

**Grupo Pochteca, S. A. B. de  
C. V. and Subsidiaries**

Consolidated Financial  
Statements for the Years  
Ended December 31, 2017,  
2016 and 2015, and  
Independent Auditors' Report  
Dated April 5, 2018



# **Grupo Pochteca, S. A. B. de C. V. and Subsidiaries**

## **Independent Auditors' Report and Consolidated Financial Statements for 2017, 2016 and 2015**

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

### ***Opinion***

We have audited the consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2017, 2016 and 2015, and the consolidated statements of income and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2017, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

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

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

### ***Key Audit Matters***

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

### ***Impairment of Goodwill***

The Group has identified several cash-generating units related to the business combinations which are shown as goodwill in the consolidated statements of financial position. An impairment analysis is performed on a yearly basis, which considers tangible and intangible assets as required by IAS 36 "Impairment of Assets". Under this standard, discounted future cash flows are calculated in order to determine whether the asset value has been impaired. There is a risk that the determination of the assumptions used by management to calculate the discounted future cash flows might not be reasonable considering the current and projected circumstances of the Group.



Our audit procedures included, among others:

- i) Involve our internal specialists to:
  - Critically evaluate whether the model used by management to calculate the value in use of the individual cash-generating units complies with the requirements of IAS 36.
  - Evaluate the reasonableness of the assumptions used by the Group to determine the proper discount rates in each case.
  - Review that the projected cash flows are consistent with the historical audited information, and that any the effects of any non-recurring items that are not consistent with our understanding of the operations of the Group are properly excluded.
  - Selectively, recalculate the projections to test the amounts
- ii) Testing internal controls and substantive procedures related to the information used to build the financial model that determines the recoverable amount of the cash-generating units.
- iii) Examine the methodology and reasoning of the Group's management in the impairment analysis, and conclude that the assumptions used are comparable to the historical performance and the projected circumstances of the Group as well as the discount rates used were appropriate in the circumstances.

The results of our audit procedures were reasonable. In addition, we did not note evidence of impairment that require adjustment to the Group's reported goodwill balance.

### ***Other Information***

Management is responsible for the other information. The other information comprises the information included in the annual report that the Group is obligated to prepare in accordance with the Article 33, Section I, Subsection b) of the fourth title, First Chapter of the General Rules Applicable to Securities Issuers and Other Participants of the Mexican Stock Market and the accompanying Manual of those legal provisions (the Legal provisions). The annual report 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.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, 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.

### ***Other matter***

The accompanying consolidated financial statements have been translated into English for the convenience of readers.

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

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



In preparing the consolidated financial statements, management is responsible for assessing the 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 Group's financial reporting process.

## ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 Group 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 Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

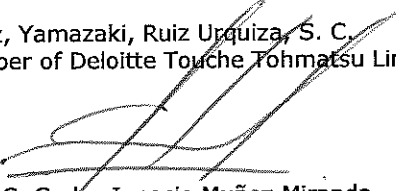


We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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



C. P. C. Carlos Ignacio Muñoz Miranda

April 5, 2018



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

**Consolidated Statements of Financial Position**

As of December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

<b>Assets</b>	Notes	2017	2016	2015	<b>Liabilities and stockholders' equity</b>	Notes	2017	2016	2015
<b>Current assets:</b>					<b>Current liabilities:</b>				
Cash and cash equivalents	5	\$ 254,628	\$ 144,799	\$ 385,672	Bank loans and current portion of long-term debt	14	\$ 300,292	\$ 500,911	\$ 325,279
Accounts receivable and recoverable taxes - Net	6	1,130,964	1,123,138	1,050,658	Trade accounts payable		1,313,877	1,100,641	1,199,576
Due from related parties	19	7,785	7,481	2,356	Other accounts payable and accrued expenses	13	173,050	194,018	169,606
Inventories - Net	7	888,009	855,305	830,616	Due to related parties	19	8,120	6,871	9,909
Prepaid expenses		<u>34,576</u>	<u>42,336</u>	<u>46,510</u>	Income taxes and statutory employee profit sharing		<u>47,788</u>	<u>19,800</u>	<u>15,780</u>
<b>Total current assets</b>		<b>2,315,962</b>	<b>2,173,059</b>	<b>2,315,812</b>	<b>Total current liabilities</b>		<b>1,843,127</b>	<b>1,822,241</b>	<b>1,720,150</b>
<b>Non-current assets</b>					<b>Long-term liabilities:</b>				
Property, plant and equipment - Net	9	755,597	813,248	813,712	Other long-term accounts payable	13	210,019	228,253	210,067
Other investments		4,381	4,381	4,381	Long-term debt	14	666,250	371,975	614,323
Investment property	8	15,060	15,060	12,727	Employee benefits	15	<u>7,457</u>	<u>7,681</u>	<u>7,002</u>
Other assets		110,264	101,470	97,359	<b>Total long-term liabilities</b>		<b><u>883,726</u></b>	<b><u>607,909</u></b>	<b><u>831,392</u></b>
Deferred income taxes - Net	23	46,661	69,477	42,152	<b>Total liabilities</b>		<b><u>2,726,853</u></b>	<b><u>2,430,150</u></b>	<b><u>2,551,542</u></b>
Intangible assets	11	212,490	51,524	51,574	<b>Stockholders' equity:</b>				
Goodwill	12	<u>419,596</u>	<u>433,067</u>	<u>366,097</u>	Contributed capital-				
<b>Total non-current assets</b>		<b><u>1,564,049</u></b>	<b><u>1,488,227</u></b>	<b><u>1,388,002</u></b>	Capital stock	16	1,096,837	1,096,837	1,093,624
<b>Total</b>		<b><u>\$ 3,880,011</u></b>	<b><u>\$ 3,661,286</u></b>	<b><u>\$ 3,703,814</u></b>	Premium on sale of repurchased stock		58,176	58,176	58,176
					Earned capital-				
					Retained earnings		18,233	69,550	31,884
					Reserve for repurchase of shares		3,257	22,488	56,582
					Translation effects of foreign operations		(22,723)	(12,170)	(86,883)
					Other comprehensive income		<u>(622)</u>	<u>(3,745)</u>	<u>(1,111)</u>
							<u>(1,855)</u>	<u>76,123</u>	<u>472</u>
					<b>Total stockholders' equity</b>		<b><u>1,153,158</u></b>	<b><u>1,231,136</u></b>	<b><u>1,152,272</u></b>
					<b>Total</b>		<b><u>\$ 3,880,011</u></b>	<b><u>\$ 3,661,286</u></b>	<b><u>\$ 3,703,814</u></b>

The accompanying notes are part of the consolidated financial statements.



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

## Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos, except earnings per common share expressed in Mexican pesos)

	Notes	2017	2016	2015
<b>Continuing operations:</b>				
Net sales	20	\$ 6,332,988	\$ 6,139,273	\$ 6,078,819
Cost of sales	21	<u>(5,182,656)</u>	<u>(5,064,001)</u>	<u>(4,972,853)</u>
Gross profit		1,150,332	1,075,272	1,105,966
Profit in business acquisition		5,040	-	-
Operating expenses	22	<u>(921,455)</u>	<u>(959,113)</u>	<u>(883,069)</u>
Income from operations		233,917	116,159	222,897
Financing costs:				
Interest income		13,433	14,901	14,893
Interest expense		(147,471)	(96,308)	(113,573)
Exchange (loss)		<u>(54,343)</u>	<u>(49,526)</u>	<u>(93,888)</u>
		(188,381)	(130,933)	(192,568)
Income (loss) before income taxes		45,536	(14,774)	30,329
(Benefit) income taxes expense	23	<u>99,341</u>	<u>(9,100)</u>	<u>(3,213)</u>
Consolidated net (loss) income		<u>\$ (53,805)</u>	<u>\$ (5,674)</u>	<u>\$ 33,542</u>
<b>Other comprehensive income</b>				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		3,123	(2,634)	(74)
Exchange differences on translating foreign operations		<u>(10,553)</u>	<u>74,713</u>	<u>(45,519)</u>
Total comprehensive (loss) income for the year		<u>\$ (61,235)</u>	<u>\$ 66,405</u>	<u>\$ (12,051)</u>
<b>Earnings per share:</b>				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		<u>\$ (0.4122)</u>	<u>\$ (0.0435)</u>	<u>\$ 0.2570</u>
Weighted average shares outstanding		<u>130,522,049</u>	<u>130,522,049</u>	<u>130,522,049</u>

The accompanying notes are part of the consolidated financial statements.





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

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

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

	Contributed capital				Earned capital				Total stockholders' equity
	Common stock			Total	Accumulated results	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	
	Nominal	In trust	Premium on sale of repurchased stock						
Balances as of December 31, 2014	\$ 1,104,721	\$ (15,032)	\$ 51,060	\$ 1,140,749	\$ 17,667	\$ 54,652	\$ (41,364)	\$ (1,037)	\$ 1,170,667
Payment of capital	-	3,935	-	3,935	-	-	-	-	3,935
Cancellation of reserve for repurchase of shares	-	-	-	-	24,675	(24,675)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(44,000)	44,000	-	-	-
Repurchase of shares	-	-	7,116	7,116	-	(17,395)	-	-	(10,279)
Net comprehensive loss for the year	-	-	-	-	33,542	-	(45,519)	(74)	(12,051)
Balances as of December 31, 2015	1,104,721	(11,097)	58,176	1,151,800	31,884	56,582	(86,883)	(1,111)	1,152,272
Payment of capital	-	3,213	-	3,213	-	-	-	-	3,213
Cancellation of reserve for repurchase of shares	-	-	-	-	73,340	(73,340)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(30,000)	30,000	-	-	-
Repurchase of shares	-	-	-	-	-	9,246	-	-	9,246
Net comprehensive income for the year	-	-	-	-	(5,674)	-	74,713	(2,634)	66,405
Balances as of December 31, 2016	1,104,721	(7,884)	58,176	1,155,013	69,550	22,488	(12,170)	(3,745)	1,231,136
Cancellation of reserve for repurchase of shares	-	-	-	-	22,488	(22,488)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(20,000)	20,000	-	-	-
Repurchase of shares	-	-	-	-	-	(16,743)	-	-	(16,743)
Net comprehensive loss for the year	-	-	-	-	(53,805)	-	(10,553)	3,123	(61,235)
Balances as of December 31, 2017	<u>\$ 1,104,721</u>	<u>\$ (7,884)</u>	<u>\$ 58,176</u>	<u>\$ 1,155,013</u>	<u>\$ 18,233</u>	<u>\$ 3,257</u>	<u>\$ (22,723)</u>	<u>\$ (622)</u>	<u>\$ 1,153,158</u>

The accompanying notes are part of the consolidated financial statements.



# Grupo Pochteca, S. A. B. de C. V. and Subsidiaries

## Consolidated Statements of Cash Flows

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

(Indirect method)

	Notes	2017	2016	2015
Cash flows from operating activities:				
Consolidated net (loss) income		\$ (53,805)	\$ (5,674)	\$ 33,542
Adjustments for:				
Income taxes (benefit) expense	23	99,341	(9,100)	(3,213)
Depreciation and amortization	22	127,063	131,944	118,269
Gain on sale of property and equipment		(4,988)	(1,316)	(3,033)
Amortization of commissions paid		10,921	4,260	4,231
Interest paid		136,550	92,048	109,342
Interest income		(13,433)	(14,901)	(14,893)
Unrealized exchange (gain) loss		(11,836)	107,386	83,561
		<u>289,813</u>	<u>304,647</u>	<u>327,806</u>
(Increase) decrease in:				
Accounts receivable and recoverable taxes	6	(17,707)	(79,938)	(23,260)
Inventories	7	(26,627)	(24,689)	79,701
Prepaid expenses		7,760	4,174	3,565
Other assets		(17,420)	(4,111)	(22,726)
(Decrease) increase in:				
Trade accounts payable		213,236	(98,935)	6,568
Other accounts payable and accrued expenses		(53,100)	844	(84,382)
Due to related parties	19	1,249	(3,038)	3,199
Income taxes paid		(38,362)	(14,205)	(26,249)
Net cash provided by operating activities		<u>358,842</u>	<u>84,749</u>	<u>264,222</u>
Cash flows from investing activities:				
Purchase of machinery and equipment		(41,379)	(57,500)	(76,082)
Sale of equipment		14,501	3,120	16,554
Acquisition of subsidiaries		(176,577)	(40,951)	(11,857)
Interest collected		13,433	14,901	14,893
Net cash used in investing activities		<u>(190,022)</u>	<u>(80,430)</u>	<u>(56,492)</u>
Cash flows from financing activities:				
Borrowings	14	1,096,105	205,996	58,778
Repayment of loans received	14	(964,436)	(354,216)	(26,222)
Payment of financial leasing		(33,099)	(41,107)	(25,645)
Purchase of own common shares		(16,743)	9,246	(10,279)
Interest and commissions paid		(128,908)	(78,525)	(68,443)
Issuance and payment of common stock		-	3,213	3,935
Net cash (used in) provided by financing activities		<u>(47,081)</u>	<u>(255,393)</u>	<u>(67,876)</u>
Effects of changes in exchange rates on cash held in foreign currency				
		<u>(11,910)</u>	<u>10,201</u>	<u>(78,640)</u>
Net (decrease) increase in cash and cash equivalents		109,829	(240,873)	61,214
Cash and cash equivalents at beginning of year		<u>144,799</u>	<u>385,672</u>	<u>324,458</u>
Cash and cash equivalents at end of year		<u>\$ 254,628</u>	<u>\$ 144,799</u>	<u>\$ 385,672</u>

The accompanying notes are part of the consolidated financial statements.



## Grupo Pochteca, S. A. B. de C. V. and Subsidiaries

# Notes to Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Mexican pesos)

### 1. Activities and significant events

#### *Activity*

Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the "Entity", or the "Group") operates in Mexico and Brazil and its main activities are comprised of trading raw materials for the chemical, coating, plastics and food industries, as well as the processing and marketing of paper, cardboard and products for graphic arts. The offices are located at Manuel Reyes Veramendi #6, Colonia San Miguel Chapultepec, Delegación Miguel Hidalgo, Ciudad de México, 11850.

### 2. Application of new and revised International Financial Reporting Standards

#### a) *Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year*

In the current year, the Group has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

#### b) *Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") that are mandatorily effective for the current year*

In the current year, the Entity has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2017.

#### *Amendments to IAS 7 Disclosure Initiative*

The Entity has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Entity's liabilities arising from financing activities consist of borrowings (note 24) and certain other financial liabilities (note 26). A reconciliation between the opening and closing balances of these items is provided in note 24c. Consistent with the transition provisions of the amendments, the Entity has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 24c, the application of these amendments has had no impact on the Entity's consolidated financial statements.

#### *Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses*

The Entity has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilize a deductible temporary difference.



The application of these amendments has had no impact on the Entity's consolidated financial statements as the Entity already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

#### *Annual Improvements to IFRSs 2014-2016 Cycle*

The Entity has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Entity (see note 2b).

IFRS 12 states that an entity need not provide summarized financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Entity's consolidated financial statements as none of the Entity's interests in these entities are classified, or included in a disposal group that is classified, as held for sale.

#### c) *New and revised IFRSs in issue but not yet effective*

The Entity has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments <sup>1</sup>
IFRS 15	Revenue from Contracts with Customers (and the related Clarifications) <sup>1</sup>
IFRS 16	Leases <sup>2</sup>
Amendments to IFRS 2	Classification and measurement of share-based payments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

#### **IFRS 9 *Financial Instruments***

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IFRS 9 *Financial Instruments* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.



- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on an analysis of the Entity's financial assets and financial liabilities as at 31 December 2017 on the basis of the facts and circumstances that exist at that date, the directors of the Entity have assessed the impact of IFRS 9 to the Entity's consolidated financial statements as follows:

Based on an analysis of the Entity's financial assets and liabilities as of December 31, 2017 and on the basis of the facts and circumstances that exist at that date, the management do not anticipate that the application of the IFRS 9 accounting requirements will have a material impact on the Entity's consolidated financial statements.

#### ***IFRS 15 Revenue from Contracts with Customer***

In May 2014 IFRS 15 was issued, it establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.



In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Entity recognizes revenue from the following major sources:

- Sale of leisure goods
- Interest income

The entity is in the process of concluding the analysis of impacts on all sources of income, including the review of current accounting policies and practices to identify differences that could result from the application of the new standard. The income of the entity is generated mainly by the sale of assets and interest income. The entity has a preliminary assessment in which it is an obligation in addition to the main obligation, however, to date the final result of these impacts is not known, the cases in which it was confirmed that they were evaluated and disclosed in the financial statements of the first quarter.

Guarantees related to sales can't be purchased separately and these serve as insurance that the products sold meet the required specifications. According to this, the entity continues to account for the guarantees in accordance with IAS 37, which meet the current accounting policies.

Our analysis also included the evaluation of the costs to obtain and to fulfill a contract which we estimate given the current accounting policy on them will not have a significant impact.

The entity intends to use the prospective method as an alternative to transition to IFRS 15.

In addition to provide more extensive disclosures about the Entity's income transactions, the Entity does not anticipate that the adoption of IFRS 15 will have a significant impact on the entity's financial position and / or financial result.

#### **IFRS 16, Leases**

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 was issued in January 2016 and will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. "Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognized for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payment as well as the impact of lease modifications, among the others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively.

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



In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Entity is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although given the nature of its operations it would expect significant impacts.

#### ***Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions***

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a 'net settlement feature', such an arrangement should be classified as equity-settled in its entirety, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:
  - (i) The original liability is derecognized;
  - (ii) The equity-settled share-based payment is recognized at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and
  - (iii) Any difference between the carrying amount of the liability at the modification date and the amount recognized in equity should be recognized in profit or loss immediately.

The amendments are effective for annual reporting periods beginning on or after 1 January 2018 with earlier application permitted. Specific transition provisions apply. The directors of the Entity do not anticipate that the application of the amendments in the future will have a significant impact on the Entity's consolidated financial statements.

### **3. Significant accounting policies**

#### **a. *Statement of compliance***

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards released by IASB.

#### **b. *Basis of presentation***

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of properties and lands at a fair value, as explained in the accounting policies below:



i. Historical cost

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Entity takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

c. ***Basis of consolidation***

The consolidated financial statements incorporate the financial statements of the Entity and entities controlled by the Entity and its subsidiaries. Control is achieved when the Entity:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Entity reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Entity has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Entity considers all relevant facts and circumstances in assessing whether or not the Entity's voting rights in an investee are sufficient to give it power, including:

- The size of the Entity's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Entity, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Entity has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.





Consolidation of a subsidiary begins when the Entity obtains control over the subsidiary and ceases when the Entity loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Entity gains control until the date when the Entity ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Entity and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Entity and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group accounting policies.

Subsidiary	Main activity	Functional currency
Pochteca Materias Primas, S. A. de C. V.	Trading of raw materials	Mexican pesos
Suplia, S. A. de C. V. <sup>(1)</sup>	Trading of raw materials	Mexican pesos
Demser, S. A. de C. V.	Professional services	Mexican pesos
Servicios Administrativos Argostal, S. A. de C. V.	Professional services	Mexican pesos
Pochteca de Guatemala, S. A.	Trading of raw materials	Guatemalan quetzales
Pochteca Do Brasil Participações Ltd.	Trading of raw materials	Brazilian reais
Pochteca Papel, S. A. de C. V.	Trading of paper	Mexican pesos
Transportadora de Líquidos y Derivados, S. A.	Transportation of chemical products	Mexican pesos
Pochteca de El Salvador, S. A.	Trading of raw materials	US Dollars
Pochteca de Costa Rica, S. A.	Trading of raw materials	Costa Rican colon
Pochteca Servicios Administrativos, S. A. de C. V.	Professional services	Mexican pesos
Pochteca Servicios Corporativos, S.A. de C.V.	Professional services	Mexican pesos
Asesoría en Lubricantes Pochteca, S. A. de C. V.	Professional services	Mexican pesos
Asesoría en Servicios Pochteca, S. A. de C. V.	Professional services	Mexican pesos
Plásticos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Químicos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Comercio e Representações Maia Ltda.	Trading of raw materials	Brazilian reais
Mecotrans Transportes e Logística Ltda.	Transportation of chemical products	Brazilian reais
Coremal Química Ltda.	Trading of raw materials	Brazilian reais
Latam Chemicals, LLC	Trading of raw materials	US Dollars
Conjunto LAR, S. A. de C. V.	Trading of raw materials	Mexican pesos

Participation in investments in all subsidiaries is 100% of its share capital.

#### **Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Group.



When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**d. *Conversion of the financial statements of foreign subsidiaries***

The individual financial statements of each of the Group's subsidiaries are prepared in the currency of the primary economic environment in which the Group operates (its functional currency). For the purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, the Group's functional currency, as well as the presentation currency of the consolidated financial statements.

For consolidation purposes, the recording currency used for the financial statements of foreign subsidiaries is modified to enable their presentation according to IFRS. The financial statements are converted to Mexican pesos by using the following methodology:

Foreign entities that use the same recording and functional currency convert their financial statements by utilizing the following exchange rates: 1) the close exchange rate for assets and liabilities; 2) the historical exchange rate for stockholders' equity, and 3) the average exchange rates in effect during the period unless fluctuating significantly, in which case the exchange rates in effect on transaction dates are used for income, costs and expenses. If applicable, exchange rate differences are recognized in other comprehensive income and accrued to stockholders' equity.

**e. *Reclassifications***

Until December 31, 2016, the Entity grouped in the account Accounts receivable and taxes to be recovered - Net the taxes to be recovered from its subsidiary in Brazil (Coremal). During fiscal year 2017, the Entity's management identified that the recovery of these taxes will be partially realized in the long term, for which reason it decided to reclassify said portion of the current assets to the long-term assets. The effects of these reclassifications were applied retrospectively.

**f. *Financial instruments***

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

**g. *Financial assets***

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' ("FVTPL"), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.



1. Effective interest method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as of FVTPL.

2. Accounts receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

1. Uncollectable accounts receivables:

Accounts receivable from customers are subject to tests for impairment at the end of each period. They are considered impaired when there is objective evidence that, as a consequence of one or more events that have occurred after their recognition, the estimated future cash flows of the financial asset have been affected. Objective evidence of impairment could include: i) financial difficulties of the client; ii) failure to pay invoices by customers; iii) the client goes bankrupt or in a financial reorganization; or iv) observable changes in national and local economic conditions that correlate with default in payments. Accounts receivable from customers who have not suffered impairment individually are included in the impairment assessment on a collective basis.

**h. *Cash and cash equivalents***

Cash includes bank deposits and checking accounts and cash equivalents in short-term investments, highly liquid and easily convertible into cash, which are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are presented at fair value. Fluctuations in value are recognized in income as they accrue.

**i. *Inventories and cost of sales***

Inventories are stated at the lower of cost and net realizable value. Costs of inventories are determined on a first-in-first out basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**j. *Property, plant and equipment***

Property, plant and equipment are recorded at acquisition cost less any accumulated depreciation or impairment loss.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.



The depreciation of these assets, as in other properties, begins when the assets are ready for their planned use. Depreciation is calculated according to the straight-line method based on the remaining useful life of the assets. The average years of useful life used to calculate the depreciation in 2017, 2016 and 2015, are the following:

	Average years
Buildings	50 and 20
Machinery and equipment	10
Vehicles and allied equipment	4 and 15
Office furniture and equipment	10
Computers	3.3
Leasehold improvements	3

The gain or loss arising from the sale or retirement of an item of property, plant and equipment is calculated as the difference between the resources received from sales and the carrying amount of the asset and is recognized in results.

**k. *Investment property***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Entity's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

**l. *Other investments***

Are recognized at cost. Corresponds to the share in Unión de Crédito de la Industria Litográfica, S. A. de C. V. and Club de Industriales, A. C.

**m. *Other assets***

They are valued at cost and are primarily represented by security deposits for leases on truck tractors.

**n. *Business combinations***

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquire and the equity interests issued by the Group in exchange for control of the acquire. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 respectively;



- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Entity's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

**o. Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.



- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Entity's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

**p. *Intangible assets***

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The Group has intangible assets with definite and indefinite useful lives which are disclosed in the Note 11.

**q. *Goodwill***

The goodwill generated by a business acquisition is recognized as an asset at the date on which control is acquired (see Note 12); it refers to the amount by which the transferred payment exceeds fair value at the acquisition date of identifiable acquired assets and assumed liabilities.

In order to test for impairment, goodwill is assigned to each of the Group's cash generating units (or groups of cash generating units) which is expected to benefit from the combination of synergies.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**r. *Impairment of tangible and intangible assets other than goodwill***

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.



Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. When an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

s. ***Financial liabilities and equity instruments***

Financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments.

Financial liabilities are valued initially at fair value. Transaction costs which are directly attributable to the acquisition or issuance of financial liabilities (different from financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as the case may be, in the initial recognition. The transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognized immediately in results.

- Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

- Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of a Group after deducting all of its liabilities. Group instruments issued by the Entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

- Financial liabilities

Financial liabilities are classified as financial liabilities at fair value through profit and loss or other financial liabilities.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortized cost using the effective interest method.



#### Derecognition of financial liabilities

The Group recognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

#### t. *Derivative financial instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange *forward* contracts, interest rate *swaps* and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 18.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### u. *Employee benefits*

Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing PTU payable, compensated absences, such as vacation and vacation premiums, and incentives and it is shown in the account payable and accrued liabilities.

#### v. *Retirement benefit costs*

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the consolidated statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and as reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to unrecognized actuarial losses and past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

#### w. *Statutory employee profit sharing (PTU)*

PTU is recorded in the profit or loss of the year in which it is incurred and presented under other income and operating expenses in the accompanying consolidated statements of income and other comprehensive income.





x. *Stock option plan for key executives*

During 2008, the Group has two investment and management trusts. In the trust denominated F/147, \$33,085 was contributed, with which 22,056,811 shares of Grupo Pochteca, S. A. B. of C.V. Were acquired at a rate of one peso with fifty cents per share. In the same year, the Board of Directors approved this increase in share capital, remaining in Group treasury 7,943,189. The shares were irrevocably assigned to certain officers and employees of the Group, who became trustees of the described trust. Likewise, the executives of the Group undertake to pay the value of the assigned shares within a period of three years.

Capital Increase - At the Ordinary General Shareholders' Meeting held on August 4, 2010, a capital increase was approved in its variable portion up to \$198,000, through the issuance of 110,000,000 common shares, with no par value, Series " B ", at a subscription value of one peso with eighty cents per share, of which 103,167,663 were actually subscribed, with 6,832,337 being canceled.

In accordance with the agreements taken at the meeting of the technical committee dated August 23, 2010 and in relation to the capital increase mentioned in the previous paragraph, it was resolved that the trust exercise its right to subscribe and pay under the first right of preference up to 3,477,595 and in the second right of preference up to 6,000.00 of ordinary shares, registered, without expression of nominal value, Series "B", at a rate of one peso with eight cents per share. The actions to subscribe will be offered to key management executives.

During 2015, the Group established a Trust called F / 34. The assets of the trust correspond to the shares to be subscribed by the investment and management trust number F / 34, up to an amount of \$ 20,805 for the purchase option plan for key executives. Various subsidiaries participate in said Trust, acting as Trustors, Banco Ve por Más, Sociedad Anónima, Multiple Banking Institution, Grupo Financiero Ver por Más as a Trustee and several Group management executives as Trustees. As of December 31, 2017, no shares have been assigned to executives in this trust. The shares to be acquired are those representing the capital stock of Grupo Pochteca, S. A. B. de C. V.

y. *Income taxes*

Income tax expense represents the sum of the tax currently payable and deferred tax.

1. Current tax

Current income tax ("ISR") is recognized in the results of the year in which is incurred.

2. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.



The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Entity reviewed the Entity's investment property portfolios and concluded that none of the Entity's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Entity has not recognized any deferred taxes on changes in fair value of the investment properties as the Entity is not subject to any income taxes on the fair value changes of the investment properties on disposal.

#### Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

#### ***z. Provisions***

Provisions are recognized when the Entity has a present obligation (legal or constructive) as a result of a past event, it is probable that the Entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are classified as current or non-current based on the estimated period of time to attend the obligations covered.

#### ***aa. Derivative financial instruments***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.



**bb. Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

- Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

- Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

**cc. Classification of costs and expenses**

Costs and expenses presented in the consolidated statements of income and other comprehensive income were classified according to their function separating the cost of sales from other costs and expenses.

**dd. (Loss) earnings per share**

Basic (losses) earnings per common share are calculated by dividing consolidated net income (loss) by the weighted average number of common shares outstanding during the year.

**ee. Reserve for repurchase of shares**

The acquisition of the Entity's own shares are shown as a decrease in the reserve for repurchase of shares included in the consolidated statements of financial position under the item, reserve for repurchase of shares and are valued at acquisition cost. The sales of shares made after the approval of the shareholders, results in an increase in the balance of the unused repurchase reserve, which relate to investments made in prior periods of amounts authorized by the Assembly.



#### 4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the accounting policies, the Group's management makes judgments, estimates and assumptions about certain amounts of assets and liabilities in the financial statements. The estimates and assumptions are based on experience and other factors considered relevant. Actual results could differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are critical accounting judgments and key sources of uncertainty in applying accounting policies, made at the date of the consolidated financial statements, which have a significant risk of deriving an adjustment to the carrying amounts of assets and liabilities during the next financial period, are as follows:

- a. **Useful life of property, plant and equipment** - The Group reviews the estimated useful life of its property, plant and equipment at the end of each annual period. At the IFRS transition date, the Group management performed a detailed analysis to modify the estimated useful life and components of property, plant and equipment. The level of uncertainty associated with the estimation of these useful lives is related to market changes and asset utilization by production volumes and technological development.
- b. **Allowance for doubtful accounts** - The Group uses estimates to determine the allowance for bad debts. The factors considered for this purpose primarily involve the risks derived from the customer's financial position, customer guarantees and collection delays.
- c. **Realizable value of inventories** - The Group reviews the realizable value of its inventories at the end of each period. The factors considered by the Group to estimate its inventories are the sales prices of its products derived from changes in market demand.
- d. **Provisions and contingencies** - At the end of 2017, there are many judgements in process related to labor matters promoted in various subsidiaries which were originated in development of operations. The legal advisors of the company and its directors consider that, given its nature and even as a whole, the outcome of litigation and claims will not represent a significant economic impact and will not produce a significant effect on the consolidated financial statements for the years in which they are settled.
- e. **Fair value measurements and valuation processes** - Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The management of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified appraiser to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 17.

#### 5. Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash and banks and investments. Cash equivalents are presented mainly by investments in risk-free instruments. Cash and cash equivalents at end of period as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated statement of financial position as follows:



	2017	2016	2015
Cash	\$ 175,228	\$ 128,819	\$ 363,085
Investments	<u>79,400</u>	<u>15,980</u>	<u>22,587</u>
	<u>\$ 254,628</u>	<u>\$ 144,799</u>	<u>\$ 385,672</u>

**6. Accounts receivable and recoverable taxes**

	2017	2016	2015
Trade accounts receivable	\$ 1,024,521	\$ 1,010,790	\$ 938,249
Allowance for doubtful accounts	<u>(45,387)</u>	<u>(78,921)</u>	<u>(57,056)</u>
	979,134	931,869	881,193
Recoverable taxes in Mexico	46,575	57,396	63,145
Recoverable taxes in Brazil	40,254	85,481	60,879
Other	<u>65,001</u>	<u>48,392</u>	<u>45,441</u>
	<u>\$ 1,130,964</u>	<u>\$ 1,123,138</u>	<u>\$ 1,050,658</u>

The accounts receivable from customers are valued at their applied cost.

The average credit period granted for goods sales is 50 days. The Entity does not charge interest on accounts receivable from customers. In the case of accounts receivable aged more than 120 days, the Entity recognizes an allowance for doubtful accounts by considering the unrecoverable amounts determined according to its experience with counterparty noncompliance.

The limits and ratings assigned to customers are reviewed annually. As of December 31, 2017, 71% of accounts receivable from customers which are not overdue or impaired have the highest credit rating according to the rating system used by the Entity.

The accounts receivable from customers disclosed in the preceding paragraphs include amounts which are overdue at the end of the reporting period, but for which the Group has not recognized an allowance for doubtful accounts because there has been no significant change in customer credit ratings and the amounts in question are still deemed to be recoverable.

Aging of accounts receivable past-due but recoverable

	2017	2016	2015
60-90 days	\$ 8,617	\$ 20,609	\$ 52,938
Greater than 90 days	<u>37,817</u>	<u>45,501</u>	<u>54,842</u>
Total	<u>\$ 46,434</u>	<u>\$ 66,110</u>	<u>\$ 107,780</u>

Change in allowance for doubtful accounts

	2017	2016	2015
Balance at beginning of the year	\$ 78,921	\$ 57,056	\$ 54,583
Provision for accounts deemed uncollectible during the year	54,636	19,031	15,454
Translation effects and accounts recovered during the year	<u>(88,170)</u>	<u>2,834</u>	<u>(12,981)</u>
Balance at end of the year	<u>\$ 45,387</u>	<u>\$ 78,921</u>	<u>\$ 57,056</u>



### Aging of impaired accounts receivable

	2017	2016	2015
Over 120 days	\$ <u>45,387</u>	\$ <u>78,921</u>	\$ <u>57,056</u>

### 7. Inventories

	2017	2016	2015
Finished goods:			
Coatings, solvents and mixtures	\$ 18,915	\$ 8,440	\$ 9,139
Paper	89,126	101,815	136,512
Chemicals and plastics	455,071	404,502	388,923
Food products	201,981	190,827	155,580
Lubricants	<u>107,823</u>	<u>132,717</u>	<u>114,803</u>
	872,916	838,301	804,957
Allowance for slow moving inventory	<u>(25,017)</u>	<u>(20,616)</u>	<u>(21,278)</u>
	847,899	817,685	783,679
Merchandise-in-transit	<u>40,110</u>	<u>37,620</u>	<u>46,937</u>
	\$ <u>888,009</u>	\$ <u>855,305</u>	\$ <u>830,616</u>

The allowance for slow moving inventory had been increased by \$1,714, in 2017, \$2,957 in 2016 and \$12,109 in 2015.

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to \$4,962,315, \$4,846,153 and \$4,806,422, in 2017, 2016 and 2015, respectively.

### 8. Investment properties

As of December 30th 2016 and March 22th 2014, the Group received as payments in kind of real estate for the collection of accounts maintained with Solquimia, S. A. de C. V. and Agropur Lacpur, S. A. de C. V., respectively, to the date of payment in kind the account amounted to \$2,333 and \$12,727, respectively. Because of the Group has no plans to use the property, the administration classifies it as investment property, meeting the requirements for it.

The fair value of the investment property of the Group, as of December 31, 2017, 2016 and 2015, has been determined in accordance with IFRS13.91 (a), 93 (d) on the basis of an evaluation carried out in the respective dates by an independent appraiser, with the appropriate qualifications, as well as sufficient recent experience in the valuation of investment properties similar in nature and physical location of those of the Group. The fair value of the investment property is \$ 25,325 for 2017 and 2016 and \$ 21,825 for 2015, corresponding to the land of \$ 15,200 for 2017 and \$ 11,700 for 2016 and 2015 and \$ 10,125 for construction, however, the Group has decided to maintain the book value of the right to collect and recognize a potential profit until such time as it is realized through the disposal of the asset. As of December 31, 2017, 2016 and 2015, the Group has not identified any signs of impairment and has not recognized declines in investment properties.



9. Property, plant and equipment

	Balances as of December 31, 2016	Additions	Disposals	Reclassifications and translation effects	Additions because of business combinations	Balances as of December 31, 2017
<b>Investment:</b>						
Land	\$ 206,995	\$ -	\$ (1,577)	\$ (1,696)	\$ 3,429	\$ 207,151
Building and constructions	611,941	15,449	(8,072)	(10,055)	10,669	619,932
Industrial machinery and equipment	409,380	14,389	(713)	3,905	1,964	428,925
Office furniture and equipment	54,848	711	(108)	(706)	3,004	57,749
Vehicle	189,401	7,376	(15,846)	(12,993)	4,079	172,017
Computers	68,076	3,454	(159)	3,375	1,897	76,643
Equipment acquired under financial leases	187,745	9,408	(472)	(13,591)	-	183,090
Total investments	1,728,386	50,787	(26,947)	(31,761)	25,042	1,745,507
<b>Accumulated depreciation:</b>						
Building and constructions	(236,462)	(24,978)	1,611	5,189	(3,786)	(258,426)
Industrial machinery and equipment	(263,397)	(25,728)	280	2,378	(801)	(287,268)
Office furniture and equipment	(32,657)	(2,945)	74	513	(992)	(36,007)
Vehicle	(229,163)	(19,135)	15,035	5,704	(3,124)	(230,683)
Computers	(67,180)	(10,194)	104	924	(1,274)	(77,620)
Equipment acquired under financial leases	(86,279)	(19,661)	330	5,704	-	(99,906)
Total accumulated depreciation	(915,138)	(102,641)	17,434	20,412	(9,977)	(989,910)
Net investment	\$ 813,248	\$ (51,854)	\$ (9,513)	\$ (11,349)	\$ 15,065	\$ 755,597
<b>Balances as of December 31, 2015</b>						
<b>Investment:</b>						
Land	\$ 198,357	\$ 196	\$ -	\$ 8,442	\$ 206,995	
Building and constructions	532,714	26,964	(2,557)	54,820	611,941	
Industrial machinery and equipment	388,053	17,402	(10,091)	14,016	409,380	
Office furniture and equipment	49,957	1,750	(122)	3,263	54,848	
Vehicle	163,284	6,502	(15,957)	35,572	189,401	
Computers	56,772	5,713	(242)	5,833	68,076	
Equipment acquired under financial leases	177,198	8,597	-	1,950	187,745	
Total investments	1,566,335	67,124	(28,969)	123,896	1,728,386	
<b>Accumulated depreciation:</b>						
Building and constructions	(192,338)	(21,612)	863	(23,375)	(236,462)	
Industrial machinery and equipment	(238,263)	(25,536)	6,397	(5,995)	(263,397)	
Office furniture and equipment	(27,440)	(2,982)	108	(2,343)	(32,657)	
Vehicle	(175,398)	(37,311)	11,676	(28,130)	(229,163)	
Computers	(41,168)	(38,897)	162	12,723	(67,180)	
Equipment acquired under financial leases	(78,016)	(5,556)	-	(2,707)	(86,279)	
Total accumulated depreciation	(752,623)	(131,894)	19,206	(49,827)	(915,138)	
Net investment	\$ 813,712	\$ (64,770)	\$ (9,763)	\$ 74,069	\$ 813,248	



	Balances as of December 31, 2014	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2015
<b>Investment:</b>					
Land	\$ 205,580	\$ -	\$ (2,283)	\$ (4,940)	\$ 198,357
Building and constructions	518,994	20,782	(10,608)	3,546	532,714
Industrial machinery and equipment	385,816	16,081	(951)	(12,893)	388,053
Office furniture and equipment	48,369	3,000	(29)	(1,383)	49,957
Vehicle	208,301	15,852	(14,684)	(46,185)	163,284
Computers	57,135	2,764	(116)	(3,011)	56,772
Equipment acquired under financial leases	127,308	51,414	(262)	(1,262)	177,198
Total investments	1,551,503	109,893	(28,933)	(66,128)	1,566,335
Accumulated depreciation:					
Building and constructions	(179,480)	(27,862)	3,489	11,515	(192,338)
Industrial machinery and equipment	(216,151)	(24,603)	437	2,054	(238,263)
Office furniture and equipment	(26,129)	(2,723)	5	1,407	(27,440)
Vehicle	(178,093)	(23,242)	11,416	14,521	(175,398)
Computers	(28,702)	(15,927)	58	3,403	(41,168)
Equipment acquired under financial leases	(62,434)	(14,367)	7	(1,222)	(78,016)
Total accumulated depreciation	(690,989)	(108,724)	15,412	31,678	(752,623)
Net investment	\$ 860,514	\$ 1,169	\$ (13,521)	\$ (34,450)	\$ 813,712

#### 10. Business combinations

On June, 2017, the Entity completed the acquisition of Conjunto LAR de México, S. A. de C. V. (LAR), LAR is engaged to the distribution of chemical products in Mexico, this acquisition was accounted by the purchase method. The results of the acquired bussiness were included on the consolidated financial statements since the date of acquisition.

##### a. Subsidiaries acquired

Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred	
LAR	Purchase and sell of raw material <sup>(1)</sup>	June 2 <sup>th</sup> 2017	100	\$ 177,032

<sup>(1)</sup>LAR was acquired to continue with expansion activities of the Group. LAR is an entity with more than 30 years of history specializing in sales of home and personal care.

The transferred consideration in exchange for this transaction was made in cash.





b. *Assets acquired and liabilities recognized at the date of acquisition*

	Conjunto LAR
<b>Current assets</b>	
Cash and & cash equivalents	\$ 455
Trade and other receivables	21,225
Inventories	22,051
<b>Non-current assets</b>	
Plant and equipment	14,712
Other assets	349
Intangible assets	164,497
<b>Current liabilities</b>	
Trade and other payables	<u>41,217</u>
	<u>\$ 182,072</u>

The initial account registration for the acquisition of LAR was only provisionally determined at the end of the period. As of the date of termination of these financial statements, the necessary market valuations and other calculations have not been completed and therefore have been provisionally determined based on the best estimate of the administration of the probable tax values.

c. *Goodwill arising on acquisition*

	LAR <sup>(1)</sup>
Consideration transferred	\$ 177,032
Less: fair value of identifiable net assets acquired	<u>182,072</u>
Goodwill arising on acquisition	<u>\$ 5,040</u>

(1) This effect was reflected in the income statement as a gain.

d. *Net cash outflow on acquisition of subsidiaries*

	LAR
Consideration paid in cash	\$ 177,032
Less: cash and cash equivalent balances acquired	<u>(455)</u>
Amount paid in cash	<u>\$ 176,577</u>

11. **Intangible asset**

According to the analysis of the fair value of assets and liabilities at the date of purchase of Conjunto LAR and Mardupol, the following intangible assets were identified:

	2017	2016	2015
Supplier relationship	\$ 167,284	\$ 51,425	\$ 51,425
LAR brand	45,156	-	-
Non-compete contract	<u>50</u>	<u>99</u>	<u>149</u>
Balances at end of year	<u>\$ 212,490</u>	<u>\$ 51,524</u>	<u>\$ 51,574</u>



*Accumulated amortization and cost*

	2017	2016	2015
Balances at beginning of year	\$ 51,524	\$ 51,574	\$ 51,903
Additional amounts recognized from business acquisitions	164,497	-	-
Amortization expense	<u>(3,531)</u>	<u>(50)</u>	<u>(329)</u>
Balances at end of year	<u>\$ 212,490</u>	<u>\$ 51,524</u>	<u>\$ 51,574</u>

**12. Goodwill**

	2017	2016	2015
Balances at beginning of year	\$ 433,067	\$ 366,097	\$ 405,866
Translation effect	<u>(13,471)</u>	<u>66,970</u>	<u>(39,769)</u>
Balances at end of year	<u>\$ 419,596</u>	<u>\$ 433,067</u>	<u>\$ 366,097</u>

In 1999, Tenedora Pochteca, S. A. de C. V. (currently the Company after its merger with Dermet de México, S. A. B. de C. V.) acquired 99.99% of the shares of Grupo Pochteca, S. A. de C. V. (currently Pochteca Papel, S. A. de C. V.) and its subsidiaries, thereby generating goodwill.

The Group has not identified or recognized the impairment losses of goodwill balances recorded at December 31, 2017, 2016 and 2015. Management did not observe any changes in the main hypotheses giving rise to goodwill impairment.

**13. Other accounts payable and accrued expenses**

	2017	2016	2015
Liability from Coremal purchase	\$ 207,661	\$ 218,609	\$ 192,332
Accrued expenses	88,875	95,345	100,382
Accounts payable	63,126	65,116	56,532
Other account payable	<u>23,407</u>	<u>43,201</u>	<u>30,427</u>
	<u>\$ 383,069</u>	<u>\$ 422,271</u>	<u>\$ 379,673</u>
Short-term	\$ 173,050	\$ 194,018	\$ 169,606
Long-term	<u>210,019</u>	<u>228,253</u>	<u>210,067</u>
	<u>\$ 383,069</u>	<u>\$ 422,271</u>	<u>\$ 379,673</u>



#### 14. Bank loans and long-term debt

	2017	2016	2015
Unsecured by \$875,000 (syndicated with HSBC, BBVA Bancomer, SCOTIABANK y Grupo Financiero Inbursa por \$315,000, \$175,000, \$192,500 y \$192,500, respectively), at Equilibrium Interbank Interest Rate (TIE) 91 plus spread of between 1.50% to 3.00% depending on the leverage ratio, for quarterly maturities of up to \$72,917 beginning June 2018 and until March 2021.	\$ 875,000	\$ -	\$ -
Loan with HSBC Bank for R\$24,964,913 with an annual real rate of 3.70% plus CDI entered into October 2013 and maturing in August 2018.	43,590	96,277	144,467
Unsecured loan with HSBC México, S.A. (HSBC), at TIE 91 days plus spread of between 1.50% to 3.00% depending on the leverage ratio of the Group, maturing February 2017.	-	40,000	-
Bank loan with Banco Brasil, S.A. for R\$3,000,000.00 at an annual rate of 11% entered into 2013 y and maturing 2018	14,343	-	-
Bank loan with Banco Brasil S.A. for R\$1,000,000.00 at an annual rate of 11% entered into August 2013 and Maturing July, 2018.	4,031	-	-
Bank loan with Banco GMAC for R\$58,402.72 at an annual rate of 18.72% entered into December, 2017 and maturing December 2020	348	-	-
Bank loan with Banco GMAC for R\$49,697.10 at an annual rate of 18.72% starting December, 2017 and maturing December, 2020.	293	-	-
Bank loan with Banco de America Central for \$65,000 USD at an annual rate of 7.00% entered into Junio 2017 and maturing March, 2018.	1,283	-	-
Financial collection in advance with Delmonte FIDIC investment fund for R\$108,535.94 at an monthly rate of 1.6%	644	-	-



	2017	2016	2015
Unsecured loan with HSBC México, S.A. (HSBC), at TIE 91 plus spread of between 1.50% to 3.00%, depending on the leverage ratio of the Group, maturing September 2017.	-	35,000	-
Bank loan with Banco Santander for R\$4,341,708.78 at an annual rate of 21.24% entered into May 2017 and maturing May 2017.	-	30,201	-
Bank loan with Banco do Brasil for R\$ 3,442,980.24 at an annual rate of 4.03% entered into June 2017 and maturing June 2017	-	21,025	-
Bank loan with Banco Itau for R\$5,000,000 at an annual rate of 2.74% plus 100% of CDI (Interbank Deposit Certificate rate) variation entered into February 2017 and maturing March 2017.	-	19,934	-
Bank loan with Banco Itau for R\$3,000,000 at an annual rate of 3.45% plus 100% of CDI variation entered into September 2017 and maturing April 2017.	-	19,827	-
Bank loan with Finimp com Banco Itau for R\$1,429,842 at an annual rate of 2.20% plus CDI entered into September 2017 and maturing April 2017.	-	14,394	-
Bank loan with Banco Itau for R\$2,000,000 at an annual rate of 5.37% plus 100% of the variance of the CDI entered into June 2017 and maturing May 2017.	-	12,796	-
Bank loan with Banco do Brasil for R\$1,744,706.13 at an annual rate of 4.03% entered into November 2017 and maturing April 2017.	-	11,523	-
Bank loan with Banco Santander for R\$1,679,999.99 at an annual rate of 20.03% entered into June 2017 and maturing July 2017.	-	4,869	-



	2017	2016	2015
Bank loan with Finame BNDES with Banco Itau for R\$ 703,794.62 at an annual rate of 5.58% entered into May 2017 and maturing January 2019.	4,108	7,802	-
Leasing with IBM for R\$208,645.14 at an annual rate of 1.61% entered into November 2017 and maturing November 2019.	792	1,285	-
Leasing with Banco do Brasil for R\$1,265,440 at an annual rate of 20.271% plus 100% of CDI variation entered into January 2017 and maturing November 2019.	5,129	7,237	-
Loan for \$ 610,000 (syndicated debt with HSBC and Inbursa for \$305,000 each), rate TIE plus a margin of 1.50% to 3.00% depending on the leverage ratio, with equal quarterly payments of \$35,000 from March 2017 and a final payment in December 2018 for \$225,000. As of December 31, 2013 the loan balance was \$500,000, which was restructured in December 2015 to an amount of \$610,000.	-	470,000	610,000
Lease with GE Capital Mexico of transport equipment and computers in the amount of \$139,430, \$125,472 and \$82,019 in 2017, 2016 and 2015, respectively, at TIE 28 days plus 3.5816% fixed rate, entered into February 2015 and maturing in January 2020.	20,582	45,757	79,006
Bank loan with Banco Itau for R\$20,097,194 at an annual rate of 4.53%, entered into September 2012 and maturing December 2017.	-	14,124	14,873
Leasing with Volvo for R\$35.893 at an annual rate of 4.40% entered into in May 2013 and maturing in December 2020.	6,628	10,417	8,932
Loan with Banco do Brasil for R\$15,230,768 at an annual rate of 10.17% entered into in June 2012 and maturing in August 2017	-	4,692	8,065



	2017	2016	2015
Bank loan with Banco Itau for R\$1,800,000 reais at an annual rate of 3.98% plus 100% of CDI variation entered into in December 2016 and maturing in December 2017.	-	11,450	7,855
Leasing with Banco Fidis with different annual interest rates and different maturity dates.	39	1,014	2,524
Leasing with Mercedes Benz for R\$69.606 at an annual rate of 3.50% entered into in December 2015 and maturing in November 2018.	449	948	1,134
Santander Bank loan for R\$9,695,584 with an annual real rate of 10.25% entered into in October 2013 and maturing in October 2017.	-	496	668
Leasing with Banco do Brasil for an amount of R\$93,804 at an annual rate of 7.00% entered into in July 2012 and maturing in July 2017.	-	42	114
Bank loan with Banco Itau for R\$5,000,000 at an annual rate of 3.98% entered into in February 2016 and maturing in February 2017.	-	-	30,923
Bank loan with Finimp for R\$1,429,842 with an annual real rate of 2.38% plus CDI entered into in May 2015 and maturing in August 2017.	-	-	21,761
Loan for \$20,000 Mexican pesos with HSBC, TIE rate plus a margin of 1.50% for a term of one year	-	-	20,000
Bank loan with Banco Brasil S.A. for R\$30,000 at an annual rate of 5.50% entered into in August 2013 and maturing in July 2017	-	-	1,089
Leasing with Mercedes Benz for R\$94.570 at an annual rate of 3.50% entered into in February 2010 and maturing in December 2017.	-	-	460
Leasing with IBM for R\$201.098 at an annual rate of 14.84% entered into in November 2013 and maturing in June 2017.	-	-	97



	2017	2016	2015
Loan with SAFRA for R\$1,400,000 with an annual real rate of 10.00% entered into in August 2013 and maturing in June 2017.	-	-	71
Leasing with SAFRA for R\$165.624 at an annual rate of 13.92% entered into in July 2013 and maturing in August 2017.	-	-	25
Bank loan with Itaucard for R\$14.061 at an annual rate of 16.21% entered into in April 2013 and maturing in March 2017.	-	8	30
Bank loans	977,259	881,118	952,094
Less - Unamortized commissions paid	<u>(10,717)</u> 966,542	<u>(8,232)</u> 872,886	<u>(12,492)</u> 939,602
Less - Current portion of long-term debt	<u>300,292</u>	<u>500,911</u>	<u>325,279</u>
Long-term debt	<u>666,250</u>	<u>\$ 371,975</u>	<u>\$ 614,323</u>

The TIE rates as of December 31, are as follows:

	2017	2016	2015
TIE	7.870%	6.110%	3.320%

- a. The credits contracted include certain restrictive clauses that limit the Entity mainly to grant guarantees, for the years that ended on December 31, 2017, 2016 and 2015, these have been fulfilled.

The maturities of the portion of the long-term debt as of December 31, 2017 are:

Year ending at December 31 of	Amount
2018	\$ 310,609
2019	293,443
2020	<u>62,198</u>
	<u>\$ 666,250</u>

- b. Reconciliation of liabilities arising from financing activities

	January 1, 2017	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2017
Bank loans	<u>\$ 872,886</u>	<u>\$ 1,096,105</u>	<u>\$ (964,436)</u>	<u>\$ (128,908)</u>	<u>\$ 136,550</u>	<u>\$ (45,655)</u>	<u>\$ 966,542</u>



## 15. Employee benefits

The net cost of the period for the derivative obligations on pension's plan, ascends to \$1,288, \$1,194 and \$1,118 in 2017, 2016 and 2015, respectively. Other revelations that required account dispositions are considered less important. The Entity executive's remunerations for years ended as of December 31<sup>th</sup> 2017, 2016 and 2015 ascended at \$51,880, \$56,008 y \$56,175, respectively.

## 16. Stockholders' equity

On an annual basis, the shareholders of the Group determine the maximum amount to be earmarked for repurchase of shares, without exceeding the amount of the retained earnings at that date, refunding to retained earnings any previously authorized amount that has not been exercised. As of December 31, 2017, 2016 and 2015 the Group maintained 4,215,393, 2,178,700 and 3,038,041 shares in treasury, respectively. Sales of shares made after the approval of the shareholders, increase the balance of the unused reserve, which relate to investments made in prior periods of amounts authorized by the Assembly.

I. The Stockholders' Ordinary General Meeting of April 28, 2017 resolved to establish:

- A maximum amount of \$60,000 that the Entity may allocate to the purchase of its own shares or securities representing such shares, on the understanding that the acquisition and placement of shares will be made through the Bolsa Mexicana de Valores, S. A. B. de C. V. at market price. During 2017, only the amount of \$ 20,000 was reserved for the share repurchase reserve since this was the amount that the Entity's Management estimated to use in that year.

II. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives. At December 31, 2017 and 2016, the outstanding portion payable by executives is \$7,884 and \$11,097 respectively, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.

III. During 2015, The Entity created a Trust referred to as F/34. The Trust assets are comprised of the shares to be subscribed by investments trust management number F/34, for an amount up to \$20,805 for the share purchase option plan for key executives. Trust grantors comprise several subsidiaries, the trustee is Banco Ve por Más, Sociedad Anónima, Institución de Banca Múltiple, Grupo Financiero Ve por Más as trustee and the trust beneficiaries include several executives. As of December 31, 2017, shares have not been assigned to beneficiaries of this trust. The shares to be acquired represent the capital of Grupo Pochteca, S. A. B. de C. V.

IV. Common stock without par value as of December 31, is as follows:

	Number of Shares	Amount
Fixed capital Series "B"	9,487,842	\$ 80,304
Fixed capital Series "B"	<u>121,034,207</u>	<u>1,024,416</u>
Total	<u>130,522,049</u>	<u>\$ 1,104,720</u>

V. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2017, 2016 and 2015, the Group has not set aside any amount to create such reserve.





- VI. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

Dividends paid from profits generated as of January 1, 2015 in Mexico resident and resident individuals abroad, may be subject to additional income tax of up to 10%, which should be retained by the Group.

## 17. Financial instruments

### *Capital risk management*

The Group manages its capital to ensure that will continue as a going concern, while also maximizing the return to its stockholders through optimization of its debt amounts and capital structure. The Group is not under any type of restrictions imposed externally on respect of its capital administration.

The Group's management reviews its capital structure when it presents its financial projections as part of the business plan to the Entity's Board of Directors and shareholders.

### *Debt ratios*

The Board of Directors regularly reviews the Group's capital structure. As part of this review, it considers the cost of capital and the risks associated with each capital type.

The leverage ratio at the end of each of the periods is the following:

	2017	2016	2015
Cash and cash equivalents	\$ 254,628	\$ 144,799	\$ 385,672
Debt	<u>966,542</u>	<u>872,886</u>	<u>939,602</u>
Net debt	711,914	728,087	553,930
Stockholders' equity	<u>1,153,158</u>	<u>1,231,136</u>	<u>1,152,272</u>
Index of net debt and equity	<u>61.74%</u>	<u>59.14%</u>	<u>48.07%</u>

The debt includes long-term debt and current portion.

### *Categories of financial instruments*

	2017	2016	2015
<b><i>Financial assets:</i></b>			
Cash	\$ 254,628	\$ 144,799	\$ 385,672
Account receivable	1,044,135	980,261	926,634
Due from related parties	7,785	7,481	2,356
<b><i>Financial liabilities:</i></b>			
Banking loans	\$ 966,542	\$ 872,886	\$ 2,359,154
Trade accounts payable	1,313,877	1,100,641	1,199,576
Due to related parties	8,120	6,871	9,909
Other long-term accounts payable	210,019	228,253	210,063



### *Fair value of financial instruments*

The fair value of financial assets and short-term liabilities is similar to its carrying amount.

The fair value of syndicate loan with HSBC, Inbursa, Scotiabank and Bancomer is as follows:

2017		2016		2015	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<u>\$ 875,000</u>	<u>\$ 875,000</u>	<u>\$ 470,000</u>	<u>\$ 470,000</u>	<u>\$ 610,000</u>	<u>\$ 576,560</u>

The fair value of the rest of the loan is as follows:

2017		2016		2015	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
<u>\$ 68,679</u>	<u>\$ 68,679</u>	<u>\$ 344,418</u>	<u>\$ 344,418</u>	<u>\$ 249,802</u>	<u>\$ 249,802</u>

### *Financial risk management objectives*

The Group's Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. Both financial risk management and the use of derivative financial instruments and non-derivative are governed by the policies of the Group.

The Group minimize the negative effects of these risks by using different strategies. According to the Group's statutes, it is prohibited to hire any kind of financing. Internal auditors periodically review compliance with policies and exposure limits. The Group does not subscribe or trade financial instruments for speculative or hedging purposes.

### *Market risk*

The market risk refers to the erosion of cash flows, income and the value of assets and capital due to adverse changes in market prices, interest and exchange rates.

The Group's activities expose it to different risks, primarily exchange rate and financial risks derived from interest rate fluctuations. The Group exposure to market risks or the manner in which the latter are managed and measured have not changed significantly.

### *Exchange rate risk*

The Group is exposed to exchange rate risks based on the balances of monetary assets and liabilities recognized in the consolidated statements of changes in financial position denominated in foreign currency (US dollars, Brazilian reals and Guatemalan quetzales).

### *Foreign currency sensitivity analysis*

If the Mexican peso - US dollar exchange rate had increased by \$1 peso and all other variables had remained constant, the Entity's profit after tax at December 31, 2017, 2016 and 2015 would have been adversely affected by the amount of \$57,107, \$51,923 and \$101,188, respectively. However, a decrease of \$1 under the same circumstances would have positively affected the Entity's comprehensive income by the same amount.



### ***Interest rate risk***

The Entity is exposed to an interest rate risk based on loan interest rates because its subsidiaries obtain loans at variable interest rates (primarily the TIE and LIBOR rates, although the latter is no longer relevant) which represent approximately 86% at December 31, 2017 and 65% for 2016, of the total debt contracted by the Entity. However, it minimizes this risk by providing follow-up on rate behavior, seeking variable rates when the rate is stable and following a downward trend and fixed rates when an upward trend is present.

### ***Sensitivity analysis***

The following sensitivity analyses are determined by considering the exposure of the interest rates contracted for derivative and non-derivative instruments at the end of the reporting period. In the case of variable-rate liabilities, the Group prepares an analysis based on the assumption that the liability in effect at the end of the reporting period was also in effect throughout the year.

At the time the key management personnel are informed internally on the interest rates risk, an increase or decrease of 100 basis points is used, which represents management's assessment of the possible reasonable change in interest rates. If the interest rates had been 100 basis points above/below and all the other variables remain constant:

	2017	2016	2015
Total debt	\$ 966,542	\$ 872,886	\$ 939,602
Variable interest expense	121,728	76,544	78,635
Financial cost of debt percentage	12.59%	8.77%	8.37%
Sensitivity to + 100 base points	131,353	85,281	88,041
Sensitivity to -100 base points	112,022	67,823	69,249

### ***Credit risk management***

The credit risk is that which arises when one of the parties defaults on its contractual obligations, resulting in a financial loss for the Entity. The Group has adopted a policy of only becoming involved with solvent parties and obtaining sufficient guarantees, when appropriate, as a form of mitigating the risk of the financial loss caused by defaults.

In order to administer the credit risk, the Group's policy focuses on the investigation and subsequent selection of customers based on their reputation and economic solvency, assignment of credit limits and obtaining guarantees through the subscription of credit instruments, assets to debt ratio, pledges and mortgage guarantees duly supported by the legal representative and personal collateral.

Furthermore, follow-up is provided on the collection and recoveries of overdue debts based on their aging parameters, so as to timely identify doubtful accounts. Bad debts are sent to the attorneys for collection records.

The credit limits are revised constantly on a case-by-case basis.

### ***Liquidity risk management***

The liquidity risk is the situation whereby the Group is unable to fulfill obligations associated with financial liabilities settled through the delivery of cash or another financial asset. The Group's debt acquisition policy is very conservative. The Entity constantly monitors the maturity of its liabilities, together with the cash needed for transactions. Detailed monthly cash flow analyses are prepared and presented to the board of directors. Operating cash flows are controlled on a daily basis. Decisions regarding the obtainment of new financing are only made for expansion and growth projects.



The objective of debt management is to obtain long-term financing for contracted short-term debts. Accordingly, when assets are acquired and become productive, short-term debt is settled, while the cash flows needed to cover long-term debt are obtained through acquired investment properties.

The maturity of long-term debt and the current portion thereof and accrued liabilities at December 31, 2017, 2016 and 2015 as the transition date is as follows:

	December 31, 2017			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 300,292	\$ 604,052	\$ 62,198	\$ 966,542
Trade accounts payable	1,313,877	-	-	1,313,877
Other accounts payable and accrued expenses	173,050	210,019	-	383,069
Due to related parties	<u>8,120</u>	<u>-</u>	<u>-</u>	<u>8,120</u>
	<u>\$ 1,795,339</u>	<u>\$ 814,071</u>	<u>\$ 62,198</u>	<u>\$ 2,671,608</u>
	December 31, 2016			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 500,911	\$ 366,627	\$ 5,348	\$ 872,886
Trade accounts payable	1,100,641	-	-	1,100,641
Other accounts payable and accrued expenses	194,018	49,265	178,988	422,271
Due to related parties	<u>6,871</u>	<u>-</u>	<u>-</u>	<u>6,871</u>
	<u>\$ 1,802,441</u>	<u>\$ 415,892</u>	<u>\$ 184,336</u>	<u>\$ 2,402,669</u>
	December 31, 2015			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 325,279	\$ 282,727	\$ 331,596	\$ 939,602
Trade accounts payable	1,199,576	-	-	1,199,576
Other accounts payable and accrued expenses	169,606	56,972	153,095	379,673
Due to related parties	<u>9,909</u>	<u>-</u>	<u>-</u>	<u>9,909</u>
	<u>\$ 1,704,370</u>	<u>\$ 339,699</u>	<u>\$ 484,691</u>	<u>\$ 2,528,760</u>

#### 18. Financial derivatives

The Group uses financial derivatives in the form of cross currency swaps (CCS) as hedges to protect itself from exposure to variations in the BRL/USD. The current hedge as of December 31, 2017, is as follows:

In 2014, Coremal, S.A. de C.V., subsidiary of the Entity, acquires a loan with HSBC which has a current notional of US \$ 2,427,064 where it pays monthly a fixed rate of 4.54%. In order to hedge against the variability in the BRL / USD exchange rate that originates from the payment of the coupons (interest) and the current principal, a currency swap was contracted where monthly payments are received at 4.5399% and paid Real to CDI + 2.00%.



As of December 31, 2017, the fair value of the aforementioned transactions is as follows:

Instrument	Counterparty	Starting date	Maturity	Rate payable and exchange rate agreed	Notional amount in USD	Fair value
Currency swap	HSBC	September 30, 2015	August 27, 2018	CDI + 2.00%	2,427,064	(\$10,088)

The Group has designated the aforementioned financial derivatives under the fair value model (currency swaps) and cash flow hedges (exchange rate option), as permitted by IFRS, and has formally documented each hedge transaction, by establishing management objectives and strategy to cover the risk, and identify the hedge instrument, the item hedged, the nature of the risk to be hedged and the evaluation methodology for effectiveness.

As of December 31, 2017, the effectiveness of these hedges is high, because the changes in fair value and the cash flows from the primary position are offset in a range of between 80% and 125%. The results of the prospective and retrospective tests at the end of the year was of 98% and 90%, respectively. The method used to measure effectiveness is the "ratio analysis" based on a hypothetical derivative; such method consists of comparing the changes in the fair value of the hedge instrument with the changes in the fair value of the hypothetical derivative which would result in a perfect hedge of the item covered. The fair value of the currency swaps is \$10,088 Mexican pesos, recorded as a liability with a change in the financial statement of income and the fair value of the covered transactions amount \$10,051 Mexican pesos which was recorded as a charge to the debt against a credit to the income statement. Because there are small differences between the hedging instrument and the hedged item, there is an ineffective portion of \$37 Mexican pesos that is recorded as income in the statement of income (the difference between the fair value of hedging instruments and the covered ones).

#### 19. Balances and transactions with related parties

a. Balance due from related parties are:

	2017	2016	2015
Mexichem Fluor, S.A. de C.V.	\$ 4,633	\$ 4,455	\$ 1,983
Mexichem Resinas Vinilicas, S.A. de C.V.	1,216	2,321	323
Mexichem Soluciones Integrales, S.A. de C.V.	600	176	50
Mexichem Derivados, S.A. de C.V.	1,208	529	-
Mexichem Compuestos, S.A. de C.V.	128	-	-
	<u>\$ 7,785</u>	<u>\$ 7,481</u>	<u>\$ 2,356</u>



b. Balance due to related parties are:

	2017	2016	2015
Quimir, S.A. de C.V.	\$ 7,709	\$ 5,671	\$ 8,620
Mexichem Servicios Administrativos, S.A. de C.V.	411	490	138
Mexichem Compuestos, S.A. de C.V.	<u>-</u>	<u>710</u>	<u>1,151</u>
	<u>\$ 8,120</u>	<u>\$ 6,871</u>	<u>\$ 9,909</u>

c. Transactions with related parties made in the normal course of business, were as follows:

	2017	2016	2015
Mexichem Derivados, S.A. de C.V.:			
Sales	\$ 8,552	\$ 3,530	\$ 3,530
Purchases	(1,892)	(1,457)	(1,457)
Quimir, S.A. de C.V.:			
Sales	26	16	16
Purchases	(37,416)	(43,548)	(43,548)
Mexichem Flúor, S.A. de C.V.:			
Sales	23,335	18,960	18,960
Purchases	-	(732)	(732)
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	6,230	5,650	5,650
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	1,204	747	747
Mexichem Compuestos, S.A. de C.V.:			
Sales	622	3,082	3,082
Purchases	(2,368)	(3,411)	(3,411)
Mexichem de Costa Rica, S. A. de C.V.			
Sales	3,892	-	-
Mexichem Servicios Administrativos, S.A. de C.V.:			
Administrative services paid	(1,673)	(2,510)	(2,038)
Kaluz, S.A. de C.V.:			
Administrative services paid	-	-	(23)



**20. Net sales**

	2017	2016	2015
Chemicals and lubricants	\$ 5,809,380	\$ 5,597,580	\$ 5,536,702
Paper	<u>523,608</u>	<u>541,693</u>	<u>542,117</u>
	<u>\$ 6,332,988</u>	<u>\$ 6,139,273</u>	<u>\$ 6,078,819</u>

**21. Cost of sales**

	2017	2016	2015
Inventories consumed	\$ 4,962,315	\$ 4,846,153	\$ 4,806,422
Freight	154,935	178,100	150,932
Other	<u>65,406</u>	<u>39,748</u>	<u>15,499</u>
	<u>\$ 5,182,656</u>	<u>\$ 5,064,001</u>	<u>\$ 4,972,853</u>

**22. Operating expenses**

	2017	2016	2015
Payroll	\$ 508,774	\$ 482,967	\$ 491,048
Depreciation and amortization	127,063	131,944	118,269
Operations	54,342	60,543	99,915
Leasing	67,117	55,605	42,472
Telephone and systems	30,296	27,946	27,932
Maintenance	49,892	22,584	24,408
Fees	48,112	67,056	51,575
Other	<u>35,859</u>	<u>110,468</u>	<u>27,450</u>
	<u>\$ 921,455</u>	<u>\$ 959,113</u>	<u>\$ 883,069</u>

**23. Income taxes**

The Group is subject to ISR. The rate of current income is 30%.

*ISR* - Under the new Income Tax Act 2015 (Act 2015) the rate was 30% for 2017, 2016 and 2015 and will continue at 30% for the following years.

*Tax regime in other countries* - The ISR of foreign subsidiaries is caused by the rules of the law of income tax of those countries. In Brazil, the statutory tax rate for corporations is 34%

a. Income taxes (benefit) expense recognized are as follows:

	2017	2016	2015
ISR:			
Current tax	\$ 76,525	\$ 18,225	\$ 11,535
Deferred tax	<u>22,816</u>	<u>(27,325)</u>	<u>(14,748)</u>
	<u>\$ 99,341</u>	<u>\$ (9,100)</u>	<u>\$ (3,213)</u>



- b. The main items originating a deferred ISR tax assets are:

	2017	2016	2015
Deferred ISR asset:			
Tax loss carryforwards	\$ 35,124	\$ 37,012	\$ 24,461
Provisions	<u>19,687</u>	<u>37,159</u>	<u>28,671</u>
Deferred ISR asset	54,811	74,171	53,132
Deferred ISR liability:			
Property, plant and equipment	(3,682)	(4,647)	(300)
Other assets	<u>(4,468)</u>	<u>(47)</u>	<u>(10,680)</u>
Deferred tax liability	(8,150)	(4,694)	(10,980)
Total assets	<u>\$ 46,661</u>	<u>\$ 69,477</u>	<u>\$ 42,152</u>

- c. The reconciliation of the statutory income tax rate and the effective rate expressed as a percentage of income before income taxes (benefit) is as follows:

	2017	2016	2015
Statutory rate	30%	30%	30%
Plus the effect of permanent differences mainly non-deductible expenses	1%	9%	8%
Add (less) - effects of inflation	40%	22%	(9%)
Plus: Additional ISR determined for SAT (see note 27)	62%	-	-
Plus: Effect of unused fiscal losses and tax compensations not recognized as deferred tax assets and other	85%	-	-
Less tax deduction portfolio	-	-	(20%)
Plus (less) - recognition of previously unrecognized benefits	<u>-</u>	<u>-</u>	<u>(20%)</u>
Effective rate	<u>218%</u>	<u>61%</u>	<u>(11%)</u>

- d. The benefits from tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. The years of maturity and restated amounts to December 31, 2017, are:

Year of Expiration	Tax loss carryforwards
2024	\$ 35,542
2025	<u>81,538</u>
	<u>\$ 117,080</u>





#### 24. Non-cash transactions

On April 28, 2017 and 2016, at the Ordinary Annual General Shareholders' Meeting, fraction VI, it was approved to establish the amount of \$60,000 and \$30,000, respectively, as the maximum amount of the resources that the Company may allocate for the purchase of own shares or of credit instruments that represent said shares, with the understanding that the acquisition and placement of the own shares in question, were carried out by the Company through the Bolsa Mexicana de Valores, S. A. B. of C. V. affecting the accumulated results of the Group for an amount of \$37,512 in 2017 and \$43,340 in 2016 to cancel the remainder of the reserve.

During the years ended December 31, 2017, 2016 and 2015, the Group acquired equipment for a value of \$9,408, \$10,964 and \$33,811 through a financing lease. This acquisition is being reflected in the cash flow statements over the life of the leases through the payment of the rentals.

On December 30, 2016, the Group received a payment in kind of a real property with a value of \$2,333. Such amounts refer to the collection of an account which the group had with Solquimia Mexicana, S. A. de C. V. At the date of the payment in kind the account was \$401. As the Group has no plans to make use of this property, the Group's management has approved its classification as available for sale, for which reason it is recorded under the heading of long-term assets.

On May, 6, 2016, the Group executed a non-compete agreement with Distribuidora VEM, S. A. de C. V. for \$873, which is part of a termination agreement of a Group's account receivable for \$1,269.

#### 25. Commitments

The Entity leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$ 67,117, \$55,605 and \$42,472 as of December 31, 2017, 2016 and 2015, respectively. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2018	\$ 44,501
2019	34,646
2020	26,760
2021	16,647
2021 and onwards	<u>97,151</u>
	<u>\$ 219,705</u>



26. Business segment information

Business segment information of the Group is as follows:

	2017		2016		2015	
	Chemical products	Paper	Chemical products	Paper	Chemical products	Paper
<b>Statement of income:</b>						
Net sales	\$ 5,809,380	\$ 523,608	\$ 5,597,580	\$ 541,693	\$ 5,536,702	\$ 542,117
Depreciation	\$ 116,566	\$ 10,497	\$ 120,295	\$ 11,649	\$ 107,719	\$ 10,550
Operating income	\$ 214,592	\$ 19,325	\$ 105,914	\$ 10,245	\$ 203,019	\$ 19,878
Finance costs	\$ (172,818)	\$ (15,563)	\$ (119,373)	\$ (11,560)	\$ (175,395)	\$ (17,173)
Consolidated net income	\$ (49,360)	\$ (4,445)	\$ (5,174)	\$ (500)	\$ 30,551	\$ 2,991
<b>Balance sheet:</b>						
Total assets	\$ 3,559,522	\$ 320,489	\$ 3,338,361	\$ 322,925	\$ 3,373,503	\$ 330,311
Total liabilities	\$ 2,501,615	\$ 225,238	\$ 2,215,593	\$ 214,557	\$ 2,323,992	\$ 227,550
<b>Statement of cash flows:</b>						
Operation activities	\$ 329,197	\$ 29,645	\$ 77,274	\$ 7,475	\$ 240,658	\$ 23,564
Investment activities	\$ (174,324)	\$ (15,698)	\$ (73,336)	\$ (7,094)	\$ (51,454)	\$ (5,038)
Financing activities	\$ (43,191)	\$ (3,890)	\$ (232,867)	\$ (22,526)	\$ (61,823)	\$ (6,053)

Information on geographical area of the Entity is presented below:

	2017		2016		2015	
	Mexico and Central América	Brazil	Mexico and Central América	Brazil	Mexico and Central América	Brazil
Net sales	\$ 4,772,129	\$ 1,560,859	\$ 4,560,302	\$ 1,578,971	\$ 4,484,645	\$ 1,594,174
Total assets	\$ 3,006,278	\$ 873,733	\$ 2,685,580	\$ 978,706	\$ 3,165,318	\$ 538,496
Total liabilities	\$ 1,852,643	\$ 874,210	\$ 1,434,037	\$ 996,113	\$ 2,041,979	\$ 509,563

a. *Products and services from which reportable segments derive their revenues*

Information reported to the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided, and in respect of the 'electronic equipment' and 'leisure goods' operations, the information is further analyzed based on the different classes of products.

Specifically, the Entity's reportable segments under IFRS 8 are as follows:

Chemical products – Distributing and marketing of raw materials for chemical industries, coatings, plastics, and food.

Paper – Distributing of all kinds of importation and exportation goods, specially paper, paperboard, high speciality paper and Pochteca line which is comercialized on Office Depot.

The chemical segment includes chemical distribution for food, environmental, lubricants and specialties industries. For presentation of financial statements purposes, those individual segments was added in just one operative segment called chemical products, considering the following factors:

- Those operative segments has similar long-term gross profit margins
- The nature of the products and productive processes are similar; and
- The utilized methods to distribute the products to the costumers are the same



b. ***Geographical information***

The Entity operates in three principal geographical areas:

- México
- United States and Central America
- Brazil

For analysis purposes and considering the importance of the operations, the Entity's administration decided to segment the information in two geographic zones:

- México and Central América – Includes information of Mexico, Guatemala, El Salvador, Costa Rica and United States
- Brasil – Financial information of subsidiaries located in Brazil.

**27. Subsequent events**

During 2018, the amparo proceeding filed by Subsidiary SUPLIA, S.A. of C.V. against the Tax Administration System (SAT) was resolved, this credit derived on the purchase sale of one of its properties (operation carried out in 2007 to one of the related parties) in the amount of \$ 42 million pesos. The Entity recorded a provision for \$28 million in order to cover the principal, update and surcharges, within the line of taxes payable and employee participation in profits shown in the statement of financial position.

**28. Contingencies**

For the operations with related parties, the Entity is carrying out the studies that support compliance with the provisions of article 86, sections XII, XIII and XV of the LISR, with respect to similar operations carried out with other independent parties.

**29. Approval of the issuance of consolidated financial statements**

On April 5, 2018, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz, Chief Executive Officer; consequently they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Audit Committee and General Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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