



Enabling Responsible Investment

## SRI Performance Report

# Mexichem SAB de CV

**Mexichem.**

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January 2019

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## About this Report

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Environmental KPIs

90/100



Social KPIs

73/100



Governance KPIs

78/100

## Business Involvement



Nuclear Power Generation

## Countries of Concern



Russia

# Mexichem SAB de CV at a Glance

## Company Description



Mexichem SAB de CV is a Mexico-based company primarily engaged in the production of plumbing fixtures. The Company's activities are structured in four business segments: Vinyl, which is involved in the extraction of chlorine, caustic soda and chlorinated derivatives, primarily used in water purification, as well as polyvinyl chloride (PVC) resins; Fluor, which is focused on the extraction of fluorite, as well as production of hydrofluoric acid and cooling gases; Fluent, which includes the manufacture of pipes and fittings made of PVC, polyethylene and polypropylene, as well as geo-synthetic tubes and connectors, and Energy, which comprises power cogeneration for internal and third-party consumption. The Company operates through numerous subsidiaries in the Americas, Europe, Asia, Africa and Australia.

### Nation



Mexico

### Primary Exchange



Mexico Stock Exchange

### Industry



Construction – Supplies / Fixtures

### ISIN

MX01ME050007

### Website

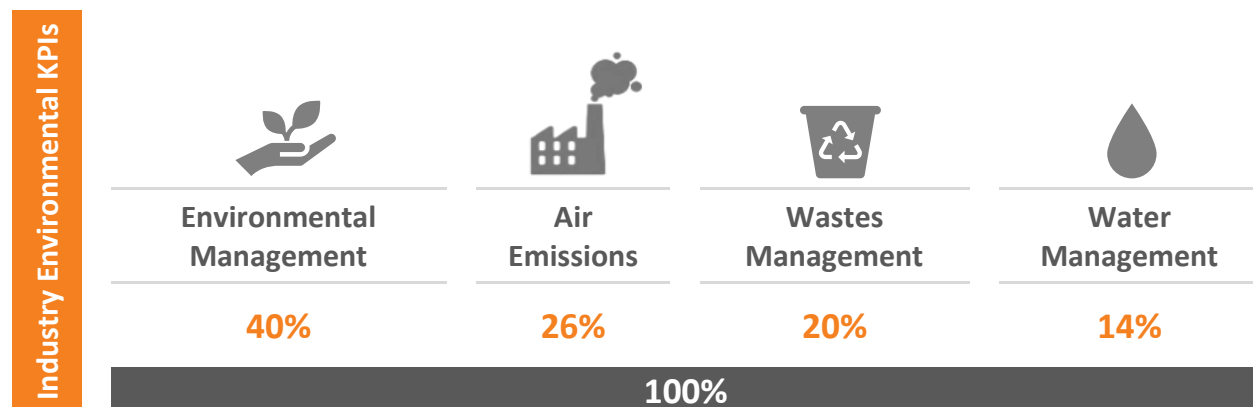
<https://www.mexichem.com/>

## ESG Performance Drivers for Construction - Supplies / Fixtures Industry

The Key Performance Indicators (KPIs) relevant to the Construction - Supplies / Fixtures Industry and their weighted contributions to the E, S and G pillar scores are described and illustrated below. Each pillar has a maximum score of 100, and the sum of the three pillar scores becomes the company's overall ESG Score.

### Environmental Pillar

When analysing the Construction - Supplies / Fixtures industry, one main performance indicator was found to be significantly important; environmental management. To maintain their market position and meet customers' needs, operators of this market must integrate environmental sustainability in their daily operations as there is a growing demand for eco-friendly products. Manufacturers of building supplies and fixtures must develop solid environmental policy tackling all related issues such as air emission, waste and water. Air emissions comes in second, in term of importance, as this industry poses a risk of emitting toxic gases that could disrupt surrounding habitat. All this causes a challenge of wastes, unless properly managed.

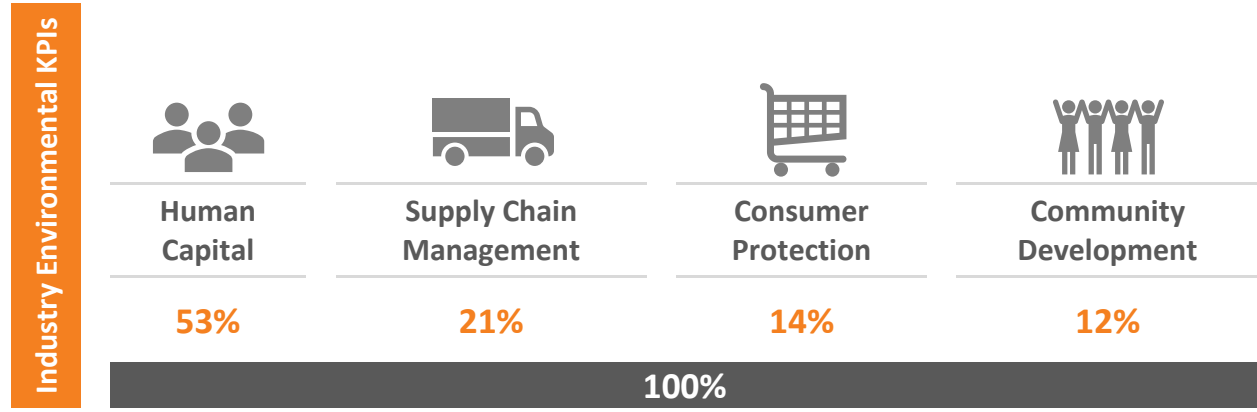


### Social Pillar

From the social aspect, human capital is a crucial performance indicator as this industry heavily relies on manpower. As workers in this field are exposed to chemical materials and toxic emissions that could cause them severe health problems, adequate health & safety procedures should be implemented and a regular training should be given to all workers. Workers should be provided with all the necessary protective equipment to safely perform their jobs.

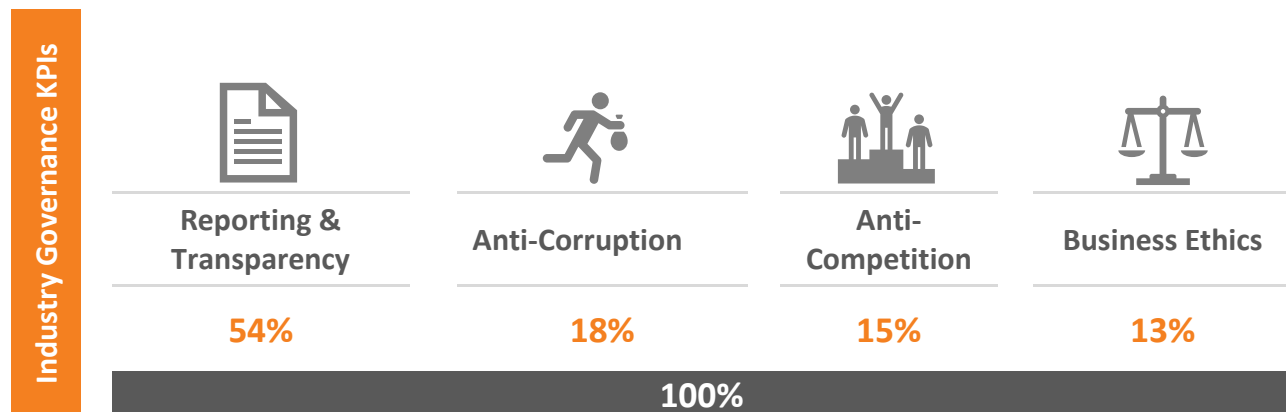
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Given the hierarchy of the industry's lifecycle, supply chain management is considered a vital KPI. Although, the industry is witnessing an ongoing trend of retailers purchasing directly from manufacturing without a wholesaler, there is still a need for distributors. To effectively manage supply chain, a solid procurement code of conduct should be clearly set as a guide for ethical behavior.



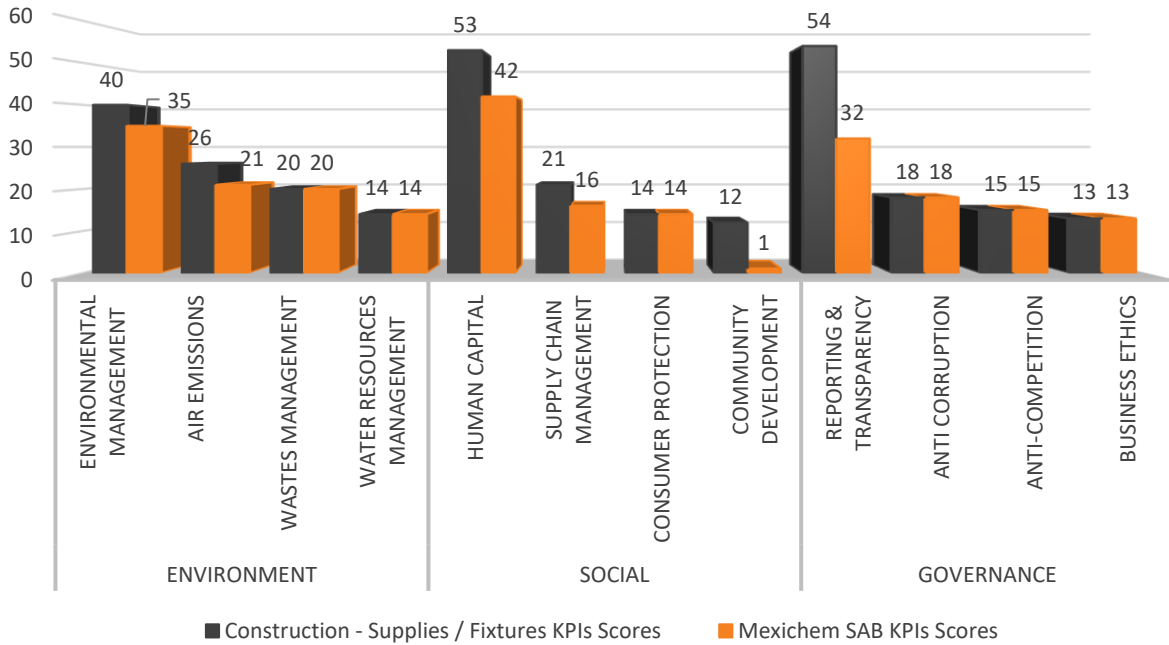
## Governance Pillar

Aside from the essential standards such as reporting & transparency and general business ethics, anti-corruption policies are of major importance to this industry. Several NGOs have criticized manufacturers of building products for only disclosing the minimal information about chemical contents and health hazards of their products. Moreover, companies in this industry are more prone to risks related to corruption and anti competition. Being a multi-layer industry, the occurrence of fraudulent practices is of high possibility. Competition should be also perceived as an important indicator for the industry as market players can easily manipulate prices and access to raw materials. For the industry to face such challenges, all operators must develop solid code of conduct clarifying what is ethical and what is not. Relevant trainings should be conducted and regular audits should be maintained.



## Mexichem SAB de CV ESG Performance Details

The chart below illustrates the company’s score for each Key Performance Indicator compared to the maximum score achievable by a company in the Construction - Supplies / Fixtures Industry. A more detailed breakdown of the individual E, S and G pillars, how the KPI scores are combined to derive the pillar scores, and a description of how Mexichem SAB de CV performed (and why) follows.

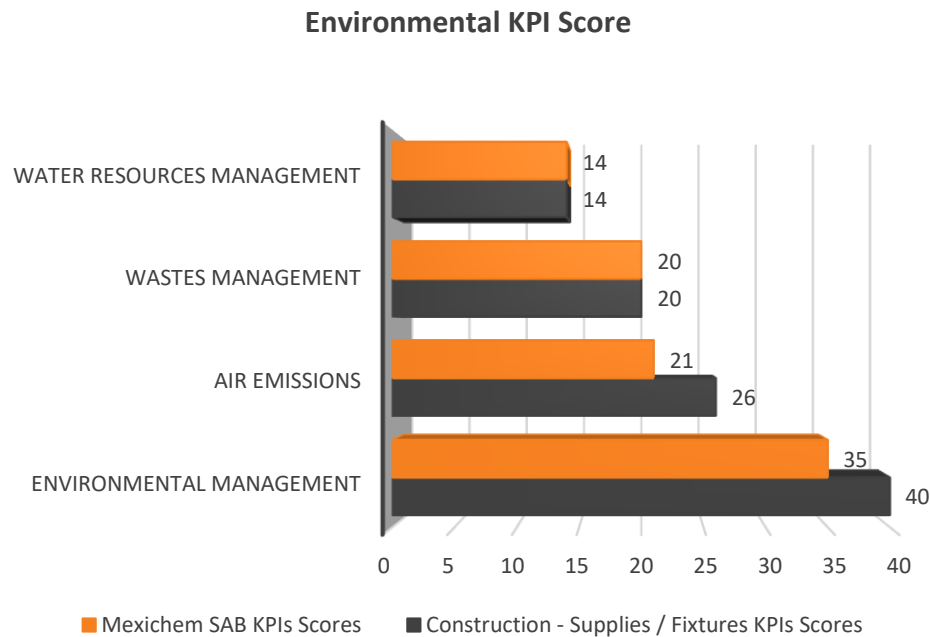


**Mexichem SAB de CV KPI scores compared to the maximum achievable KPI scores for the Construction - Supplies / Fixtures Industry**

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## Environment

Mexichem SAB de CV Score: 90/100



### Environmental Management

Mexichem SAB de CV scored **35/40** in this KPI. The company has integrated environmental sustainability in its regular business activities. This is clear in the stated policy in the sustainability report in which it takes its impact on the environment seriously. It aims to adopt environmental policies that will reduce its negative — while increasing its positive — environmental impacts in its own operations. Moreover, the Global Sustainability Manager Director; Mr. Enrique Dominiguez Cuevas, follows up the implementation of the company's environmental strategy. Knowing the importance of stakeholders, an engagement process is set that includes communication and sharing of information and a proper two-sided dialogue is available.

To follow international norms, 61 of Mexichem's installations are ISO 14001 certified and is recommended to reach 100% of its installations. Accordingly, in line grievance mechanisms are available in which it applies corrective actions for negative incidents and to avoid its reoccurrence. The company is not involved in pertinent legal proceedings.



## Air Emissions

The company received a score of 21/26 in this KPI. Mexichem SAB de CV is transparent about its air emissions in general and greenhouse gas emissions in particular, disclosing them in its sustainability report and additionally by partaking in the Carbon Disclosure Project (CDP) since 2017.



There have also been intense efforts to reduce its emissions; this is clear in its plans towards reduction of emissions from its buildings. Mexichem has resorted to the substitution of engines and installation of high efficiency cooling equipment as the installation of LED lighting in operational sites to reduce energy consumption.

The company is recommended to work on plans that can assist in reducing emissions from its transportation vehicles, in addition to adding targets of using renewable energy. Both recommendations can boost its score in this KPI.

## Wastes Management

The company achieved perfect score in this KPI; 20/20. Mexichem generates a significant amount of wastes given the nature of its industry. The company has been working on properly managing such wastes whether it is hazardous or non-hazardous. It has set a goal of reducing total wastes by 20% in 2018, compared to 2011 as its baseline. It has achieved 71% of its goal by 2017. Aside from disposing some of its wastes the company utilizes such wastes and recycle them. PVC wastes are recycled and reused which assist in the company's climate goals and reduction of its costs.

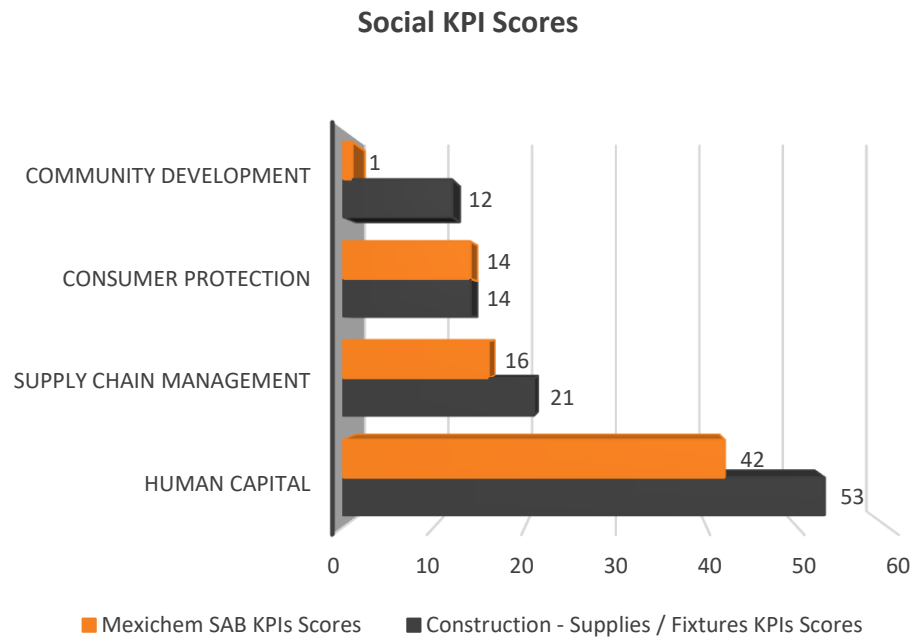
## Water Resources Management

Mexichem achieved another perfect score in this KPI too; 14/14. The company has set a goal of reusing 70% of water consumption by 2018, compared to 2011 as its base year. In 2017 it has achieved 75% of its goal. The company is transparent enough by disclosing its water-related figures such as consumption, intensity, reuse, and discharge.

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## Social

Mexichem SAB de CV Score: 73/100



### Human Capital

Mexichem lost ten marks in this KPI receiving a score of 42/53. The company contributes to a positive, inclusive work culture across its organization. It has adopted an equal opportunities and diversity policy. The policy entails ensuring equal opportunity, eradicating discriminatory practices, and having zero tolerance for unfair discrimination based on ethnicity, gender, language, age, sexual orientation, religion, socio-economic status, physical and mental ability, thinking style, experience and education. Despite this, this wasn't reflected in the figures regarding female representation in both total workforce and board of directors; showing 15.7% and 9.1%, respectively. In addition to this no information has been mentioned regarding disabled individuals.

Mexichem supports continual development of its employees through training and education programs. By 2017 the company has spent \$2.6mn on 11,696 employees receiving 364,573 total hours of training. The company conducts regular surveys as a mean of engagement with its employees and to ensure their satisfaction.

Moreover, to ensure the safety and health of its employees, 21 of the company's operations are OHSAS 18001 certified. It has set several pertinent goals such as certifying 100% of its operations

by ISRS certificate, and reducing accidents rate by 50% by 2020. During 2017 it has launched a new initiative with the assistance of a third-party expertise to develop improved process safety policies for the entire organization. It has also engaged specialized safety firms on the mining side to develop mine specific policies and implement them. Relevant training programs are provided accordingly. The company is transparent in disclosing its accident rates.

Being a UNGC Signatory, the company ensure abidance by international norms related to human rights and monitors its implementation. It abides by International Labor Organization (ILO) core labor standards and supports the Universal Declaration of Human Rights (UDHR). Relevant training is provided to ensure full adherence to these guidelines. Mexichem is not involved in recent pertinent legal proceedings.

### Supply Chain Management

Mexichem SAB de CV scored 16/21 in this KPI. Given that most of the company's operations are ISO 9001 certified it's expected to have a procurement code of conduct in which it sets the suppliers guidelines. These guidelines outline the rights and obligations for suppliers that deal with Mexichem. The company audits these suppliers on a regular basis and report the results of such inspections and assessments. The company is recommended to provide suppliers with training on this conduct to ensure full adherence to it, in addition to providing programs that support supplier diversity.

### Consumer Protection

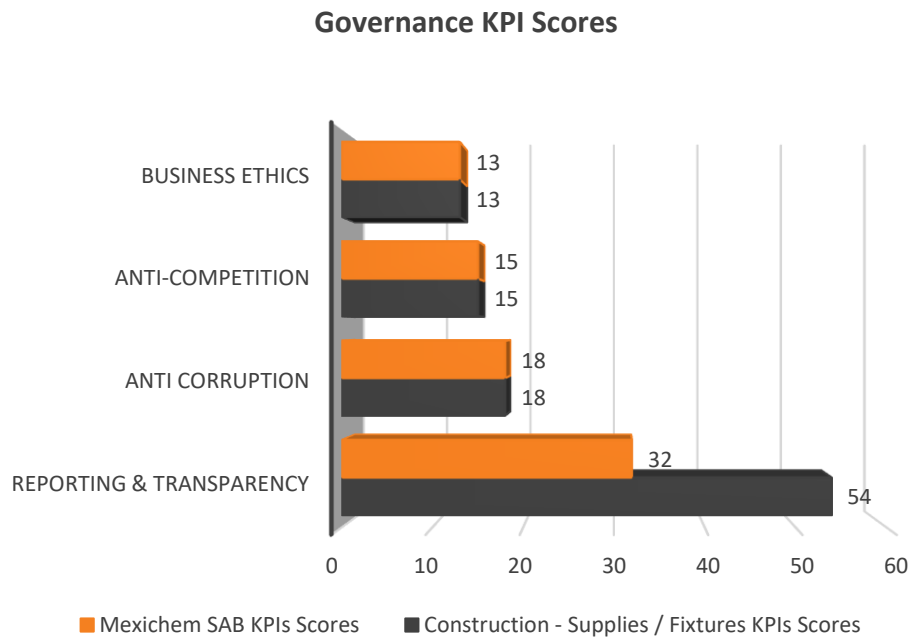
Mexichem scored 14/14 for the Consumer Protection Key Performance Indicator (KPI). 94% of the company's operations are certified by ISO 9001. Surveys were done to measure the customer's survey. The company is not involved in pertinent legal proceedings.

### Community Involvement

Mexichem SAB de CV scored 1/12 in this KPI. It has committed itself to supporting local communities and creating opportunities in line with the UN Sustainable Development Goals (SDGs). The company is recommended to expand its scope of its scope of community involvement such as; healthcare, food, housing, and education access. Also, disclosure of employees' volunteering hours could assist in boosting the company's score in this KPI.

## Governance

Mexichem SAB de CV Score: 78/100



### Reporting and Transparency

Mexichem SAB de CV scored **32/54** in this KPI. To maintain compliance and transparency, the company has an Audit Committee that assists the board to follow up on financial reporting and accounting records compliance, assure efficiency operations, and comply with applicable laws. All audit committee members are found financially literate. Moreover, a Corporate Practices Committee is assigned to take responsibility of deciding the board members' compensation structure.

Mexichem's Chairman and CEO positions are filled by two separate individuals; Mr. Juan Pablo del Valle Perochena acting as Chairman while Mr. Daniel Martinez-Valle acting as Company's Chief Executive Officer, to enhance the overall integrity of the company.

Additional considerations that helped the company achieve its current score for the Reporting & Transparency KPI include:

- Disclosing its sustainability report annually.
- Complying with IFRS in its financial reporting.
- Directors receive stock ownership in the company
- Sustainability report is externally verified by Deloitte.

To boost Mexichem's score for this KPI, the following recommendations are proposed:

- Chairman and the majority of directors should be independent
- Tying the executives' compensation with the ESG performance.
- Having the sustainability report externally verified instead of partial verification.
- Disseminating directors' remuneration.
- Creating a committee that is responsible for nominating new board members.

### Anti-Corruption

Mexichem SAB de CV achieved a perfect score of **18/18** in this KPI. The company has set an anti-corruption policy which aims at safeguarding its integrity, increasing transparency, and facilitating the detection, investigation and prosecution of corruption cases. Communication and training on anti-corruption policies and procedures is carried out through the Compliance program. Mexichem SAB de CV is not involved in any corruption or fraud legal proceedings.

### Anti-Competitive




The company attained a perfect score, **15/15**, in this KPI. It has an announced antitrust policy that mainly stated strict abidance by the announced regulations in the countries in which it operates. Mexichem SAB de CV is not involved in any relevant recent legal proceedings

### Business Ethics

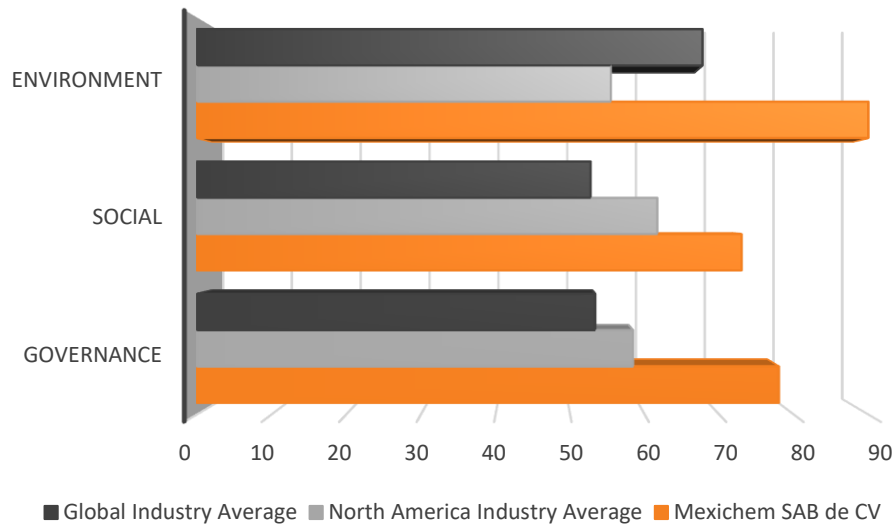
The company's performance in this KPI was another success; **13/13**. Corporate governance policy is outlined on the website covering main aspects related to the board of directors from their composition, responsibilities, committees, communication, etc. In addition to this, contributing positively to its score, Mexichem SAB de CV 's employees are encouraged to report any suspected unethical behavior through its whistle blowing procedures. Moreover, political contributions and insider trading policies are clearly stated in the company's code of conduct.

## Industry comparisons for Mexichem SAB de CV

### Mexichem SAB de CV ESG score and rating compared to industry

|   |        |    |
|---|--------|----|
| Construction – supplies / Fixtures Industry   |        |    |
|    | 175.61 | BB |
| Global Average  |        |    |
| Construction – supplies / Fixtures Industry   |        |    |
|    | 173.87 | BB |
| Regional Average  |        |    |
|  | 241    | AA |

Mexichem SAB de CV's ESG rating of "AA" is higher than the Construction - Supplies / Fixtures industry's global and regional averages; BB. Even when breaking down the company's industry comparison into individual E, S and G pillar scores, it is noted that Mexichem pillars' scores are higher than industry averages from both a global view and a regional view. The company especially stands out from its peers when it comes to the Environment aspect of the ESG performance evaluation, this was clear in its detailed section above.



Mexichem SAB de CV E, S and G pillar scores compared to industry averages

Sample of Industry Peers

| Name                               | Nation        | ISIN         | Rating |
|------------------------------------|---------------|--------------|--------|
| Rockwool International A/S         | Denmark       | DK0010219153 | AA     |
| Owens Corning                      | United States | US6907421019 | A      |
| TOTO Ltd                           | Japan         | JP3596200000 | A      |
| Acuity Brands, Inc.                | United States | US00508Y1029 | B      |
| Fortune Brands Home & Security Inc | United States | US34964C1062 | CCC    |

## Mexichem SAB de CV Business Involvement, Revenue and Countries of Concern Screening Results

In addition to providing ESG scores and ratings, IdealRatings also screens companies for involvement in controversial certain business activities and/or products as well as for involvement in countries of concern. The business involvement screening includes activities such as tobacco, alcohol, gambling, firearms and defense (a full list can be found in the IdealRatings Responsible Investing and ESG Research Product Guide).

Mexichem SAB de CV is found involved in Russia where it has full ownership in OOO Wavin Rus; an enterprise in Russia specializing in plastic pipe systems and solutions. The company has been established in 1999 and was acquired by Mexichem in 2012.

In addition to this, Mexichem is also found involved in Nuclear power generation as a supplier to this industry. The company's Fluor Business includes the operation of one of the world's largest fluorite mine, located in San Luis Potosi. Its hydrofluoric acid several markets including nuclear fuels.



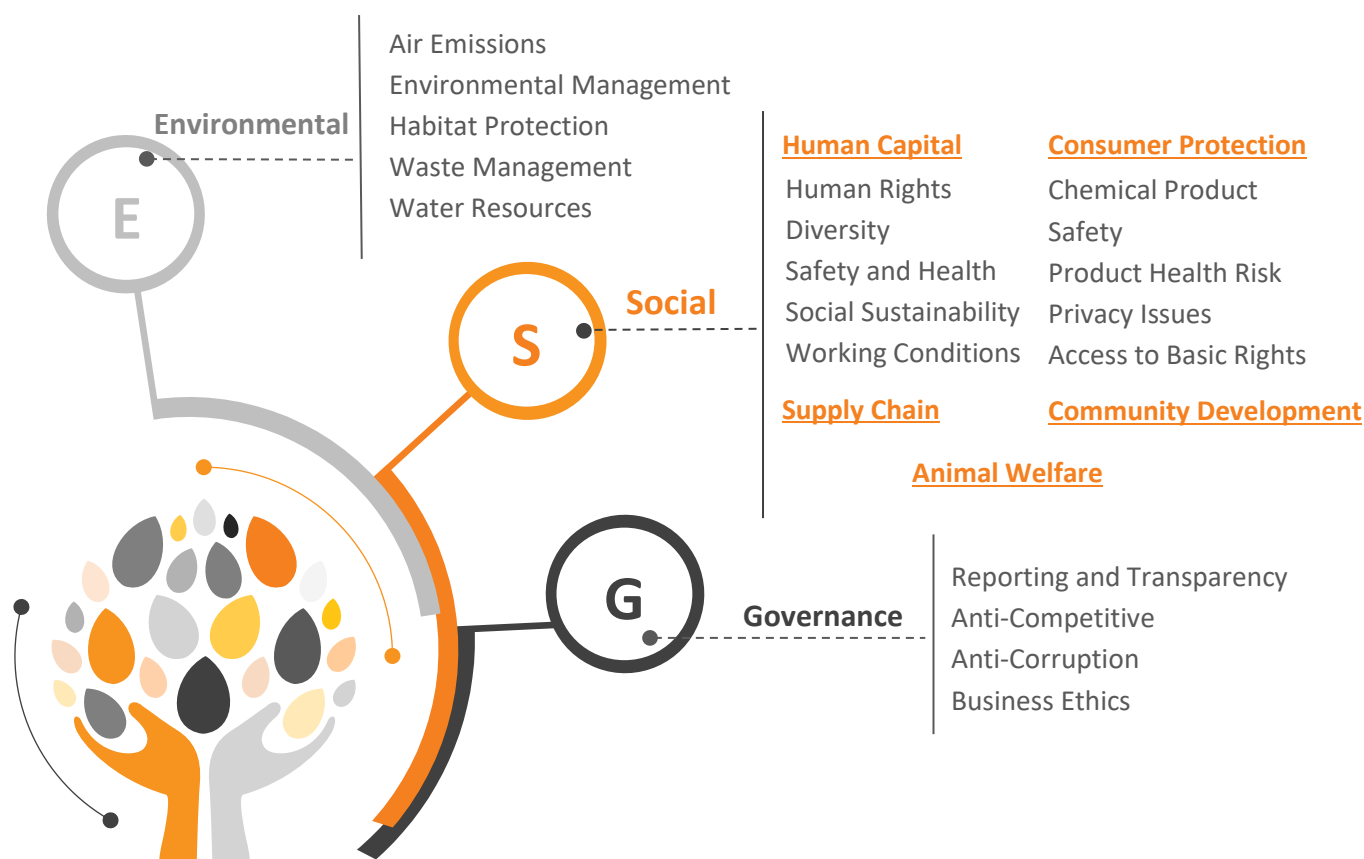
# IdealRatings ESG Model & Scoring Methodology

## IdealRatings ESG Model

Due to increased global climate and resource risks, shifting demographics, regulatory changes and increased investor awareness, incorporating ESG considerations into investment decisions has become increasingly popular among all types of investors.

It is also important for the companies themselves to consider ESG factors and risks. Companies that are aware of their ESG-related performance and opportunities will not only attract ESG-conscious investors — they will also be better situated for future success.

The IdealRatings ESG model is comprised of three main pillars (Environmental, Social and Governance). Each pillar is divided into subcategories called Key Performance Indicators (KPIs), and each KPI contains a series of inputs (detailed in the IdealRatings Responsible Investing and ESG Research Product Guide).



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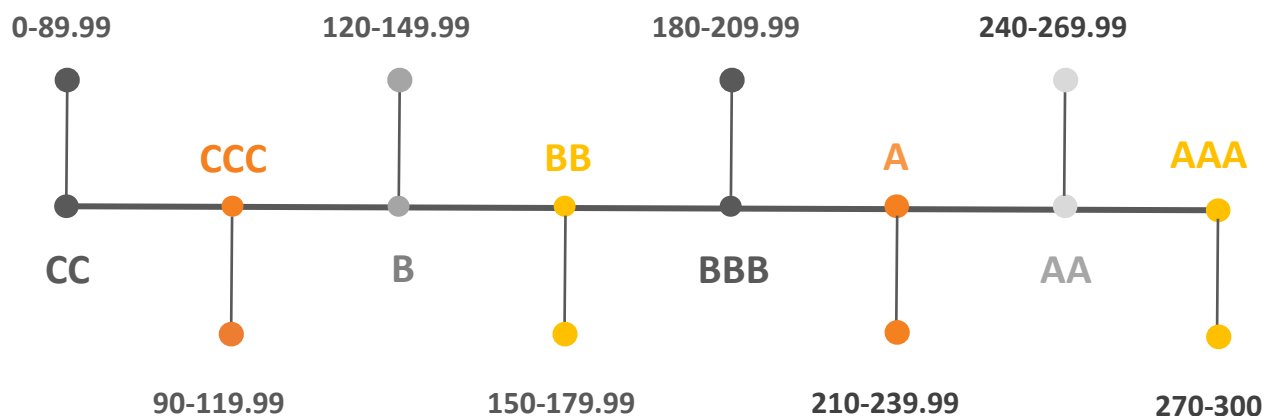
## IdealRatings ESG scoring Methodology

IdealRatings determines a company's ESG rating by researching and documenting answers to a series of questions (or inputs) for each of the three pillars (E, S and G). There are over 150 inputs captured during the research process.

Each pillar has a maximum score of 100, and the weight each KPI contributes to a company's overall pillar score is based on an industry-relative model. For example, inputs under the Waste Management KPI of the environmental pillar could have a weight of 0% (meaning the inputs have no effect on a company's score) for a company in the Chemicals Specialty Industry, yet a weight of 15% (meaning the KPI contributes 15% to the overall numerical score for the environmental pillar) for a company involved in energy production.

The sum of the three pillar scores becomes the company's IdealRatings ESG score, which can be converted to a letter grade as shown in the table.

Users can also build their own rating and scoring methodology by selecting to include only certain ESG KPIs and/or inputs and weighting them according to their own scale.



## Data sources

The IdealRatings research team collects comprehensive information from a variety of sources, including but not limited to:

- Sustainability or CSR reports
- Financial/Annual reports such 10-K filings, 10-Q filings, proxy statements, etc.
- Chairman/CEO letters
- Credible news sources such as Bloomberg and Reuters
- Carbon Disclosure Project (CDP) reports
- Law docket
- United Nations Global Compact Principles signatory lists
- ISO certification reports
- Carbon Tracker
- Company surveys and direct contact with the companies where appropriate

