a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes may result in recognizing a charge for impairment to show the reduction in the value of assets. The Company reviews assets annually to know if they show signs of impairment, or when certain events or circumstances indicate that the carrying amount cannot be recovered during the remaining life of the assets, in case there are signs of impairment, the Company carries out a study to determine the value in use of assets. At December 31, 2016 and 2015, there were no indicators of impairment.

b) Income taxes

The Company is subject to income taxes in numerous jurisdictions and critical judgment is required to determine the global income tax provisions. There are many transactions and calculations for which the ultimate tax determination could be uncertain. The Company recognizes liabilities in anticipation of a tax audit based on estimates of whether additional taxes will be paid. When the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. If income before taxes increases/decreases by 5%, income tax will be increased/decreased by Ps 118.

c) The fair value of derivative financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using fair value hierarchies. The Company uses its judgment to select a variety of methods and make assumptions that are based mainly on market conditions existing at the end of each reporting period. If the fair value estimation varies by 5%, the effect on income would be modified by Ps 1 and the equity by Ps 32.

d) Pension benefits

The present value of pension obligations depends on a number of factors determined on an actuarial basis using different assumptions. Assumptions used in the determination of the net cost (income) for pensions include the discount rate. Any change in the assumptions will impact the carrying amounts of pension obligations.

The Company determines the adequate discount rate at year end. This interest rate should be used to determine the present value of future cash outflows expected required to settle pension obligations. In the determination of the appropriate discount rate, the Company considers the discount interest rate in conformity with IAS 19 (Revised) "Employee benefits" denominated in the currency used to pay benefits with terms at maturity that approximate the obligations terms of related pension obligations. Other key assumptions for pension obligations are based, in part, on the current market conditions. See analysis of sensibility in Note 20.

5.2 Critical judgments in applying the entity's accounting policies

a) Basis for consolidation

The financial statements include the assets, liabilities and results of all entities in which the Company has a controlling interest. The balances and significant intercompany transactions have been eliminated in consolidation. To determine control, the Company considers whether it has the power to govern the financial and operational strategy of the respective entity and not just the power of the capital held by the Company. As a result of this analysis, the Company has exercised critical judgment to decide whether to consolidate the financial statements of Polioles and Indelpro, where the determination of control is not clear. Based on the principal substantive right of Alpek in accordance with the by-laws of Polioles to appoint the General Director, who has control over the relevant decision making and based on the by-laws of Indelpro and supported in the General Law of Mercantile Organizations, which allow Alpek to control the decisions over relevant activities by a simple majority through an ordinary shareholders' meeting, where it holds 51% of Indelpro. Management has concluded that there are circumstances and factors described in the bylaws of Polioles and applicable standards that allow the Company to conduct the daily operations of Polioles and Indelpro, therefore, demonstrate control. The Company will continue to evaluate these circumstances at the date of each consolidated statement of financial position to determine if this critical judgment is still valid. If the Company determines that it has no control over Polioles and Indelpro, they will need to be deconsolidated and be accounted for using the equity method.

NOTE 6 - Cash and cash equivalents

The cash and cash equivalents are comprised as follows:

	At December 31,			
	2016		2015	
Cash and bank accounts	Ps	1,886	Ps	3,226
Short-term bank deposits		1,049		3,424
Cash and cash equivalents	Ps	2,935	Ps	6,650

Restricted cash and cash equivalents

At December 31, 2016 and 2015, the Company has restricted cash of approximately Ps 2 and Ps 3, respectively. The balances are required to be held in escrow as deposits related to workers compensation reserves. The restricted cash balance is classified as current assets in the consolidated statement of financial position based on the maturity date of the restriction.

NOTE 7 - Trade and other receivables, net

Trade and other accounts receivable are comprised as follows:

	At December 31, 2016		At December 31, 2015	
Trade receivables	Ps	11,377	Ps	8,351
Provision for impairment of trade receivables		(186)		(155)
Trade receivables, net		11,191		8,196
Accounts receivable from related parties (Note 8)		1,101		2,954
Recoverable taxes		3,384		1,978
Interest receivable		2		-
Other debtors		240		256
Current portion	Ps	15,918	Ps	13,384

At December 31, 2016 and 2015, trade receivables and other accounts receivable include past-due balances not impaired of Ps 2,082 and Ps 1,433, respectively.

As of December 31 2016 and 2015, the balance of other debtors is comprised primarily by travel expenses, customs expenses, among others.

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

	At December 31, 2016		At December 31, 2015	
1 to 30 days	Ps	1,101	Ps	587
30 to 90 days		239		183
90 to 180 days		161		57
More than 180 days		581		606
	Ps	2,082	Ps	1,433

At December 31, 2016 and 2015, trade and other accounts receivable of Ps 186 and Ps 155, respectively were totally impaired. Trade and other accounts receivable impaired correspond mainly to companies going through difficult economic situations. Part of the impaired accounts is expected to be recovered.

Movements in the provision for impairment of trade receivables are analyzed as follows:

	2016	2015
Initial balance (January 1)	(Ps 155)	(Ps 393)
Provision for impairment in trade receivables	(60)	(12)
Trade receivables written-off during the year	15	261
Cancellation of unused provision for impairment	24	(11)
Exchange rate fluctuations	(10)	-
Final balance (December 31)	(Ps 186)	(Ps 155)

The maximum risk in accounts receivable is the carrying amount at December 31, 2016 and 2015. Increases in the provision for impairment of trade and other receivables are recognized in the consolidated income statement under the caption selling expenses.

NOTE 8 - Related parties transactions

Transactions with related parties during the years ended December 31, 2016 and 2015, which were celebrated as if the conditions carried out in terms similar to those of arm's - length transactions with independent third parties were as follows:

	2016	2015
Revenue		
Revenue from finished goods sales:		
Affiliates	Ps -	Ps 75
Shareholders with significant influence over subsidiaries	1,343	1,225
Revenue from services:		
Affiliates	350	311
Shareholders with significant influence over subsidiaries	180	12
Revenue from financial interest:		
Holding company	28	28
Affiliates	10	8
Shareholders with significant influence over subsidiaries	6	6
Other revenue:		
Affiliates	1	5
Shareholders with significant influence over subsidiaries (Note 2e)	-	676

	2016	2015
Costs / expenses		
Purchase of finished goods and raw materials:		
Affiliates	(Ps 3)	(Ps 21)
Shareholders with significant influence over subsidiaries	(915)	(1,317)
Administrative services expenses:		
Affiliates	(346)	(202)
Shareholders with significant influence over subsidiaries	(15)	(55)
Interest expenses:		
Associates	(1)	-
Other expenses:		
Affiliates	(69)	-
Shareholders with significant influence over subsidiaries (Note 2e)	(6)	(298)
Dividends declared:		
Holding company	(1,608)	(1,209)
Other shareholders	(351)	(264)
Dividends from subsidiaries to the non – controlling interest:		
Shareholders with significant influence over subsidiaries	(1,967)	(912)
Other shareholders	(82)	(66)
Effect of business transference under common control [1]	(435)	-

[1] During the month of November 2016, Alpek received from ALFA (Holding Company) 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 Ps 434.

For the year ended December 31, 2016, wages and benefits received by top officials of the Company were
Ps 336 (Ps 266 in 2015), comprising of base salary and law benefits and supplemented by a variable compensation program that is basically based on the performance of the Company and by the market value of its shares.

The Company and its subsidiaries report that they had no significant transactions with related parties or conflicts of interest to disclose at December 31, 2016 and 2015.

At December 31, the balances with related parties are as follows:

	Nature of the transaction	At December 31, 2016	2015
Short term account receivables:			
Holding company			
Alfa, S. A. B. de C. V. [1]	Financing and interests	Ps -	Ps 595
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	5	10
Nemak, S. A. B. de C. V.	Administrative services	7	11
Terza, S. A. de C. V.	Sale of goods	1	-
Petrocel, S. A.	Operative and administrative services	-	5
Petrocel, S. A.	Financing and interests	-	468
Shareholders with significant influence over subsidiaries			
BASF	Sale of goods	112	102
BASF	Sale of businesses	635	1,443
BASF	Leasing and administrative services	2	1
Basell	Sale of goods	25	12
Basell	Administrative services	9	2
		Ps 1,101	Ps 2,954
Long-term account receivables:			
Holding company			
Alfa, S. A. B. de C. V. [1]	Financing and interests	Ps 745	Ps -
Short-term account payables:			
Affiliates			
Alliax, S. A. de C. V.	Administrative services	Ps 18	Ps 22
Nemak Exterior, LTD	Administrative services	1	1
Alfa Corporativo, S. A. de C. V.	Administrative services	16	36
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	-
Others	Administrative services	-	1

	Nature of the transaction	At December 31, 2016	2015
Associates			
Clear Path Recycling LLC	Financing and interests	83	-
Terminal Petroquímica Altamira, S. A. de C. V.	Administrative services	1	-
Shareholders with significant influence over subsidiaries			
BASF	Sale of goods	16	20
BASF	Sale of raw materials	164	161
BASF	Commissions and other	2	4
Basell	Others	29	34
		Ps 337	Ps 279
Long-term account payables:			
Affiliates			
Alfa Corporativo, S. A. de C. V.	Administrative services	Ps 4	Ps -

(1) At December 31, 2016 and 2015, the loans granted bear an average fixed interest rate of 5.34% and 4.51%, respectively.

The Company and its subsidiaries declare that they neither had significant related party transactions nor conflicts of interest to disclose at December 31, 2016 and 2015.

NOTE 9 - Inventories

	At December 31,			
	2016		2015	
Finished goods	Ps	8,419	Ps	5,795
Raw material and other consumables		4,924		5,082
Materials and tools		1,002		793
Work in process		508		416
	Ps	14,853	Ps	12,086

For the years ended at December 31, 2016 and 2015, the cost of raw materials consumed and the changes in inventories of work in process and finished goods recognized in the cost of sales amounted to Ps 76,943 and Ps 73,029, respectively.

For the years ended December 31, 2016 and 2015, it was recognized in the Consolidated Statement of Income a provision amounting to Ps 22 and Ps 28, respectively, related to damaged, slow-moving and obsolete inventory.

At December 31, 2016 and 2015, there were no inventories pledged as collateral.

NOTE 10 - Prepayments

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

	At December 31,			
	2016		2015	
Current portion (1)	Ps	457	Ps	338
Noncurrent portion (2)		1,570		1,228
Total prepaid expenses	Ps	2,027	Ps	1,566

(1) This item mainly consists of advertising and prepaid insurance.

(2) This item mainly represents advances on inventories forthcoming years related to supply rights, as described in Note 2 a), in the amount of Ps 1,550 and Ps 1,102 at December 31, 2016 and 2015, respectively.

NOTE 11 - Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment	Furniture, lab and information technology equipment	Construction in process	Other fixed assets	Total
Year ended December 31, 2015								
Beginning balance	Ps 2,988	Ps 3,624	Ps 19,061	Ps 69	Ps 238	Ps 919	Ps 494	Ps 27,393
Additions	-	7	47	3	7	1,477	36	1,577
Additions through business acquisitions	37	104	257	3	16	9	-	426
Disposals	-	-	(28)	(1)	-	(1)	(11)	(41)
Impairment	-	-	(14)	-	-	(27)	(1)	(42)
Translation effect	236	534	2,857	8	37	121	102	3,895
Depreciation charge recognized in the year	-	(222)	(1,697)	(12)	(76)	-	-	(2,007)
Transfers	3	89	661	5	66	(850)	147	121
Carrying value at December 31, 2015	Ps 3,264	Ps 4,136	Ps 21,144	Ps 75	Ps 288	Ps 1,648	Ps 767	Ps 31,322
At December 31, 2015								
Cost	Ps 3,264	Ps 11,764	Ps 55,399	Ps 284	Ps 1,411	Ps 1,648	Ps 767	Ps 74,537
Accumulated depreciation	-	(7,628)	(34,255)	(209)	(1,123)	-	-	(43,215)
Carrying value at December 31, 2015	Ps 3,264	Ps 4,136	Ps 21,144	Ps 75	Ps 288	Ps 1,648	Ps 767	Ps 31,322
Year ended December 31, 2016								
Beginning balance	Ps 3,264	Ps 4,136	Ps 21,144	Ps 75	Ps 288	Ps 1,648	Ps 767	Ps 31,322
Additions	1	11	31	8	5	4,574	35	4,665
Additions through 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 charge recognized in the year	-	(241)	(1,904)	(13)	(87)	-	-	(2,245)
Transfers	100	137	1,068	(13)	64	(1,197)	(34)	125
Carrying value at December 31, 2016	Ps 3,724	Ps 4,849	Ps 25,271	Ps 70	Ps 327	Ps 5,554	Ps 904	Ps 40,699
At December 31, 2016								
Cost	Ps 3,724	Ps 14,198	Ps 68,412	Ps 329	Ps 1,774	Ps 5,554	Ps 904	Ps 94,895
Accumulated depreciation	-	(9,349)	(43,141)	(259)	(1,447)	-	-	(54,196)
Carrying value at December 31, 2016	Ps 3,724	Ps 4,849	Ps 25,271	Ps 70	Ps 327	Ps 5,554	Ps 904	Ps 40,699

Depreciation expenses of Ps 2,217 and Ps 1,981 were recorded in cost of sales, Ps 4 and Ps 5, in selling expenses and Ps 24 and Ps 21, in administrative expenses in 2016 and 2015, respectively.

The Company has capitalized costs of loans in qualified assets for Ps 51 and Ps 2 for the years ended December 31, 2016 and 2015, respectively. Costs from loans were capitalized at the weighted average rate of loans that amounts to approximately 4.9%.

NOTE 12 - Goodwill and intangible assets, net

	Finite life						Indefinite life		
	Development costs	Supply rights	No-compete agreements	Customers relationships	Software and licenses	Intellectual property rights, tolling rights and others	Goodwill	Others	Total
Cost									
At January 1, 2015	Ps 663	Ps 2,927	Ps 198	Ps 536	Ps 90	Ps 2,341	Ps 250	Ps 7	Ps 7,012
Additions	5	1,741	-	-	11	99	5	-	1,861
Translation effect	112	620	(2)	91	10	392	42	1	1,266
At December 31, 2015	780	5,288	196	627	111	2,832	297	8	10,139
Additions	7	947	-	-	-	484	7	-	1,445
Transfers	-	-	-	1	1	(7)	(1)	-	(6)
Translation effect	158	1,204	15	125	16	628	59	2	2,207
At December 31, 2016	Ps 945	Ps 7,439	Ps 211	Ps 753	Ps 128	Ps 3,937	Ps 362	Ps 10	Ps 13,785
Amortization									
At January 1, 2015	(Ps 267)	Ps -	(Ps 99)	(Ps 160)	(Ps 43)	(Ps 360)	Ps -	Ps -	(Ps 929)
Amortization	(48)	-	(44)	(46)	(4)	(105)	-	-	(247)
Translation effect	(47)	-	-	(31)	(6)	(67)	-	-	(151)
At December 31, 2015	(362)	-	(143)	(237)	(53)	(532)	-	-	(1,327)
Amortization	(46)	-	(19)	(54)	(24)	(172)	-	-	(315)
Transfers	-	-	-	-	-	7	-	-	7
Translation effect	(78)	-	(15)	(53)	(11)	(118)	-	-	(275)
At December 31, 2016	(Ps 486)	Ps -	(Ps 177)	(Ps 344)	(Ps 88)	(Ps 815)	Ps -	Ps -	(Ps 1,910)
Net carrying value									
Cost	Ps 780	Ps 5,288	Ps 196	Ps 627	Ps 111	Ps 2,832	Ps 297	Ps 8	Ps 10,139
Amortization	(362)	-	(143)	(237)	(53)	(532)	-	-	(1,327)
At December 31, 2015	Ps 418	Ps 5,288	Ps 53	Ps 390	Ps 58	Ps 2,300	Ps 297	Ps 8	Ps 8,812
Cost	Ps 945	Ps 7,439	Ps 211	Ps 753	Ps 128	Ps 3,937	Ps 362	Ps 10	Ps 13,785
Amortization	(486)	-	(177)	(344)	(88)	(815)	-	-	(1,910)
At December 31, 2016	Ps 459	Ps 7,439	Ps 34	Ps 409	Ps 40	Ps 3,122	Ps 362	Ps 10	Ps 11,875

Of the total amortization expense, Ps 295 and Ps 247 have been recorded in cost of sales and Ps 20 and Ps 0 in administrative expenses in 2016 and 2015, respectively.

Incurred research and development expenses that have been recorded in the 2016 and 2015 consolidated statements of income were Ps 62 and Ps 55, respectively.

Impairment testing of goodwill

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, goodwill arising from the Polyester segment for a total of Ps 362 and Ps 297 at December 31, 2016 and 2015, respectively.

The amount of recovery 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 key assumptions used in calculating the value in use in 2016 and 2015 were as follows:

	2016	2015
Estimated gross margin	6.3%	6.8%
Growth rate	0.0%	6.5%
Discount rate	9.0%	10.0%

With regard to the calculation of the value in use of the operating segments, the Company's Management considers that a possible change in the key assumptions used, would not cause that the carrying value of the operating segments exceeds materially its value in use.

NOTE 13 - Other assets

	At December 31,			
	2016		2015	
Notes receivable (1)	Ps	1,382	Ps	110
Accounts receivable from related parties (Note 8)		745		-
Financial assets available for sale (2)		172		144
Total other non-current financial assets		2,299		254
Investment in associates (3)		403		253
Total other assets	Ps	2,702	Ps	507

(1) This item mainly consists of a loan receivable that bears half-yearly interest at a 6.99% rate (Libor + 5.3%), and matures in December 2019.

(2) Financial assets available for sale

These assets are related to investments in companies not listed on the market and for investments in social clubs that represent less than 1% of the capital stock. The Company has not recognized any impairment loss at December 31, 2016.

The movement of financial assets available for sale is as follows:

	2016		2015	
Balance at January 1	Ps	144	Ps	129
Translation effect		20		15
Additions		8		-
Balance at December 31	Ps	172	Ps	144

Financial assets available for sale are denominated in the following currencies:

	At December 31,			
	2016		2015	
USD	Ps	124	Ps	104
MXN		48		40
Total	Ps	172	Ps	144

None of the financial assets available for sale are expired or impaired.

(3) Investment by associates

Following is presented summarized financial information of associated companies of the group that are not significant, which are accounted for by the equity method:

	2016		2015	
Net loss	(Ps	4)	(Ps	71)
Other comprehensive income		(2)		-
Comprehensive income	(Ps	6)	(Ps	71)
Investment in associates at December 31	Ps	403	Ps	253

There are neither commitments non contingencies liabilities regarding the Company's investment in associates as of December 31, 2016.

NOTE 14 – 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 at December 31,	
		2016	2015	2016	2015
Indelpro, S. A. de C. V. and subsidiary	49%	Ps 1,101	Ps 699	Ps 3,631	Ps 2,917
Polioles, S. A. de C. V. and subsidiary	50%	251	216	474	1,153
Non-controlling portion of non-significant subsidiaries		16	2	544	475
		Ps 1,368	Ps 917	Ps 4,649	Ps 4,545

The summarized financial information at December 31, 2016 and 2015 and for the year then ended, corresponding to each subsidiary with a significant non-controlling interest is shown below:

	Indelpro, S. A. de C. V. and subsidiary		Polioles, S. A. de C. V. and subsidiary	
	2016	2015	2016	2015
Statements of financial position				
Current asset	Ps 3,739	Ps 3,527	Ps 2,248	Ps 3,976
Non-current asset	7,737	6,393	1,150	876
Current liability	1,489	1,619	909	1,268
Non-current liability	2,577	2,348	1,540	1,277
Stockholders' equity	7,410	5,953	949	2,307
Statements of income				
Revenues	11,991	10,034	3,517	4,899
Consolidated net profit	2,246	1,427	502	431
Comprehensive income for the year	3,542	2,254	596	649
Comprehensive income attributable to non-controlling interest	1,735	1,105	298	324
Dividends paid to the non-controllinginterest	1,022	762	945	150
Statements of cash flows				
Net cash flows generated (used) in operating activities	2,328	2,613	(460)	(48)
Net cash flows (used) generated in investing activities	(444)	(441)	1,967	(81)
Net cash flows used in financing activities	(2,356)	(1,909)	(1,702)	(320)
(Decrease) increase in cash and cash equivalents	(394)	302	(227)	(418)

NOTE 15 - Financial instruments

a) Financial instruments by category

At December 31, 2016

	Trade receivables and liabilities at amortized cost		Available for sale		Financial assets and liabilities at fair value through profit and loss		Derivative designated for hedging		Total	
Financial assets:										
Cash and cash equivalents	Ps	2,935	Ps	-	Ps	-	Ps	-	Ps	2,935
Restricted cash and cash equivalents		2		-		-		-		2
Trade and other receivable		15,918		-		-		-		15,918
Derivative financial instruments		-		-		-		56		56
Other assets		2,127		172		-		-		2,299
	Ps	20,982	Ps	172	Ps	-	Ps	56	Ps	21,210
Financial liabilities:										
Debt	Ps	24,338	Ps	-	Ps	-	Ps	-	Ps	24,338
Suppliers and other accounts payable		15,492		-		-		-		15,492
Shared-based payments		-		-		31		-		31
Derivative financial instruments		-		-		12		705		717
	Ps	39,830	Ps	-	Ps	43	Ps	705	Ps	40,578

At December 31, 2015

	Trade receivables and liabilities at amortized cost		Available for sale		Financial assets and liabilities at fair value through profit and loss		Derivative designated for hedging		Total	
Financial assets:										
Cash and cash equivalents	Ps	6,650	Ps	-	Ps	-	Ps	-	Ps	6,650
Restricted cash and cash equivalents		3		-		-		-		3
Trade and other receivable		13,384		-		-		-		13,384
Derivative financial instruments		-		-		203		-		203
Other assets		110		144		-		-		254
	Ps	20,147	Ps	144	Ps	203	Ps	-	Ps	20,494
Financial liabilities:										
Debt	Ps	18,954	Ps	-	Ps	-	Ps	-	Ps	18,954
Suppliers and other accounts payable		11,693		-		-		-		11,693
Shared-based payments		-		-		55		-		55
Derivative financial instruments		-		-		17		1,542		1,559
	Ps	30,647	Ps	-	Ps	72	Ps	1,542	Ps	32,261

b) Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information on non-compliance rates of the counterparty:

	At December 31, 2016		2015	
Trade and other receivables Counterparties with external credit rating				
"A+"	Ps	1,599	Ps	1,569
"A-"		89		26
"A"		363		-
"AAA"		144		32
"AA"		515		43
"B"		6		8
"B+"		590		19
"B-"		22		-
"BBB+"		45		34
"BBB"		1,499		510
"BBB-"		29		-
"BB"		43		3
"BB+"		195		8
"BB-"		147		914
Other categories		16		235
		5,302		3,401
Counterparties without external credit rating				
Type of customers X		11,192		8,293
Type of customers Y		382		986
Type of customers Z		28		-
		11,602		9,279
Total not impaired trade receivables	Ps	16,904	Ps	12,680

	At December 31,			
	2016		2015	
Cash and cash equivalents with or without restriction, not including petty cash				
"A+"	Ps	11	Ps	34
"A-"		1,393		762
"A"		738		2,485
"BBB+"		624		2,470
"BBB"		167		148
"BBB-"		-		1
"BB+"		-		12
Without external credit rating		3		733
	Ps	2,936	Ps	6,645
Derivative financial instruments				
“A-”	Ps	6	Ps	2
“BBB+”		10		6
“CCC”		-		163
“CCC+”		-		32
“BBB”		32		-
“A”		7		-
Without external credit rating		1		-
	Ps	56	Ps	203

Group X – New customers/related parties (less than 6 months).

Group Y – Customers/related parties (more than 6 months) without default in the past.

Group Z – Customers/related parties (more than 6 months) with some defaults in the past. All past-due amounts were fully recovered.

c) Fair value of financial assets and liabilities

The amounts of cash and cash equivalents, restricted cash and cash equivalents, customers and other receivables, other current asset, suppliers and other payables, current debt and other current liability approximate to their fair value due to their short maturity. The carrying amount of these accounts represents the expected cash flow at December 31, 2016 and 2015.

The carrying amount and the estimated fair value of the rest of the financial assets and liabilities are presented as follows:

	At December 31, 2016		At December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Non-current receivable	Ps 2,127	Ps 2,131	Ps 110	Ps 110
Financial liabilities				
Non-current debt	21,551	21,946	18,276	17,965

The estimated fair values as of December 31, 2016 and 2015, were determined based on discounted cash flows using rates that reflect a similar credit risk depending on the currency, maturity period and country where the debt was incurred. As part of the main rates used are the interbank equilibrium interest rate ("TIIE") for the instruments in pesos and Libor for instruments held in dollars. These fair values do not consider the current portion of financial assets and liabilities, as the current portion approximates their fair value. This is a measure of fair value of Level 3.

NOTE 16 - Derivative financial instruments

The effectiveness of derivative financial instruments designated as hedges is measured periodically. At December 31, 2016 and 2015 the Company's Management assessed the effectiveness of its hedges for accounting purposes and has concluded that they are highly effective.

Notional amounts related to derivative financial instruments reflect the contracted reference volume; however they do not reflect the amounts at risk with respect to future cash flows. The amounts at risk are generally limited to the unrealized profit or loss from the market valuation of such instruments, which may vary according to changes in the market value of the underlying, its volatility and the credit quality of the counterparties.

The principal obligations which the Company is subject to depends on the type of contract and the conditions stipulated in each one of the derivative financial instruments in force at December 31, 2016 and 2015.

Trading derivatives are classified as current assets or liabilities. The fair value of hedges is classified as a non-current asset or liability if the maturity of the hedged item is greater than 12 months and as a current asset or liability if the maturity of the hedged item is lesser than 12 months.

a) Exchange rate derivatives

Derivative financial instruments related to exchange rate positions with trading accounting treatment are summarized as follows:

At December 31, 2016

Type of derivative, value or contract	Notional amount	Underlying asset		Fair value	Maturity		
		Unit	Reference		2017	2018	2019+
USD/MXN	(Ps 186)	Pesos / Dollar	20.66	(Ps 12)	(Ps 12)	Ps -	Ps -
				(Ps 12)	(Ps 12)	Ps -	Ps -

At December 31, 2015

Type of derivative, value or contract	Notional amount	Underlying asset		Fair value	Maturity		
		Unit	Reference		2016	2017	2018+
USD/MXN	(Ps 688)	Pesos / Dollar	17.21	(Ps 13)	(Ps 13)	Ps -	Ps -
ARS/USD	800	Ps Arg / Dollar	12.94	202	202	-	-
				Ps 189	Ps 189	Ps -	Ps -

b) Energy

Positions of derivative financial instruments natural gas, gasoline, ethylene, ethane, paraxylene and brent crude, are summarized as follows:

At December 31, 2016

Type of derivative, value or contract	Notional amount	Underlying asset		Fair value	Maturity		
		Unit	Reference		2017	2018	2019+
With hedge accounting treatment:							
Ethylene [1]	Ps 350	Cent Dollar/lb	25.33	Ps 20	Ps 20	Ps -	Ps -
Natural gas [1]	2,106	Dollar / MBTU	3.72	(646)	-	(187)	(459)
Ethane [1]	3	Cent Dollar/Gallon	26.37	1	1	-	-
Px [1]	2,650	Dollar/MT	795	(24)	(24)	-	-
				(Ps 649)	(Ps 3)	(Ps 187)	(Ps 459)

At December 31, 2015

Type of derivative, value or contract	Notional amount	Underlying asset		Fair value	Maturity		
		Unit	Reference		2016	2017	2018+
With hedge accounting treatment:							
Ethylene [1]	Ps 809	Cent Dollar/lb	19.22	(Ps 230)	(Ps 230)	Ps -	Ps -
Natural gas [1]	2,923	Dollar / MBTU	2.32	(961)	(250)	(204)	(507)
Ethane [1]	46	Cent Dollar/Gallon	15.05	(5)	(5)	-	-
Px [1]	3,252	Dollar/MT	772	(309)	(309)	-	-
Gasolina [1]	72	Dollar / Gallon	1.25	(38)	(38)	-	-
With trade accounting treatment:							
Brent crude	5	Dollar / BBL	38.91	(2)	(2)	-	-
				(Ps 1,545)	(Ps 834)	(Ps 204)	(Ps 507)

(1) Cash flow hedges.

The main obligations to which the subsidiaries are subject depend upon the contracting mechanism and conditions stipulated in each one of the derivative financial instruments in effect at December 31, 2016 and 2015.

At December 31, 2016 and 2015, the net fair value of derivative financial instruments above mentioned amounts to Ps 661 and Ps 1,356, respectively, which is shown in the consolidated statement of financial position as follows:

	Fair value At December 31			
	2016		2015	
Current asset	Ps	56	Ps	203
Current liability		(71)		(848)
Non-current liability		(646)		(711)
Net position	(Ps	661)	(Ps	1,356)

At December 31, 2016 and 2015 there are no collaterals in derivative financial instruments.

NOTE 17 – Suppliers and other accounts payable

	At December 31,			
	2016		2015	
Suppliers	Ps	13,151	Ps	9,522
Short-term employee benefits		610		596
Payments in advance from customers		45		66
Taxes different than income tax		600		659
Accounts payable to related parties (Note 8)		337		279
Other accounts payable and accrued expenses		750		572
	Ps	15,492	Ps	11,693

NOTE 18 - Provisions

	Restructuring, demolition and environmental remediation	Indemnities from dismissal and others	Others	Total
At January 1, 2015	Ps 733	Ps 57	Ps -	Ps 790
Increases	-	-	33	33
Payments	(352)	(29)	(11)	(392)
Translation effect	90	7	(5)	92
At December 31, 2015	471	35	17	523
Increases	-	-	-	-
Payments	(210)	(10)	(6)	(226)
Translation effect	69	5	(1)	73
At December 31, 2016	Ps 330	Ps 30	Ps 10	Ps 370

	2016	2015
Short-term provisions	Ps 363	Ps 338
Long-term provisions	7	185
At December 31	Ps 370	Ps 523

The provisions shown in the above table are mainly related to the closure of the plant in Cape Fear located in Wilmington, North Carolina carried out in June 2013. The purpose of this closure was to improve cost competitive, through distributing production to the most efficient plants in its productive network.

During 2016, the Company continued the works of dismantling and demolition of the plant in Cape Fear, as was originally announced during 2013. At December 31, 2016, the balance of this provision amounts to Ps 360 (US$17), which is in line with the initial estimate made by the Management will be disbursed over 2017 according to the plan of dismantling and demolition of the plant.

NOTE 19 – Debt

	At December 31, 2016		2015	
Current:				
Bank loans (1)	Ps	2,375	Ps	440
Current portion of non-current debt		230		224
Notes payable (1)		178		6
Interest payable		4		8
Current debt	Ps	2,787	Ps	678
Non-current:				
Senior Notes	Ps	19,677	Ps	16,369
Unsecured Bank loans		2,104		2,131
Total		21,781		18,500
Less: current portion of non-current debt		(230)		(224)
Non-current debt (2)	Ps	21,551	Ps	18,276

(1) These items are represented by bank loans and current notes payable, and they bear interest at an average rate of 2.21% and 2.39% at December 31, 2016 and 2015, respectively.

The fair value of bank loans and notes payable approximates their current carrying amount, as the impact of discounting is not significant.

(2) The carrying amounts, terms and conditions of non-current debt are as follows:

Description	Currency	Outstanding credit balance	Debt issuance costs	Interest payable	Balance at December 31 2016	Balance at December 31 2015	Maturity date DD/MM/YY	Interest rate
Senior Note 144A/Reg. S / fixed rate	USD	Ps 13,406	(Ps 84)	Ps 67	Ps 13,389	Ps 11,137	20-Nov-22	4.50%
Senior Note 144A/Reg. S / fixed rate	USD	6,199	(43)	132	6,288	5,232	08-Aug-23	5.38%
Total Senior Notes		19,605	(127)	199	19,677	16,369		
Bank loan, Libor +1.60%	USD	1,033	-	1	1,034	861	19-Dec-19	2.59%
Bank loan, Libor +1.10%	USD	413	-	2	415	346	02-Apr-18	1.95%
Bank loan, BADLAR + 1.00%	ARS	100	-	2	102	122	01-Apr-20	21.13%
Bank loan, Fijo 19.00%	ARS	26	-	-	26	13	02-Dec-22	19.00%
Bank loan, Libor + 1.00%	USD	355	-	3	358	409	14-Aug-18	1.77%
Bank loan, Libor + 1.60%	USD	169	-	-	169	-	31-Jan-18	2.22%
Bank loan, BADLAR +2.00%	ARS	-	-	-	-	34	03-Oct-16	29.72%
Bank loan, Libor +1.18%	USD	-	-	-	-	346	01-Apr-17	1.51%
Total unsecured bank loans		2,096	-	8	2,104	2,131		
Total		Ps 21,701	(Ps 127)	Ps 207	Ps 21,781	Ps 18,500		

At December 31, 2016, the annual maturities of non-current debt are as follows:

	2018	2019	2020	2021 onwards	Total
Bank loans	Ps 1,488	Ps 557	Ps 18	Ps 10	Ps 2,073
Senior notes	-	-	-	19,478	19,478
	Ps 1,488	Ps 557	Ps 18	Ps 19,488	Ps 21,551

Covenants:

Most of the existing debt agreements contain restrictions for the Company, primarily for the compliance with certain financial ratios which mainly include:

a. Interest hedge ratio: it is calculated by dividing the profit before financial result, net, share of result of associates, income taxes, depreciation and amortization (EBITDA) by the net interest charges for the last four quarters of the analyzed period. This factor cannot be lesser than 3.0 times.

b. 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 regarding incurring additional debt or taking 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 2016 and 2015, the financial ratios were calculated according to the formulas set out in the loan agreements. At December 31, 2016 and the date of issuance of these financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

During the years ended December 31 2016 and 2015, there were not significant debt transactions, the main increase is generated due to the exchange rate of the debt held in US dollars. The amounts shown in the Consolidated Statements of Cash Flows correspond to credit lines utilized and paid during the year.

NOTE 20 - 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. The contributions in 2016 amounted to Ps 33 (Ps 62 in 2015).

Following is a summary of the main financial information of such employee benefits:

	At December 31, 2016		At December 31, 2015	
Liability for employees' benefits:				
Pension benefits	Ps	940	Ps	858
Post-employment medical benefits		177		168
		1,117		1,026
Defined contribution liability		110		82
Employees' benefits in the consolidated statement of financial position	Ps	1,227	Ps	1,108
Charge to the consolidated income statement for:				
Pension benefits	(Ps	56)	(Ps	61)
Post-employment medical benefits		(8)		(7)
		(64)		(68)
Remeasurement of obligations for employees' benefits recognized in the statement of comprehensive income for the year	Ps	100	(Ps	3)
Remeasurement of accumulated obligations for employees benefits	(Ps	131)	(Ps	231)

Pension 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 amounts recorded in the consolidated statement of financial position, are determined as shown below:

	At December 31,			
	2016		2015	
Present value of defined benefit obligations	Ps	3,964	Ps	3,546
Fair value of plan assets		(3,024)		(2,688)
Employees' benefits in the consolidated statement of financial position	Ps	940	Ps	858

The movement in the defined benefit obligation during the year is as follows:

	2016		2015	
At January 1	Ps	3,546	Ps	3,290
Service cost		44		40
Interest cost		161		138
Remeasurements:				
Gains (losses) from changes in financial assumptions		49		(120)
(Losses) from change in demographic assumptions and experience adjustments		(121)		(17)
Translation effect		618		482
Paid benefits		(309)		(262)
Plan reductions		(18)		(1)
Settlements		(6)		(4)
At December 31	Ps	3,964	Ps	3,546

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

	2016		2015	
At January 1	(Ps	2,688)	(Ps	2,524)
Interest income		(126)		(112)
Remeasurements return on plan assets, excluding interest income		(29)		119
Translation effect		(434)		(345)
Contributions		(33)		(62)
Paid benefits		286		236
At December 31	(Ps	3,024)	(Ps	2,688)

The amounts recorded in the statement of income for the years ended December 31 are the following:

	2016		2015	
Service cost	(Ps	44)	(Ps	40)
Net interest cost		(35)		(26)
Effect of reductions of plan and /or settlements		23		5
Total included in personal costs	(Ps	56)	(Ps	61)

The principal actuarial assumptions are as follows:

	At December 31,	
	2016	2015
Discount rate	MX 7.75%	MX 6.75%
	US 3.89%	US 4.08%
Inflation rate	3.50%	4.25%
Salary increase rate	4.50%	5.25%

The average life of defined benefit obligations is of 12.8 and 14.5 years at December 31, 2016 and 2015, respectively.

The sensitivity analysis of the main assumptions 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%	Decreases by Ps 19	Increases by Ps 22
Discount rate	US 1%	Decreases by Ps 366	Increases by Ps 441

Prior sensibility 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.

Post-employment medical benefits

The Company has post-employment medical benefits schemes mainly in 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.

In addition to the assumptions above mentioned, the main actuarial assumption it is a long-term increase in health costs by 8.0% in 2016 and 6.7% in 2015.

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

	At December 31,			
	2016		2015	
Present value of defined benefit obligations	Ps	177	Ps	168
Fair value of plan assets		-		-
Employees' benefits in the consolidated statement of financial position	Ps	177	Ps	168

The movements of defined benefit obligations are as follows:

	2016		2015	
At January 1	Ps	168	Ps	154
Service cost		2		2
Interest cost		6		5
Employee contributions		18		16
Remeasurements:				
Gain from changes in financial assumptions		-		(5)
Gains from changes in demographic assumptions and experience adjustments		1		25
Translation effect		32		24
Plan reductions		-		-
Paid benefits		(50)		(53)
At December 31	Ps	177	Ps	168

The amounts recorded in the consolidated statement of income for the years ended December 31 are the following:

	2016		2015	
Service cost	(Ps	2)	(Ps	2)
Net interest cost		(6)		(5)
Effect of reductions on plan and/or settlements		-		-
Total included in personal costs	(Ps	8)	(Ps	7)

At December 31, 2016, the effect of a 1% fluctuation in the incremental rate of medical expenses is as follows:

	Rate	
	Increase	Decrease
Effect in defined benefit obligation	13	(11)

Employee benefits

Plan assets are comprised as follows:

	At December 31,			
	2016		2015	
Investment funds (listed)	Ps	1,962	Ps	1,738
Cash and cash equivalents		1,062		949

NOTE 21 – Deferred income taxes

The analysis of the deferred tax asset and deferred tax liability is as follows:

	At December 31, 2016	At December 31, 2015
Deferred tax asset:		
- To be recovered for more than 12 months	Ps 364	Ps 243
- To be recovered within 12 months	69	118
	433	361
Deferred tax liability:		
- To be payable for more than 12 months	(5,902)	(4,579)
- To be payable within 12 months	19	(128)
	(5,883)	(4,707)
Deferred tax, net	(Ps 5,450)	(Ps 4,346)

The gross movement in the deferred income tax account is as follows:

	2016	2015
At January 1	(Ps 4,346)	(Ps 3,999)
Translation effect	(1,033)	(596)
Business acquisitions	82	(84)
Credit to consolidated income statement (Note 30)	145	203
Tax related to other items of comprehensive income (Note 30)	(298)	130
At December 31	(Ps 5,450)	(Ps 4,346)

The change of the temporary differences that requires deferred income tax recognition for the year ended December 31, as follows:

	2016		2015	
Provisions	Ps	139	Ps	262
Derivative financial instruments		124		4
Tax loss carryforwards		1,798		1,500
Total deferred tax asset		2,061		1,766
Inventories	(Ps	66)	(Ps	53)
Property, plant and equipment, net		(6,328)		(5,464)
Intangible assets, net		(442)		(289)
Other temporary differences, net		(675)		(306)
Total deferred tax liability		(7,511)		(6,112)
Net deferred tax liability	(Ps	5,450)	(Ps	4,346)

At December 31, 2016, the Company has accumulated tax loss carryforwards for a total of Ps 5,993 expiring as shown below:

Loss incurred in the year	Amortizable tax loss carryforwards		Maturity date
2007	Ps	187	2017
2008		138	2018
2009		162	2019
2010		162	2020
2011		595	2021
2012		194	2022
2013		52	2023
2014		838	2024
2015		2,773	2025
2016		892	Subsequent
	Ps	5,993	

NOTE 22 - Income tax payable

Due to the elimination of the tax consolidation regime in Mexico, the Company decided to incorporate itself into the new optional Regime for Groups of Companies beginning in 2014. This regime consists of grouping companies with specific characteristics, which have the possibility of deferring part of the tax on earnings payable in three years. The deferment percentage is calculated by using a factor determined in accordance with the amount of taxable income and tax loss in the year.

Income tax payable is summarized as follows:

	At December 31,			
	2016		2015	
Current portion	Ps	694	Ps	1,371
Non-current portion		553		28
Total income tax payable	Ps	1,247	Ps	1,399

NOTE 23 - Other liabilities

	At December 31,			
	2016		2015	
Deferred income [1]	Ps	500	Ps	452
Other		4		-
Total other liabilities	Ps	504	Ps	452

[1] This item corresponds to revenues charged in advance and relates to the future delivery of goods.

NOTE 24 - Stockholders' equity

At December 31, 2016, the capital stock is variable, with a fixed minimum of Ps 6,048 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.

During 2016, the Company repurchased 1,526,384 shares in the amount of Ps 46, in connection with a repurchase program that was approved by the Company's stockholders and exercised discretionally by Management. At December 31, 2016, the Company holds 1,526,384 treasury shares, and the market value of the share was Ps 24.77 pesos.

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. At December 31, 2016 and 2015, the legal reserve amounts to Ps 514 and Ps 377, respectively.

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 Ps 1,959.

In the Ordinary General Meeting of Alpek, held on April 15, 2015, the stockholders agreed to declare dividends in cash for a total of Ps 1,473.

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.

The movements in other reserves for 2016 and 2015 are shown as follows:

	Effect from foreign currency translation	Effect of cash flow hedge derivative instruments	Total
At January 1, 2015	Ps 2,755	(Ps 610)	Ps 2,145
Losses on fair value	-	(529)	(529)
Deferred tax asset on fair value losses	-	129	129
Gain from translation of foreign entities	3,843	-	3,843
At December 31, 2015	6,598	(1,010)	5,588
Gains on fair value	-	646	646
Deferred tax asset on fair value gains	-	(262)	(262)
Gain from translation of foreign entities	6,233	-	6,233
At December 31, 2016	Ps 12,831	(Ps 626)	Ps 12,205

Foreign currency translation

In this caption, the effect of foreign exchange differences arising from the translation of financial statements of foreign subsidiaries are recorded.

Effect of derivative financial instruments

The effect of derivative financial instruments contracted as cash flow hedges contains the effective portion of cash flow hedges at the reporting date.

The Board of Directors and Executive Officers of the Company do not own more than 1% of its capital. Furthermore, none of the shareholders own more than 10% of its capital, or have significant influence or control or have power to govern the Company.

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 a tax equivalent to 42.86% if they are paid in 2017. 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, 2016, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA Spanish acronym) amounted to Ps 1,879 and Ps 18,038, respectively.

NOTE 25 - Shared-based payments

Alpek has a stock based compensation scheme referred to at 50% of the value of stock of its holding company and the other 50% of the value of 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 share at the end of each year.

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

	2016		2015	
Alfa, S. A. B. de C. V.	Ps	26.73	Ps	34.30
Alpek, S. A. B. de C. V.		26.10		23.48

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

	At December 31,			
	2016		2015	
Short-term	Ps	10	Ps	18
Long-term		21		37
Total carrying amount	Ps	31	Ps	55

NOTE 26 - 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:

	2016	2015
Raw materials and others	(Ps 60,305)	(Ps 58,782)
Employee benefit expenses (Note 29)	(4,227)	(3,799)
Human resource expenses	(54)	(76)
Maintenance	(1,411)	(1,093)
Depreciation and amortization	(2,560)	(2,254)
Advertising expenses	(3)	(2)
Freight charges	(4,325)	(3,865)
Energy consumption and fuel (gas, electricity, etc.)	(3,514)	(2,885)
Travel expenses	(170)	(132)
Operating lease expenses	(775)	(639)
Technical assistance, professional fees and administrative services	(937)	(1,042)
Others (insurance and finance, water, containers and packaging, etc.)	(2,283)	(1,676)
Total	(Ps 80,564)	(Ps 76,245)

NOTE 27 - Other income (expenses), net

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

	2016	2015
Gain on sale of wastes	Ps 3	Ps 9
Gain on sale of property, plant and equipment	1	382
Impairment of property, plant and equipment	(2)	(130)
Valuation of derivative financial instruments	-	(6)
Expenses related to acquisition projects	(5)	-
Gain on business acquisition	36	-
Income from a loss recovery [(1)]	112	-
Other income	90	-
Other expense	-	(10)
Total	Ps 235	Ps 245

(1) This item represents the recovery of a plant insurance of DAK Argentina.

NOTE 28 - Finance income and costs

Finance cost, net for the years ended December 31, are comprised as follows:

	2016		2015	
Finance income:				
Interest income on short-term bank deposits	Ps	150	Ps	188
Interest income on loans from related parties		44		42
Other finance income		87		15
Foreign exchange gains		3,280		2,367
Gains for changes in the fair value of financial assets at fair value through profit or loss		4		183
Total finance income	Ps	3,565	Ps	2,795
Finance costs:				
Interest expense on loans from related parties	(Ps	1)	Ps	-
Interest expense on bank loans		(143)		(128)
Non-bank interest expense		(926)		(787)
Interest cost on employees benefits, net		(44)		(31)
Other finance expenses (factoring and others)		(300)		(230)
Foreign exchange loss		(4,660)		(3,481)
Total finance costs	(Ps	6,074)	(Ps	4,657)
Finance cost, net	(Ps	2,509)	(Ps	1,862)

NOTE 29 - Employee benefit expenses

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

	2016		2015	
Salaries, wages and benefits	(Ps	3,102)	(Ps	2,854)
Social security contributions		(304)		(262)
Employee benefits (Note 20)		(22)		(37)
Other contributions		(799)		(646)
Total	(Ps	4,227)	(Ps	3,799)

NOTE 30 - Income taxes

Income tax for the years ended December 31, is integrated as follows:

	2016	2015
Total current income tax	(Ps 2,470)	(Ps 2,252)
Adjustment to the provision of income tax from prior years	(33)	9
Total deferred tax	145	203
Income taxes	(Ps 2,358)	(Ps 2,040)

The reconciliation between the statutory and effective income tax rates for the years ended December 31, is as follows:

	2016	2015
Profit before income tax	Ps 7,351	Ps 5,705
Statutory tax rate	30%	30%
Income tax at statutory rate	(2,205)	(1,711)
Add (deduct) effect of income tax on:		
Annual inflation adjustment	(71)	(236)
Non-deductible expenses	(24)	(21)
Non-taxable income	27	5
Effect of different tax rates of countries other than Mexico	(51)	(79)
Adjustment to the income taxes liability of prior years	(33)	9
Share of losses of associates	(1)	(7)
Total income taxes	(Ps 2,358)	(Ps 2,040)
Effective tax rate	32%	36%

The charge (credit) to income tax related to other items of the comprehensive income for the years ending December 31, are as follows:

	2016			2015		
	Before taxes	Tax charge (credit)	After taxes	Before taxes	Tax charge (credit)	After taxes
Translation effect of foreign currency	Ps 6,233	Ps -	Ps 6,233	Ps 3,843	Ps -	Ps 3,843
Remeasurement of obligations for employee benefits	100	(36)	64	(3)	-	(3)
Effect of derivative financial instruments for hedging purposes of cash flow	646	(262)	384	(530)	130	(400)
Share of other comprehensive results of associates	(2)	-	(2)	-	-	-
Other comprehensive income items	Ps 6,977	(Ps 298)	Ps 6,679	Ps 3,310	Ps 130	Ps 3,440
Deferred tax		(Ps 298)			Ps 130	

NOTE 31 - Segment reporting

Segment reporting is presented, consistently with the internal report provided to the Chief Operating Officer, who has been identified as the Company's Executive Director, and represents 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 being evaluated.

Management controls and assesses its operations through two business segments: the Polyester business chain 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 the Adjusted EBITDA as the calculation of adding operating income, depreciation, amortization, and noncurrent asset impairment.

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 these operating segments:

For the year ended December 31, 2016:

	Polyester	Plastics and Chemicals	Others	Total
Statement of income:				
Revenue by segment	Ps 64,336	Ps 26,151	(Ps 295)	Ps 90,192
Inter-segment revenue	(95)	(200)	295	-
Revenue from external costumers	Ps 64,241	Ps 25,951	Ps -	Ps 90,192
Operating profit	Ps 4,487	Ps 5,413	(Ps 37)	Ps 9,863
Depreciation, amortization and impairment of non-current assets	2,027	535	-	2,562
Adjusted EBITDA	Ps 6,514	Ps 5,948	(Ps 37)	Ps 12,425
Capex	Ps 5,234	Ps 747	Ps -	Ps 5,981

For the year ended December 31, 2015:

	Polyester	Plastics and Chemicals	Others	Total
Statement of income:				
Revenue by segment	Ps 60,852	$ 23,070	(Ps 332)	Ps 83,590
Inter-segment revenue	(83)	(249)	332	-
Revenue from external costumers	Ps 60,769	Ps 22,821	Ps -	Ps 83,590
Operating profit	Ps 3,583	Ps 3,961	Ps 46	Ps 7,590
Depreciation, amortization and impairment of non-current assets	1,837	547	-	2,384
Adjusted EBITDA	Ps 5,420	Ps 4,508	Ps 46	Ps 9,974
Capex	Ps 3,979	Ps 503	Ps -	Ps 4,482

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

	2016	2015
Adjusted EBITDA	Ps 12,425	Ps 9,974
Depreciation, amortization and impairment of non-current assets	(2,562)	(2,384)
Operating profit	9,863	7,590
Financial cost, net	(2,509)	(1,862)
Share of losses in associates	(3)	(23)
Income before taxes	Ps 7,351	Ps 5,705

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

		2016		2015
Mexico	Ps	43,657	Ps	40,986
United States		39,271		36,455
Argentina		4,405		4,762
Brazil		1,301		853
Chile		766		369
Canada		792		165
Revenues	Ps	90,192	Ps	83,590

The Company's main costumer generated revenue amounting to Ps 8,654 and Ps 5,706 for the years ended December 31, 2016 and 2015, respectively. This revenue is obtained from the Polyester reporting segment and represents 10% and 11% of the consolidated revenue with external costumers for the years ended December 31, 2016 and 2015, respectively.

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

	At December 31,			
		2016		2015
Mexico	Ps	2,344	Ps	2,132
United States		9,524		6,675
Chile		6		-
Canada		1		-
Argentina		-		5
Total intangible assets	Ps	11,875	Ps	8,812
Mexico	Ps	30,511	Ps	23,791
United States		8,425		6,863
Canada		968		-
Argentina		349		328
Chile		318		233
Brazil		128		107
Total property, plant and equipment	Ps	40,699	Ps	31,322

NOTE 32 - Commitments and contingencies

At December 31, 2016, the Company has the following commitments:

a. The Company through its subsidiary Grupo Petrotemex, signed a contract with M&G (see Note 2) related to supply rights of the plant for 500 thousand tons of PET (manufactured with 420 thousand tons of PTA) per year. Grupo Petrotemex has completed the payments amounting to Ps 8,989 (US$435), of which Ps 7,439 (US$360) are recognized in the intangible assets that correspond to the before mentioned supply rights, and will be amortized once the supply of PET begins and Ps 1,550 (US$75) as a prepayment of inventory within the prepayments caption. See Note 12.

b. On December 15, 2014, the Company through its subsidiary DAK (see Note 2) entered into a Toll Manufacturing Agreement with Huntsman in which will obtain supply rights of Monoethylene Glycol (MEG). On the other hand, DAK paid US$65 to Huntsman during the installation of the equipment according to an established calendar and in compliance with certain milestones. 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 the month of June 2016, thus, DAK obtained 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.

c. At December 31, 2016 and 2015, the 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.

d. 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, 2016 and 2015 amounted to Ps 2,317 and Ps 2,896, respectively. The purchase commitment for the year 2016 amounts to approximately Ps 3,193 and is based on the volume of purchases made during 2015.

e. 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.

   Future payments under these operating lease agreements with non-cancellable terms greater than a year are summarized below:

1 year	Ps	483
Between 1 and 5 years		1,177
More than 5 years		1,022

At December 31, 2016, 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.

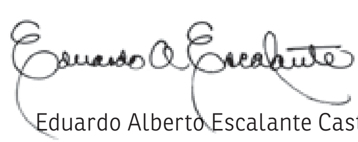
b. Some of the subsidiaries use hazardous materials to manufacture polyester filaments and staple fibers, polyethylene terephthalate (PET) and terephthalatic acid (PTA) resin, polypropylene (PP) resin, expandable polystyrene (EPS), caprolactam (CPL), chemical specialties and they generate and dispose 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.

NOTE 33 - Subsequent events

In preparing the financial statements the Company has evaluated the events and transactions for their recognition or disclosure subsequent to December 31, 2016 and through February 17, 2017 (date of issuance of the financial statements), and has concluded that there are no subsequent events affecting them.

José de Jesús Valdez Simancas
Chief Executive Officer



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