Grupo Pochteca, S.A.B. de C.V.

CEO´s report up to the fourth quarter of 2013

The outstanding issues during the fourth quarter of 2013.

- **Increment in sales and EBITDA .** In spite of the general drop in raw materials´ prices and the contraction of the construction sector, during this quarter we achieved a 17% and 48% increase in sales and EBITDA vs 4Q2012, and at a yearly level, a 15% and 16% respectivelyy. These were accomplished through a 40% growth in sales volume (tons and liters) and an increase in gross profit margins. This growth is by far greater than the 1.06% growth of Mexico's GDP, (4.5%) of the manufacturing sector GPD and 0.6% of the chemical industry GDP.
- **Entrance into Brazil.** On December 31 we closed the purchase of Coremal, a distributor of chemicals, with a wide coverage in Brazil. The impact on results will be felt in 2014.
- **Sound financial position.** In spite of the acquisitions done during 2013, our balance sheet continues to be solid, having followed the growth guidelines set forth by our Board; we closed 2013 with a ratio of 2.15xDebt/EBITDA.
- **Risk spreading.** The diversification of clients, geographical areas, markets and products keeps consolidating: the 5 major clients account for 9% of sales; the 5 main products represent 8%. No client or product reaches 3% and the geographical dispersion continues to grow.

2014 prospects´

- **The energy reform will benefit us:**
  - During the following 12-18 months, the oil exploration and drilling, which account for 7% of Pochteca´s sales, will experience a very important growth in investment. Therefore, we expect sales growth in this sector.
  - We hope that the decrease of uncertainty which the energy reform will bring, regarding the supply of basic petrochemicals, electric power and gas, and the potential reduction in prices, will result in a sustained growth of investments in the chemical sector and manufacturing in general. This will generate a growth in the demand for Pochteca´s products.
- **Two digits growth.** By the end of 2014 we expect a conservative growth of at least 25% in sales and EBITDA, as a result of Coremal acquisition and the organic growth of the Company by itself. <u>This growth does not include possible acquisitions in the future</u>.
- **Pootential additional tailwinds.** The 2013 environment was unfavorable to Pochteca in almost all its external variables: raw materials´ prices, public works, construction, mining, etc. Any positive change of these variables will shore up the company´s growth.
- **We will continue to appraise possible future acquisitions or mergers.** As we have done during the last two years, we continuously appraise companies that could provide value to our shareholders, always keeping our financial soundness and an adequate risk profile.

Consolidated Results

Consolidated	January – December			4th Quarter 2013 / 2012		
Million Pesos	2013	2012	%Var	2013	2012	%Var
Gross Sales	4,467	3,896	15%	1,123	957	17%
Net Profit	41	51	-19%	9	-14	164%
EBITDA	220	190	16%	50	34	48%
Net Debt/EBITDA 12 M	2.15	0.29				

By the end of fiscal year 2013, a sales volume of $4,467 million pesos (mMXN) was achieved, a growth of 15% compared to the end figure of 2012. The gross profit margin grew by 19%, from $627 mMXN to $746 mMXN, an increase in gross profit as percentage of sales from 16.1% to 16.7%

Profit before taxes was $70 mMXN, 18% below the one in 2012, as a result of a foreign currency loss of $29,634 mMXN, which, compared to the foreign exchange profit of $3,479 mMXN generated during 2012, resulted in an adverse impact of $33.113 mMXN in relation to 2012. The net profit was also 20% below, compared to the one in 2012, having gone from $51 mMXN to $41 mMXN, on one hand as a result of the foreign exchange loss and on the other hand by a greater tax rate which resulted from having consumed the totality of accumulated losses from *Dermet de México* during 2013. However, EBITDA, which show the company´s performance before current financial impacts, such as devaluation, showed a 16% growth by increasing from $190 mMXN to $220 mMXN.

This growth was achieved in spite of the conjunction of several adverse factors which occurred during 2013. The most important ones were:

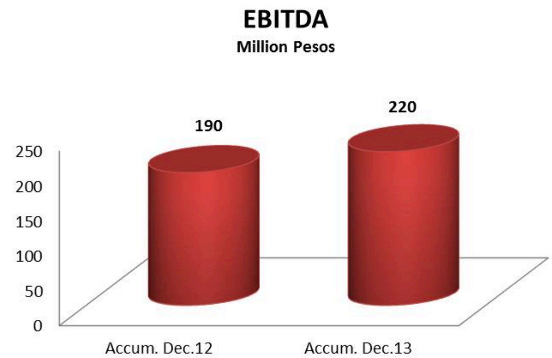
A. The overall price decrease of the raw materials sold by the company. The weakness of the world economy had a depressive effect over an important number of raw materials at the international level. High-sale products of Pochteca Group, such as sodium cyanide or titanium dioxide suffered a two-digit drop in prices during the fiscal year. These drops resulted in severe losses as a result of holding inventory of products with declining values,, as well as generating lower sales for each metric ton sold. Fortunately, it was possible to increase by 42% the volume of metric tons sold, which compensated to a large extent the price decrease, achieving a 15% growth in the overall sales. Likewise, in spite of the big losses generated by inventories due to the sustained price decrease in value, gross profit was increased from 16.1% to 16.7% of sales.
B. The low dynamism of exploration and drilling in the oil and gas sector, along with a complicated account receivable recovery position of many of its participants, resulted in a

domino effect which delayed payments from these clients to Pochteca Group, thereby slowing-up sales to this sector. Since the oil drilling and exploration sector accounts for over 7% of the total sales of Pochteca Group, this downturn affected the company.

C. The drop in the building sector significantly affectedthe manufacturers of paints, lacquers, coatings and other materials used in construction, These sectors comprise an important part of Pochteca's sales of solvents, blends and coatings, the a major revenue generator fo the Company. Likewise, the decline in construction and infrastructure works, impacted negatively the sales of greases and lubricants. The underspending of public budget impacted these sectors especially, as well as the overall industry, dampening demand in an important number of business segments.
D. The price drop of minerals, which affected both the prices of raw materials used in mining (For example, the price drop of cyanide along with the gold price), as well as the volume of these raw materials demanded by the mining companies.

The company continued consolidating its risk diversification. The 5 major clients moved from being 11.6% of sales in 2012 to 9.4% in 2013, without any of them reaching 3% of sales. Likewise, the 5 most important products accounted for 8.3% of sales, without any of them reaching 3% of sales. The diversification of geographic areas and industries reinforced this risk spreading and allowed the company to displace efforts given to industries with contraction, to industries with growth or stability, and products with low prices and/or declining demand to more dynamic products, in order to be able to keep a sales growth without sacrificing margins.
We believe that, achieving a two-digit growth, increasing gross profit margins and keeping a healthy and constant account receivables portfolio during 2013, in spite of the aforementioned headwinds, shows that the model of diversifying products, clients, industries and regions provideshigh resilience and allows Pochteca to minimize the impact of market conditions which, under a a model of higher risk concentration, could result in sales and margin contractions that could put the profitability and solvency of the company at risk.

This diversification model will allow the company to capture important benefits once the energy reform is consolidated. The positive impact will be perceived not only in the exploration and drilling sectors, the industrial sector with higher share in the Pochteca Group´s portfolio, but also in the investment growth in over 30 industrial sectors which use petrochemicals as raw materials or electricity/gas for their energy requirements. All these industries are looked after by Grupo Pochterca , and therefore their growth will result in increased demand increase for the Company's products



Accumulated sales grew 15% compared to the previous year, even though weighted prices of our products fell over 16% compared to the same period of 2012.

GROSS PROFIT MARGIN AS % OF SALES

Accum. 12		Accum. 13
16.1%	Gross profit margin	16.7%

Efficiency and productivity

Operating profit, plus the accumulated depreciation and amortization (EBITDA) for 2013 was $220 million pesos, 16% higher than the previous year. The operating expense as percentage of sales in the period went from 11.2% to 11.8% compared to the previous year, due mainly to the drop in the price of products. In order to achieve 15% sales growth it was necessary to displace 42% more tonnage than in 2013, which inevitably implied greater costs in logistics and operation.

We are confident that this expense as a percentage of sales will be reduced going forward, as sales continue to grow and the prices of raw materials reduce their contraction rate or, in some instances, may even start growing.

OPERATING EXPENSE (NET OF DEPRECIATION)

Accumul 12		Accumul 13
11.2%	Expenses/ Sales.	11.8%

Financial expenses and foreign exchange profit (loss).

The accumulated financial expense by 2013 end was $59.8 mMXN, which compares very favorably to the $71.7 mMXN incurred in 2012: a 17% decrease.
Accumulated foreign exchange position in 2013 resulted in a $29.6 mMXN loss, vis a vis a $3.5 mMXN profit in the previous year. Thisgenerates an adverse effect of $33.1mMXN compared to year 2012.

Cash generation.

The accumulated cash generation in 2013, calculated in a pro forma manner, that is to say, considering as though Mardupol would have consolidated since December 2012, was $213 mMXN. The main item that impacted negatively in the cash flow was $208mMXN ofcapital investments. . This amount was earmarked for the investment in a new site to hold the technology information systems in Querétaro and a mirror site in Mexico City, renovation of transport equipment, as well as some improvements in the tank facilities structures and warehousing of Mardupol. With this investment the company has a sound infrastructure position for the coming years. For 2014 estimated capital investments will be under $80mMXN, since the bulk of necessary investments was done during 2013.

End of year balance sheet

Working Capital

In spite of the difficulty of the exploration and drilling sectors to punctually recover their receivables and the difficult time that the construction companies are going through, the company was able to reduce its accounts receivable outstanding days from 54 in December 2012 to 53 days in December 2013. On the other hand, the inventory increased from 70 to 71 days, while accounts payable to suppliers kept stable at 92 days These figures take into account only the sales, cost of sales, accounts receivable, inventories and suppliers of Pochteca Group without Coremal, since Coremal was incorporated to the balance sheet in December 31, 2013. Therefore, the profit and loss statement of Coremal does not impact the figures of Pochteca Group in 2013. There is only an effect at the balance sheet level.

Net Debt

The net debt, at 2013 year end closing was $616 mMXN. This debt includes already both: 100% of banking debt of Coremal as well as the debt incurred by Grupo Pochteca in order to acquire Coremal. Likewise, for the calculation of the net debt to EBITDA ratio, both Grupo Pochteca's EBITDA and Coremal's EBITDA are considered

The net debt to EBITDA rate is 2.15x times by the quarter closing, which barely goes over our internal goal of no more than 2.0x times. We trust that as 2014 progresses and the commercial strategies are implemented in order to increase the sales of Coremal, as well as to continue optimizing the working capital both of Pochtecaand Coremal, this rate will return 2X or less.

On the other hand, the interests coverage by 2013 closing was 2.65 times, slightly better than the 2.61 times rate by 2012 closing date, in spite of the fact that during 2013 Mardupol and Coremal were acquired.

	January – December	
	2013	2012
Net Debt	616	55
Net Debt/EBITDA 12 M	2.15	0.29
Interests Coverage	2.65	2.61
Outstanding Shares	130,522,049 *	621,891,141

*After the Reverse Split (5 a1).

Discontinuos operations

In fiscal year 2012 the decision was made to to classify the subsidiaries in Central America and Brazil as discontinuous operations, given their minor importance in the company´s operation. It was deemed convenient to try to sell them in order to curb the distraction that they generated to company management. The biggest of them, Pochteca Brazil, was sold in the Summer of 2013. There was no interest in the market for the operations in Guatemala, El Salvador and Costa Rica, in large part because of the reduced size of their operations (sales of $167 mMXN altogether in 2012). In light of the low possibility for selling these operations, and upon the suggestions from our external auditors, we reincorporated the operations not sold, and considered them again as normal operations of the company. In order to give comparability to the figures, in all the comparisons they have been considered as integral part for the financial statements in 2012 and 2013 in this report. These 3 subsidiaries achieved sales of $198mMXN in 2013, which represent a19% growth over 2012.

Coremal

On December 31, 2013, the purchase of COREMAL (Coremal – Comercio e Representações Maia Ltda., Mercotrans Tansportes e Logistica Ltda. e Coremal Química Ltda.) was formalized. Grupo Pochteca signed a contract to acquire 100% of shares of Coremal. 51% of shares were paid in full initially, with subsequent payments of 9.8% each year during 5 years, under the same valuation formula used in the original payment, replacing the 2013 EBITDA in subsequent years with the one for the previous year to each payment. This scheme assures an alignment of interests between the operating shareholders of Coremal and Grupo Pochteca for the following 5 years.

Coremal, established in 1952, is one of the 10 largest companies distributing chemicals in Brazil, with 6 distribution centers across the country. Its infrastructure allows it to provide packed and bulk products to over 8,600 clients in the 27 states of the country, through the support of its subsidiary Mercotrans Transporte e Logistica, Ltda.

The chemical and lubricant market in Brazil is significantly bigger than the Mexican market. However, its complexity and special local features makes it valuable to count on a Brazilian operating partner, with renowned moral integrity and business capacity. Therefore, Pochteca considers that the acquisition of Coremal represents a conjunction of highly positive factors: having a local partner that is very well acknowledged, with a national distribution structure, world class standards of of supply chain custody and HSSE (Industrial responsibility/Responsible distribution, certified by Associquim, the Association of Chemical Industry of Brazil), a portfolio of top of the line suppliers, and a diversification of clients, products, markets and regions, which is consistent with the diversification strategy of Grupo Pochteca.

This transaction will allow Pochteca, among other things to:

1. Consolidate a Latin American presence, increasing its added value to large manufacturers seeking regional distributors, as well as multinational clients searching for negotiations of the same nature.
2. Penetrate the Brazilian market of distribution of chemicals and lubricants, which, in addition to be considerably larger than the Mexican market (Brazil consumes more than 70 billion dollars annually of chemical products), is even more fragmented than the Mexican market.
3. Transfer know-how and supplementary products to Coremal's portfolio and do the same from Coremal to Pochteca in all the areas where the portfolios complement each other.

As in all previous acquisitions, management made sure to keep conservative rates of Debt/EBITDA and interests coverage, in order not to increase the risk profile of the company.

Independent Analyst and Brokerage Firm Coverage

Grupo Pochteca, S.A.B. de C.V. entered into the independent analyst program of the Bolsa Mexicana de VAlores (Mexican Stock Market) , and the Selection Subcommittee agreed to assign the consulting firm Consultora 414 S.A. de C.V., "CONSULTORA 414", as responsible to give coverage to the securities of POCHTECA.

Currently we are covered by Actinver Casa de Bolsa, Vector Casa de Bolsa and BBVA Bancomer.