

To Our Shareholders:

It is a pleasure to inform that in 2016 CYDSA concluded a fundamental phase, started in 2011, to implement Competitiveness and Growth Projects and significantly enhance the Business Units' strategic positioning and establish the base for the Group's medium and long term growth. Completed Projects in 2016, designed for strengthening the Business Portfolio, supported the improvement in operating and financial results despite the unfavorable domestic and international economic conditions recently observed. Consequently, 2016 Sales and Operating Cash Flow (EBITDA¹) increased in both Mexican pesos

and US dollars. The peso depreciation against the US currency, however, significantly reduced the performance in dollar terms.

Three 2016 achievements positively impacted the Group's current and long term growth potential.

- **Startup of Iquisa Noreste, a new "State of the Art" Chlorine, Caustic Soda and Chemical Specialties Plant.**

In mid-2013, to improve the Competitive and Growth Capabilities of the Chlorine-Caustic Soda Business Unit, the Group started construction of a green-field "state of the art" plant to produce chlorine, caustic soda and chemical specialties located in Garcia, State of Nuevo Leon.

On March 19, 2016, Iquisa Noreste initiated production with annual capacities totaling 60,000 tons of chlorine and 68,000 tons of caustic soda. The plant also produces sodium hypochlorite, hydrochloric acid and various forms of packaged chlorine.

With this investment, more than half of CYDSA's chlorine and caustic soda originates from the most energy efficient processes, with the least impact on the ozone layer and other environmental conditions.



TOMAS GONZALEZ SADA
Chairman of the Board and
Chief Executive Officer

- **Completion of Evaporated Salt Production Capacity Expansion.**

To support the strategy for improving the competitive position of the Salt Business Unit, a project started in 2013, encompassing several phases, redesigned and updated the production processes of the evaporated salt plant in Coatzacoalcos, Veracruz. The initiative increased annual capacity from 400,000 to 670,000 tons and improved energy efficiency.

The third and last phase of the project, completed in January 2017, reaffirmed the **Sales del Istmo** plant as the largest evaporated salt operation in the Americas.

- **Launching of the Electricity and Steam Cogeneration Business Unit's Second Plant.**

For several Group businesses, electricity and natural gas represent significant cost components. For this reason, CYDSA became part of the Energy Industry in March 2014 by operating a cogeneration plant in Coatzacoalcos, State of Veracruz, simultaneously producing electricity and steam, from natural gas.

At the same location, on October 2014, construction started on a second Efficient Cogeneration plant with technical characteristics identical to the initial facility. The new plant, capable of generating 57 megawatts of electric power and 550,000 annual tons of steam, initiated operations on March 16, 2016.

With the addition of this plant, CYDSA provides all electricity and steam for the Coatzacoalcos operations. By transfers through

the Federal Electricity Commission (CFE) distribution network, capability also covers the power requirements for other Group facilities, including the new Chlorine-Caustic Soda plant in Garcia, Nuevo Leon. Additional electricity will be available for sale to other users based on Mexican applicable regulations.

The 2016 completion and startup of the Chlorine-Caustic Soda Plant in Garcia, Nuevo Leon; the Production Capacity Expansion of Evaporated Salt; the Second Electricity and Steam Cogeneration Plant; along with other complementary projects, concludes the first Manufacturing Businesses capital investments program for Competitiveness and Growth approved by the Board of Directors. This six-year program, with projects totaling over US\$380 million, increased production and distribution capacity, updated technology, improved manufacturing processes and developed new business opportunities.

CYDSA's management recognizes that the Organization now possesses the expertise required to maximize the potential benefits of Competitive and Growth Projects. The completion of this significant phase of the Group's progress provides the basis for capitalizing on a strengthened Business Portfolio and improves prospects for Shareholder Value Creation.

The following chapters describe 2016 achievements and results²:

- **Sales and Income.**
- **Operating Cash Flow (EBITDA).**
- **Financing Sources.**
- **Cash Flow.**
- **Outlook.**

1. Operating Cash Flow or EBITDA refers to Profits before Net Financial Result, Income Taxes, Discontinued Operations, Depreciation and Amortization.

2. Unless otherwise stated, figures from 2008 to 2016 are expressed in current pesos, while 2007 numbers are expressed in pesos with purchasing power as of December 31, 2007 (constant pesos). Foreign exchange figures are expressed in US dollars.

Sales and Income³

In 2016 Domestic Sales of 6,321 million pesos increased 21.7% over 5,196 million the previous year. Higher movement of salt and refrigerant gases, and the addition of Iquisa Noreste, the new chlorine, caustic soda and chemical specialties plant, account for the gain. Exports of US\$34 million, primarily covering refrigerant gases and chlorine, increased 43% from US\$24 million in 2015.

As shown in the following chart, **Total 2016 Consolidated Sales of 6,958 million pesos increased 24.9%** from 2015's 5,569 million. The Economic Environment section of this Report (page 14) notes an 18.69 pesos per dollar average exchange rate in 2016, 17.8% weaker than the prior year's 15.87. Consequently, **CYDSA's 2016 Consolidated Sales of US\$372 million** increased 5.7% from US\$352 in 2015, while the peso amount rose 24.9% during the same period of time.

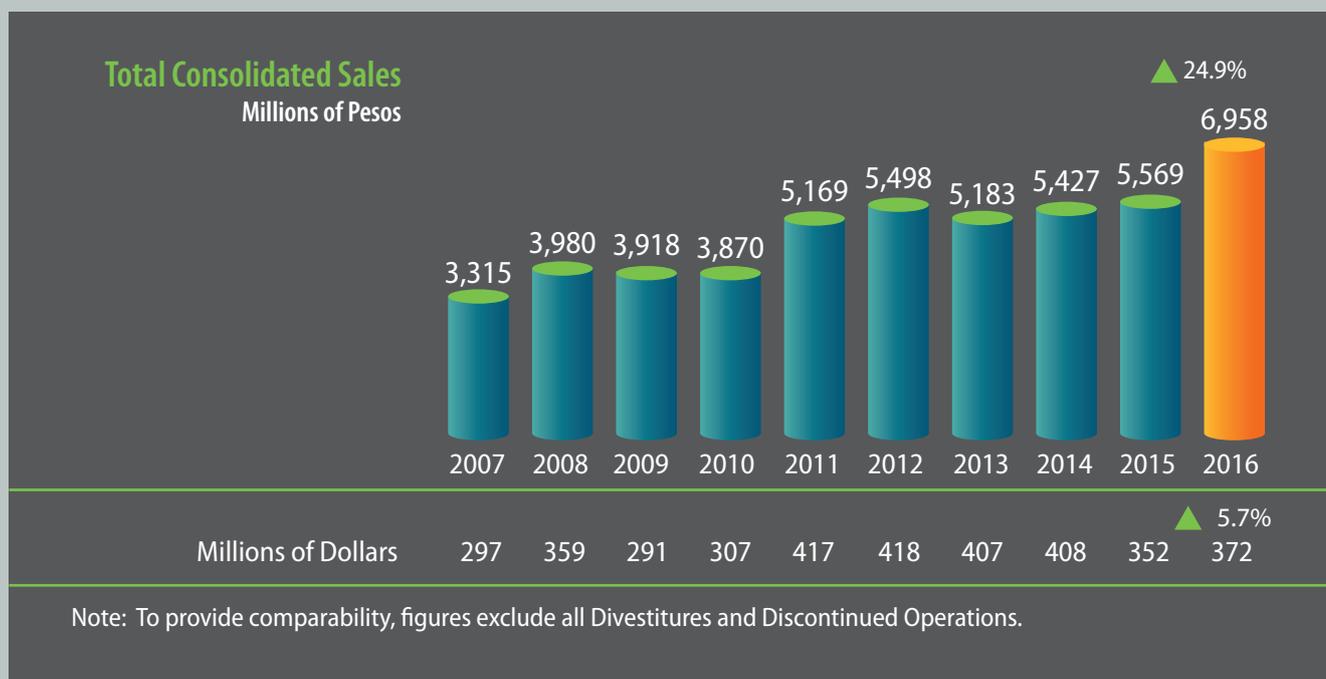
2016 Operating Profit⁴ of 1,036 million pesos, 14.9% of Sales, increased 26.3% from the previous year's 820 million or 14.7% of

Sales. Greater sales and margins on salt and refrigerant gases to new markets exceeded higher depreciation charges related to the new Capital Investments for Competitiveness and Growth Projects.

A Net Financial Income of 180 million pesos in 2016 compares with a Net Financial Expense of 187 million in 2015. In addition to interest cost and financial revenue, both figures include the effect of the peso exchange rate increase on US dollar denominated monetary items and fixed assets.

Finally, a 116 million net income derived mainly from sales of Discontinued Operations assets. After considering Income Taxes of 677 million pesos, **2016 Consolidated Net Profit reached 655 million pesos or 9.4% of Sales** compared with 354 million or 6.4% of Sales in 2015.

The Management's Discussion and Analysis of Results of Operations and Financial Condition of this Report (page 41), provides additional details on these items and other relevant financial information.



3. In accordance with Mexican Stock Exchange regulations, since 2012 all investor financial reporting must adopt International Financial Reporting Standards (IFRS).

4. Operating Income or EBIT equals Net Sales minus Cost of Sales and Operating Expenses.

Operating Cash Flow (EBITDA)

As shown on the following chart, **CYDSA's 2016 Operating Cash Flow (EBITDA) of 1,513 million pesos increased 26.9%** from the previous year's 1,192 million. The graph also depicts EBITDA margin on Sales of 21.7% in 2016 versus 21.4% the prior year. **In dollar terms, the 2016 EBITDA of US\$81 million grew US\$6 million or 8.0%** from US\$75 million in 2015.

The three main causes for the US\$6 million growth follow.

- **Increase in Unit Sales and Trading Margins: US\$27 million.**

Completion of projects increasing production capacity and strategies to serve new markets, allowed for higher sales in several of the Group's product lines.

Higher productivity and enhanced customer service in selected evaporated salt, chlorine and refrigerant gas markets improved presence and margins impacting CYDSA's EBITDA by US\$16 million.

Domestic and export unit sales growth in chlorine, caustic soda, chemical specialties and refrigerant gases generated an additional US\$11 million in EBITDA.

In summary, sales gains in Salt, Chlorine-Caustic Soda and Refrigerant Gases Business Units increased CYDSA's EBITDA by US\$27 million.

Two adverse situations however reduced this US\$27 million gain.

- **Mexican Peso Depreciation against the US Dollar: US\$15 million.**

In dollar terms, the Mexican peso depreciation against the US currency, reduces the income growth from domestic market sales but also benefits from savings on all peso denominated costs.

Due to CYDSA's current sales mix and cost structures, the 2016 average peso per dollar exchange rate depreciation of 17.8%, produced a US\$15 million loss in Group's EBITDA.

Operating Cash Flow (EBITDA)

Millions of Pesos



Millions of Dollars



Operating Cash Flow (EBITDA) / Consolidated Sales



Note: To provide comparability, figures exclude all Divestitures and Discontinued Operations.

- **Increase in Energy Costs: US\$6 million.**

In most of CYDSA Businesses, energy and steam represent significant production costs. The Group established in 2013 the new Electricity and Steam Cogeneration Business Unit, to produce these energy resources internally in its two plants, utilizing natural gas.

The Economic Environment section of this Report (page 13) noted a Mexican natural gas price growth of 12% from an average of US\$2.67 per million BTUs in 2015 to US\$2.98 in 2016.

The Group produces energy at a lower cost than other sources. However, the higher natural gas price combined with the additional electricity demand for Iquisá Noreste, the new chlorine-caustic soda plant, increased energy cost impacting CYDSA's EBITDA by US\$6 million.

In summary, the US\$27 million provided by increased unit sales and higher margins exceeded costs and other unfavorable conditions by US\$21 million. For this reason, **CYDSA's 2016 EBITDA of US\$81 million, increased US\$6 from the US\$75 million generated the previous year.**

Financing Sources

The 2014 Ordinary Shareholders Meeting approved a new Syndicated Loan of up to US\$400 million, through its Valores Químicos S.A. de C.V. subsidiary. The proceeds liquidated existing bank debt and financed Competitiveness and Growth Projects already approved by the Board of Directors.

The 2014 and 2015 draws on the loan provided funds equivalent to US\$270 million, 80% in dollars and 20% in pesos. After 2015 and 2016 scheduled principal payments, the loan totaled an equivalent US\$219 million as of December 31, 2016.

The Group, through its Valores Químicos subsidiary⁵, complied with all the syndicated loan covenants. The Bank Debt to EBITDA ratio of 3.18, falls below the 3.50 maximum and the EBITDA to Interest ratio of 6.28 compares to the specified minimum of 3.0.

During 2016, CYDSA new peso denominated loans totaled an equivalent of US\$49 million. With these new loans, CYDSA's Bank Debt as of December 31, 2016 reached an equivalent of US\$268 million, up US\$16 million or 6.3% from the previous year-end, as shown on the next graph.



5. Valores Químicos, S.A. de C.V. represents the contractual entity for CYDSA's November 28, 2014 syndicated loan. Consequently, the covenants are calculated based on this subsidiary's financial results, essentially covering the Salt, Chlorine-Caustic Soda and the Electricity and Steam Cogeneration Business Units.

Cash Flow

The following table details the items comprising **2016 Net Cash Flow**⁶.

The first Net Cash Flow from Operations component covers US\$81 million Operating Cash Flow (EBITDA). In addition, Working Capital proceeds of US\$18 million resulted partially from a financial transaction that allowed the early reimbursement of certain trade receivables. The uses of cash included US\$17 million of Capital Expenditures for Maintenance & Replacement of current production processes, US\$8 million for payments of Taxes for Normal Operations and US\$3 million for Other Operating Items. Following these outlays, the **Net Cash Flow from Operations showed a positive balance of US\$71 million.**

Additional Cash Flow items cover US\$13 million in Payments for the 2010 and 2014 Tax Consolidation Reforms and US\$13 million for Net Interest Expense. The Dividend Payments of US\$13 million comprise US\$7 million for CYDSA's shareholders and US\$6 million for Minority Interest Partners. As noted in the previous Financing Sources section, a positive US\$16 million relates to Bank Debt. Finally, the Sale of Non-Productive Real Estate of Discon-

tinued Operations provided US\$12 million. Following these transactions, Cash Flow before Investment Projects totaled US\$60 million.

Investment Projects

In 2016, investments in assets for Competitiveness and Growth totaled US\$99 million. This amount includes the completion of Iquisa Noreste, the new chlorine, caustic soda and chemical specialties plant, the expansion of Evaporated Salt production capacity and the Electricity and Steam Co-generation Plant II.

Additionally, in 2016 in the State of Veracruz, continued the development of the first Latin American project to store Liquid Propane Gas (LPG) in a salt cavern. The progress involves the construction of surface facilities for injecting, extracting and transporting LPG to provide underground storage service in the second half of 2017.

After the US\$99 million allocation for Competitiveness and Growth Investments, **2016 Net Cash Flow showed a negative US\$39 million, and a year-end Cash balance of US\$31 million.**

Net Cash Flow 2016	
Millions of Dollars	
Net Cash Flow:	
Operating Cash Flow (EBITDA)	81
Net Working Capital	18
Capital Expenditures for Maintenance & Replacement	(17)
Taxes for Normal Operations	(8)
Other Operating Items	(3)
Net Cash Flow from Operations	71
Payments from 2010 and 2014 Tax Consolidation Reform	(13)
Net Interest Expenses	(13)
Dividend Payments for CYDSA and Minority Interest Shareholders	(13)
Increase in Net Bank Debt	16
Sale of Non-Productive Real Estate of Discontinued Operations	12
Cash Flow before Investment Projects	60
Capital Expenditures for Competitiveness and Growth	(99)
Net Cash Flow	(39)
Cash Balance as of December 31, 2016	31

6. Cash Flow figures are registered in current pesos. Comparisons are expressed in US dollars as most of the Bank Debt is dollar denominated.



Underground Storage of LPG Surface Auxiliary Facilities

Contents of the 2016 Annual Report

The **sections devoted to CYDSA's Strategic Business Units include 2016 main accomplishments** and information relative to their products and markets (page 16). The **Economic Environment** section summarizes significant events of the year impacting CYDSA's markets (page 12). **Management's Discussion and Analysis of CYDSA's 2016 Results of Operations and Financial Condition** (page 41) precede the **Audited Financial Statements and Comments** (page 47).

Outlook

CYDSA's Shareholders: 2016 results already show benefits from projects enhancing Business Portfolio competitiveness and building the base for profitable growth. Important initiatives starting operations during the year include: Iquisa Noreste, the new Plant producing chlorine, caustic soda and chemical specialties; the Evaporated Salt production capacity expansion; and the second Electricity-Steam Cogeneration Plant. These and other previously implemented projects represent the key to improve the competitive position and to confront the recent adverse business environment.

It is a pleasure to note that in 2017, all projects approved by the Board of Directors, will be running and contributing to improve Group's

results. Consequently, CYDSA strengthened the Business Portfolio and completed a significant phase in assuring a successful future.

In all Business Units, both current and those in formation, priorities will continue to focus on creating innovative products and services to satisfy customer needs as well as implementing initiatives to support systematic cost reduction programs. Efforts will intensify to utilize information technology and logistics as competitive advantages. Strategies to enhance market service and operational efficiency involve the development of real-time solutions for decision making, the use of applications for mobile devices, and establishment of Distribution Centers to support direct retail delivery.

Progress in 2016 included new areas with important potential for renewing and revitalizing CYDSA's Business Portfolio. The Electricity and Steam Cogeneration Business Unit launched its second plant, also certified as "Efficient Cogeneration Investment", benefiting from electricity production and consumption flexibility, as well as environmental regulations and tax exemptions. The Hydrocarbons Underground Storage Business Unit continued to construct the first Mexican and Latin American project for LP Gas, with initial service during the second half of 2017. In the Real Estate Development area, efforts continue to analyze alternatives for optimizing the Group's land holdings.

Operations of all Business Units continue with the traditional business ethics characterizing CYDSA since its founding. Consequently, meeting or exceeding safety, quality and environmental standards represents and will remain a fundamental principle, with efforts and initiatives based on CYDSA's Sustainability and Social Responsibility Model. This reference constitutes an essential element of a strategy oriented to assure progress in all aspects of Personnel Development, Community Relations and Environmental Protection, incorporating all updated economic, social and environment issues⁷.

As an example of this sustainable approach, the Chlorine Institute granted, for the fifth consecutive year, the Chairman's Safety Excellence Award to CYDSA's plants manufacturing chlorine, caustic soda and chemical specialties.

To assure quality, all eligible facilities maintain the ISO-14001-2004 certification. Additionally, the Salt Business Unit, renewed the FSSC-22000-2013 certification, focused on safety standards established for food manufacturers utilizing salt in their processes. This Business Unit also complies with strict standards that recognize it as a world class supplier operating under responsible and ethical business practices.

Regarding environment preservation, all CYDSA's production facilities renewed the Clean Industry Certification granted by the Federal Office for Environment Protection (PROFEPA) an agency of the Mexican Ministry for Environment and Natural Resources (SEMARNAT). Specifically, Quimobasicos, the Group's producer of refrigerant gases, stands as the first chemical producer to achieve the Clean Industry Level 2 Certification. In addition, Quimobasicos and Iquisa Tlaxcala, producer of chlorine and caustic soda specialties, possess the Environmental Excellence Award granted by SEMARNAT. Finally, Quimobasicos operates the only facility in Latin America capable of destroying Ozone Depleting Substances

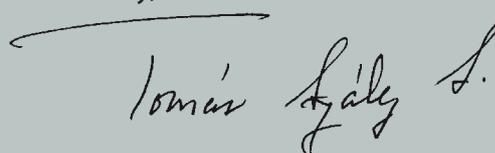
(ODS), utilizing an Argon Plasm Arch technology and complying with international rules established by the United Nations.

Continuing with environmental safeguards, the construction of Iquisa Noreste, the new plant producing chlorine and caustic soda, complied with regulations assuring no harm to the regional flora and faunae. Production also moved from a now closed facility in Monterrey's urban area with lower energy efficiency operations and some potential risks to the environment.

During 2016 CYDSA concluded a fundamental phase in strengthening and transforming its Business Portfolio. More and improved competitive advantages will support the Group's progress in core and emerging areas, always with an in-depth opportunity assessment in order to assure timely decision making. Reinforcing current skills and developing new capabilities represent an opportunity. However, the Organization now possesses the necessary elements to face the business environment, currently perceived as volatile and possibly adverse.

In 2016 all employees represented a fundamental factor for achieving the Group's results. CYDSA's management recognizes that in 2017, the experience and professionalism of its personnel, with the support of customers, suppliers and financial institutions, remain the essential ingredients to drive profitable growth. Likewise, the completion of initiatives for Competitiveness and Growth as well as the development of new business opportunities, will become fundamental components in CYDSA's evolution and its objective to attain sustainable Value Creation for Customers, Employees, Shareholders and the Community.

Sincerely,



Tomas Gonzalez Sada
Chairman of the Board
and Chief Executive Officer