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

Consolidated Financial Statements for the Years Ended December 31, 2018, 2017 and 2016, and Independent Auditors' Report Dated April 8, 2019

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

Independent Auditors' Report and Consolidated Financial Statements for 2018, 2017 and 2016

Table of contents **Page**

Independent Auditors' Report	1
Consolidated Statements of Financial Position	5
Consolidated Statements of Income and Other Comprehensive Income	6
Consolidated Statements of Changes in Stockholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	10

Deloitte.

Galaz, Yamazaki,
Ruiz Urquiza, S.C.
Paseo de la Reforma 505, piso 28
Colonia Cuauhtémoc
06500 Ciudad de México
México

Tel: +52 (55) 5080 6000
www.deloitte.com/mx

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, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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 long term assets

The consolidated financial statements as of December 31, 2018 include balances of properties, plant and equipment, other assets, intangible assets and Goodwill, which come from acquisition business. Those long-lived assets have been identified as Cash-Generating units ("UGEs" for its acronym in spanish). Management performs an impairment analysis on annual basis and these assets previously mentioned are included.

Deloitte se refiere a Deloitte Touche Tohmatsu Limited, sociedad privada de responsabilidad limitada en el Reino Unido, y a su red de firmas miembro, cada una de ellas como una entidad legal única e independiente. Conozca en www.deloitte.com/mx/conozcanos la descripción detallada de la estructura legal de Deloitte Touche Tohmatsu Limited y sus firmas miembro.

Group management has calculated the recoverable value for each UGE based on the different methods identified in the Internationa Accounting Standard ("ISAs") 36 "Impairment of long-lived assets" which it mainly describes that if the recoverable value from assets is lower than the recorded value, the assets will be impaired.

Group management used a permitted method identified in the IAS 36, performing estimates regarding future cash flows, discount rates and growth rates, based on the future prospects of the business. The assumptions used by Management and the valuation methods have been considered as a key audit matter.

Our audit procedures included, among others:

a) Involve the internal specialists to:

  - Critically evaluate whether the model used by management to determine 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 administration of Group to determine the proper discount rates in each case.

  - Review that the projected cash flows are consistent with the historical audited information financial, 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

b) Perform tests on 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.

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. If based on the work we do, we conclude that there is a material misstatement in the other information, we would have to report this matter. When we read the annual report we will issue the conclusion about its reading.

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.

Deloitte.

- 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. Marco Antonio Arellano Alfaro

April 8, 2019

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

Consolidated Statements of Financial Position

As of December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos)

Assets	Notes	2018	2017	2016
Current assets:				
Cash and cash equivalents	5	$ 138,253	$ 254,628	$ 144,799
Accounts receivable and recoverable taxes - Net	6	996,398	1,130,964	1,123,138
Due from related parties	19	7,234	7,785	7,481
Inventories – Net	7	950,019	888,009	855,305
Prepaid expenses		45,650	34,576	42,336
Total current assets		2,137,554	2,315,962	2,173,059
Non-current assets				
Properties, plant and equipment - Net	9	703,102	755,597	813,248
Other investments		4,381	4,381	4,381
Investment properties	8	15,060	15,060	15,060
Other assets		79,696	110,264	101,470
Deferred income taxes	23	40,099	46,661	69,477
Intangible assets	11	203,903	212,490	51,524
Goodwill	12	349,570	419,596	433,067
Total non-current assets		1,395,811	1,564,049	1,488,227
Total		$ 3,533,365	$ 3,880,011	$ 3,661,286

The accompanying notes are part of the consolidated financial statements.

Liabilities and stockholders' equity	Notes	2018	2017	2016
Current liabilities:				
Bank loans and current portion of long-term debt	14	$ 405,414	$ 300,292	$ 500,911
Trade accounts payable		1,331,709	1,313,877	1,100,641
Other accounts payable and accrued expenses	13	238,698	173,050	194,018
Due to related parties	19	8,561	8,120	6,871
Income taxes and statutory employee profit sharing		32,234	47,788	19,800
Total current liabilities		2,016,616	1,843,127	1,822,241
Long-term liabilities:				
Other long-term accounts payable	13	2,003	210,019	228,253
Long-term debt	14	375,993	666,250	371,975
Employee benefits	15	8,019	7,457	7,681
Total long-term liabilities		386,015	883,726	607,909
Total liabilities		2,402,631	2,726,853	2,430,150
Stockholders' equity:				
Contributed capital-				
Capital stock	16	1,096,837	1,096,837	1,096,837
Premium on sale of repurchased stock		58,176	58,176	58,176
Earned capital-			-	-
Retained earnings		24,477	18,233	69,550
Reserve for repurchase of shares		13,169	3,257	22,488
Translation effects of foreign operations		(61,407)	(22,723)	(12,170)
Remeasurement of defined benefit obligation		(518)	(622)	(3,745)
		(24,279)	(1,855)	76,123
Total stockholders' equity		1,130,734	1,153,158	1,231,136
Total		$ 3,533,365	$ 3,880,011	$ 3,661,286

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

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos, except earnings per common share expressed in Mexican pesos)

	Notes	2018	2017	2016
Continuing operations:				
Net sales	20	$ 6,463,342	$ 6,332,988	$ 6,139,273
Cost of sales	21	(5,256,146)	(5,182,656)	(5,064,001)
Gross profit		1,207,196	1,150,332	1,075,272
Profit in business acquisition		-	5,040	-
Operating expenses	22	(940,110)	(921,455)	(959,113)
Income from operations		267,086	233,917	116,159
Financing costs:				
Interest income		8,560	13,433	14,901
Interest expense		(146,883)	(147,471)	(96,308)
Exchange loss		(12,498)	(54,343)	(49,526)
		(150,821)	(188,381)	(130,933)
Income (loss) before income taxes		116,265	45,536	(14,774)
Income taxes expense (benefit)	23	52,027	99,341	(9,100)
Consolidated net income (loss)		$ 64,238	$ (53,805)	$ (5,674)
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		104	3,123	(2,634)
Exchange differences on translating foreign operations		(38,684)	(10,553)	74,713
Total comprehensive income (loss) for the year		$ 25,658	$ (61,235)	$ 66,405
Earnings per share:				
From continuing operations:				
Basic and diluted earnings (losses) per common share (in Mexican pesos)		$ 0.4922	$ (0.4122)	$ (0.0435)
Weighted average shares outstanding		130,522,049	130,522,049	130,522,049

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, 2018, 2017 and 2016
(In thousands of Mexican pesos)

	Contributed capital				Earned capital				
	Common stock								
	Nominal	In trust	Premium on sale of repurchased stock	Total	Retained earnings	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	Total stockholders' equity
Balance as of January 1, 2016	$ 1,104,721	$ (11,097)	$ 58,176	$ 1,151,800	$ 31,884	$ 56,582	$ (86,883)	$ (1,111)	$ 1,152,272
Share-based payment	-	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 result for the year	-	-	-	-	(5,674)	-	74,713	(2,634)	66,405
Balance 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 result for the year	-	-	-	-	(53,805)	-	(10,553)	3,123	(61,235)
Balance as of December 31,2017	1,104,721	(7,884)	58,176	1,155,013	18,233	3,257	(22,723)	(622)	1,153,158
Cancellation of reserve for repurchase of shares	-	-	-	-	3,257	(3,257)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(61,251)	61,251	-	-	-
Repurchase of shares	-	-	-	-	-	(48,082)	-	-	(48,082)
Net comprehensive result for the year	-	-	-	-	64,238	-	(38,684)	104	25,658
Balance as of December 31,2018	$ 1,104,721	$ (7,884)	$ 58,176	$ 1,155,013	$ 24,477	$ 13,169	$ (61,407)	$ (518)	$ 1,130,734

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, 2018, 2017 and 2016

(In thousands of Mexican pesos)
(Indirect method)

	Notes	2018	2017	2016
Cash flows from operating activities:				
Consolidated net income (loss)		$ 64,238	$ (53,805)	$ (5,674)
Adjustments for:				
Income taxes expense (benefit)	23	52,027	99,341	(9,100)
Depreciation and amortization	22	117,647	127,063	131,944
Gain on sale of property and equipment		(14,059)	(4,988)	(1,316)
Amortization of commissions paid		3,498	10,921	4,260
Interest paid		143,385	136,550	92,048
Interest income		(8,560)	(13,433)	(14,901)
Unrealized exchange (gain) loss		(13,178)	(11,836)	107,386
		344,998	289,813	304,647
(Increase) decrease in:				
Accounts receivable and recoverable taxes	6	135,117	(17,707)	(79,938)
Inventories	7	(62,010)	(26,627)	(24,689)
Prepaid expenses		(11,074)	7,760	4,174
Other assets		10,358	(17,420)	(4,111)
(Decrease) increase in:				
Trade accounts payable		17,832	213,236	(98,935)
Other accounts payable and accrued expenses		(45,369)	(53,100)	844
Due to related parties	19	411	1,249	(3,038)
Income taxes paid		(2,911)	(38,362)	(14,205)
Net cash provided by operating activities		327,382	358,842	84,749
Cash flows from investing activities:				
Purchase of machinery and equipment		(121,507)	(41,379)	(57,500)
Sale of machinery and equipment		101,009	14,501	3,120
Acquisition of subsidiaries		-	(176,577)	(40,951)
Interest collected		8,650	13,433	14,901
Net cash used in investing activities		(11,938)	(190,022)	(80,430)
Cash flows from financing activities:				
Borrowings	14	160,000	1,096,105	205,996
Repayment of loans received	14	(344,122)	(964,436)	(354,216)
Payment of financial leasing		(15,114)	(33,099)	(41,107)
Purchase of own common shares		(48,082)	(16,743)	9,246
Interest and commissions paid		(128,589)	(128,908)	(78,525)
Issuance and payment of common stock		-	-	3,213
Net cash used in financing activities		(375,907)	(47,081)	(255,393)

	Notes	2018	2017	2016
Effects of changes in exchange rates on cash held in foreign currency		(55,912)	(11,910)	10,201
Net (decrease) increase in cash and cash equivalents		(116,375)	109,829	(240,873)
Cash and cash equivalents at beginning of year		254,628	144,799	385,672
Cash and cash equivalents at end of year		$ 138,253	$ 254,628	$ 144,799

The accompanying notes are part of the consolidated financial statements.

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 trading raw materials for the chemical, coating, plastics and food industries, as well as the processing and marketing of paper, cardboard, products for graphic arts and personal and homecare products. 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, 2018.

b) ***New and amended IFRS Standards that are effective for the current year***

Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Entity has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity not to restate comparatives.

Additionally, the Entity adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures about 2018 and to the comparative period.

IFRS 9 introduced new requirements for:

1. The classification and measurement of financial assets and financial liabilities,
2. Impairment of financial assets, and
3. General hedge accounting.

Details of these new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

(a) **Classification and measurement of financial assets**

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments 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 amount outstanding, are measured subsequently at amortized cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI);
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the aforegoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Entity has not designated any debt investments that meet the amortized cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortized cost or at FVTOCI are subject to impairment. See (b) below.

Reviewed and assessed the Entity's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Entity's financial assets as regards their classification and measurement:

- the Entity's investments in redeemable notes were classified as available-for-sale financial assets under IAS 39 Financial Instruments: Recognition and Measurement. The notes have been reclassified as financial assets at amortized cost because they are held within a business model whose objective is to collect the contractual cash flows and they have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding;

None of the other reclassifications of financial assets have had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) **Impairment of financial assets**

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 the 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 of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Entity to recognize a loss allowance for expected credit losses on:

(1) Debt investments measured subsequently at amortized cost or at FVTOCI,
(2) Lease receivables,
(3) Trade receivables and contract assets, and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.

In particular, IFRS 9 requires the Entity to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Entity is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

The result of the assessment is as follows:

Items existing as at 01/01/18 that are subject to the impairment provisions of IFRS 9	Note	Credit risk attributes at 01/01/17 and 01/01/18
Trade receivables	6	The directors have concluded that it would require undue cost and effort to determine the credit risk of each loan on their respective dates of initial recognition. These loans are also assessed to have credit risk other than low. Accordingly, the Entity recognizes lifetime ECL for these loans until they are derecognized.
Cash and bank balances		All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

The reconciliation between the ending provision for impairment in accordance with IAS 39 and the provision in accordance with IAS 37 (for the financial guarantee contracts) to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 January 2017 and 1 January 2018 is disclosed in their respective notes. The consequential amendments to IFRS 7 have also resulted in more extensive disclosures about the Entity's exposure to credit risk in the consolidated financial statements (see notes for details).

(c) **Classification and measurement of financial liabilities**

A significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer.

Specifically, IFRS 9 requires that the changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability be 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, but are instead transferred to retained earnings when the financial liability is derecognized. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

Apart from the above, the application of IFRS 9 has had no impact on the classification and measurement of the Entity's financial liabilities.

(d) **General hedge accounting**

The new general hedge accounting requirements retain the three types of hedge accounting. However, 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 replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Entity's risk management activities have also been introduced.

In accordance with IFRS 9's transition provisions for hedge accounting, the Entity has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Entity's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Entity has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment). In addition, transfers from the hedging reserve to the initial carrying amount of the hedged item are not reclassification adjustments under IAS 1 Presentation of Financial Statements and hence they do not affect other comprehensive income. Hedging gains and losses subject to basis adjustments are categorized as amounts that will not be subsequently reclassified to profit or loss in other comprehensive income. This is consistent with the Entity's practice prior to the adoption of IFRS 9.

Consistent with prior periods, when a forward contract is used in a cash flow hedge or fair value hedge relationship, the Entity has designated the change in fair value of the entire forward contract, i.e. including the forward element, as the hedging instrument.

Apart from this, the application of the IFRS 9 hedge accounting requirements has had no other impact on the results and financial position of the Entity for the current and/or prior years. Please refer to note 18 for detailed disclosures regarding the Entity's risk management activities.

(e) **Disclosures in relation to the initial application of IFRS 9**

There were no financial assets or financial liabilities which the Entity had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Entity has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Entity has elected to designate as at FVTPL at the date of initial application of IFRS 9.

The application of IFRS 9 has had no impact on the consolidated cash flows of the Entity.

Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Entity has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Entity's consolidated financial statements are described below.

The Entity has applied IFRS 15 in accordance with the fully retrospective transitional approach without using the practical expedients for completed contracts in IFRS 15:C5(a), and (b), or for modified contracts in IFRS 15:C5(c) but using the expedient in IFRS 15:C5(d) allowing both non-disclosure of the amount of the transaction price allocated to the remaining performance obligations, and an explanation of when it expects to recognize that amount as revenue for all reporting periods presented before the date of initial application, i.e. 1 January 2018.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position.

The application of IFRS 15 has not had a significant impact on the financial position and/or financial performance of the Entity.

Impact of application of Other amendments to UFRS Standards and Interpretations

In the current year, the Entity has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRS 2 (amendments) Classification and Measurement of Share-based Payment Transactions

The Entity has adopted the amendments to IFRS 2 for the first time in the current year. 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 (typically in cash), 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.
(iv)

IAS 40 (amendments)Transfers of Investment Property	The Entity has adopted the amendments to IAS 40 Investment Property for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).
IFRIC 22 Foreign Currency Transactions and Advance Consideration	IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognizes the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.

New and revised IFRS Standards in issue but not yet effective

At the date of authorization of these financial statements, The Entity has not applied the following new and revised IFRS Standards that have been issued but are not yet effective [and [in some cases] had not yet been adopted by the EU]:

IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*

Annual Improvements to IFRS Standards 2015–2017 Cycle	*Amendments to* IFRS 3 *Business Combinations,* IFRS 11 *Joint Arrangements,* IAS 12 *Income Taxes and* IAS 23 *Borrowing Costs*
Amendments to IAS 19 *Employee Benefits*	*Plan Amendment, Curtailment or Settlement*
IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
IFRIC 23	*Uncertainty over Income Tax Treatments*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Entity in future periods, except as noted below:

IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Entity will be 1 January 2019.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Entity will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Entity will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Entity has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Entity.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Entity accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the Entity will:

a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortized as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Entity will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

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.

Financial leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Entity recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. On initial application the Entity will present equipment previously included in property, plant and equipment within the line item for right-of-use assets and the lease liability, previously presented within borrowing, will be presented in a separate line for lease liabilities.

Based on an analysis of the Entity's finance leases as at 31 December 2018 on the basis of the facts and circumstances that exist at that date, the directors of the Company have assessed that the impact of this change will not have an impact on the amounts recognized in the Entity's consolidated financial statements.

Amendments to IFRS 9 Prepayment Features with Negative Compensation

The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the SPPI condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, prepayment features with negative compensation do not automatically fail SPPI.

The amendment applies to annual periods beginning on or after 1 January 2019, with earlier application permitted. There are specific transition provisions depending on when the amendments are first applied, relative to the initial application of IFRS 9.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs

The *Annual Improvements* include amendments to four Standards.

IAS 12 *Income Taxes*

The amendments clarify that an entity should recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

IAS 23 *Borrowing Costs*
The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings.

IFRS 3 *Business Combinations*
The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, the entity applies the requirements for a business combination achieved in stages, including remeasuring its previously held interest (PHI) in the joint operation at fair value. The PHI to be remeasured includes any unrecognized assets, liabilities and goodwill relating to the joint operation.

Amendments to IAS 19 Employee Benefits Plan Amendment, Curtailment or Settlement

The amendments clarify that the past service cost (or of the gain or loss on settlement) is calculated by measuring the defined benefit liability (asset) using updated assumptions and comparing benefits offered and plan assets before and after the plan amendment (or curtailment or settlement) but ignoring the effect of the asset ceiling (that may arise when the defined benefit plan is in a surplus position). IAS 19 is now clear that the change in the effect of the asset ceiling that may result from the plan amendment (or curtailment or settlement) is determined in a second step and is recognized in the normal manner in other comprehensive income.

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. An entity will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19.99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).

The amendments are applied prospectively. They apply only to plan amendments, curtailments or settlements that occur on or after the beginning of the annual period in which the amendments to IAS 19 are first applied. The amendments to IAS 19 must be applied to annual periods beginning on or after 1 January 2019, but they can be applied earlier if an entity elects to do so.

The directors of the Group do not anticipate that the application of the amendments in the future will have an impact on the Entity's consolidated financial statements.

IFRS 10 Consolidated Financial Statements and IAS 28 (amendments) ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

The amendments to IFRS 10 and IAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted. The directors of the Company anticipate that the application of these amendments may have an impact on the Entity's consolidated financial statements in future periods should such transactions arise.

IFRIC 23 ***Uncertainty over Income Tax Treatments***

IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires an entity to:

- determine whether uncertain tax positions are assessed separately or as an entity; and
- assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings:
- If yes, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
- If no, the entity should reflect the effect of uncertainty in determining its accounting tax position.

The Interpretation is effective for annual periods beginning on or after 1 January 2019. Entities can apply the Interpretation with either full retrospective application or modified retrospective application without restatement of comparatives retrospectively or prospectively.

The directors of the Group do not anticipate that the application of the amendments in the future will have an 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.[(1)])	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
Coremal, S. A. (Coremal)	Trading of raw materials	Brazilian reais
Mecotrans Tansportes e Logistica 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.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Entity are eliminated in full on consolidation.

<u>Changes in the Group's ownership interests in existing subsidiaries</u>

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 2018, 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***

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.

All recognized financial assets are measured subsequently in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortized cost: .

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income (FVTOCI):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

Despite the foregoing, the Entity may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Entity may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and

- the Entity may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortized cost and 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.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), 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) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Entity recognizes interest income by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition. The calculation does not revert to the gross basis even if the credit risk of the financial asset subsequently improves so that the financial asset is no longer credit-impaired.

Interest income is recognized in profit or loss and is included in the "finance income - interest income" line item

(ii) Financial *assets* at FVTPL

Financial assets that do not meet the criteria for being measured at amortized cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

- Investments in equity instruments are classified as at FVTPL, unless the Entity designates an equity investment that is neither held for trading nor a contingent consideration arising from a business combination as at FVTOCI on initial recognition (see (iii) above).
- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria (see (i) and (ii) above) are classified as at FVTPL. In addition, debt instruments that meet either the amortized cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called 'accounting mismatch') that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Entity has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss to the extent they are not part of a designated hedging relationship (see hedge accounting policy). The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

- for financial assets measured at amortized cost that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item;
- for debt instruments measured at FVTOCI that are not part of a designated hedging relationship, exchange differences on the amortized cost of the debt instrument are recognized in profit or loss in the 'other gains and losses' line item

Impairment of financial assets

The Entity recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortized cost or at FVTOCI, lease receivables, trade receivables and contract assets, as well as on financial guarantee contracts. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Entity always recognizes lifetime ECL for trade receivables, contract assets and lease receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Entity's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

For all other financial instruments, the Entity recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Entity measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

(iii) Definition *of default*

The Entity considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Entity, in full (without taking into account any collateral held by the Entity).

Irrespective of the above analysis, the Entity considers that default has occurred when a financial asset is more than 90 days past due unless the Entity has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iv) Credit-*impaired financial assets*

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

(v) *Write-off policy*

The Entity writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Entity's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(vi) Measurement *and recognition of expected credit losses*

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Entity's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The Entity recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and accumulated in the investment revaluation reserve, and does not reduce the carrying amount of the financial asset in the statement of financial position.

Derecognition of financial assets

The Entity derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Entity neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Entity recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Entity retains substantially all the risks and rewards of ownership of a transferred financial asset, the Entity continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Entity has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings

Financial liabilities *and equity*

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 and the definitions of a financial liability and an equity instrument.

Equity instruments

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

Repurchase of the Company'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 Company's own equity instruments.

Financial liabilities

All financial liabilities are measured subsequently at amortized cost using the effective interest method or at FVTPL.

However, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies, and financial guarantee contracts issued by the Entity, are measured in accordance with the specific accounting policies set out below.

Financial liabilities *at FVTPL*

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration of an acquirer in a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of an Entity of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IFRS 9 permits the entire combined contract to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on changes in fair value recognized in profit or loss to the extent that they are not part of a designated hedging relationship (see Hedge accounting policy). The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item (note 60) in profit or loss.

However, for financial liabilities that are designated as at FVTPL, 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 recognized 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. The remaining amount of change in the fair value of liability is recognized in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognized in other comprehensive income are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

Gains or losses on financial guarantee contracts issued by the Entity that are designated by the Entity as at FVTPL are recognized in profit or loss.

Financial liabilities *measured subsequently at amortized cost*

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Foreign *exchange gains and losses*

For financial liabilities that are denominated in a foreign currency and are measured at amortized cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortized cost of the instruments. These foreign exchange gains and losses are recognized in the 'other gains and losses' line item in profit or loss (note 60) for financial liabilities that are not part of a designated hedging relationship. For those which are designated as a hedging instrument for a hedge of foreign currency risk foreign exchange gains and losses are recognized in other comprehensive income and accumulated in a separate component of equity.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period. For financial liabilities that are measured as at FVTPL, the foreign exchange component forms part of the fair value gains or losses and is recognized in profit or loss for financial liabilities that are not part of a designated hedging relationship.

Derecognition of financial *liabilities*

The Entity derecognizes financial liabilities when, and only when, the Entity's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Entity exchanges with the existing lender one debt instrument into another one with the substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Entity accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss as the modification gain or loss within other gains and losses.

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. ***Properties, plant and equipment***

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

An item of properties, 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 2018, 2017 and 2016, 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

k. *Investment properties*

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 acquire 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 acquire (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 acquire and the fair value of the acquirer's previously held interest in the acquire (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 and 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 presented in the accounts 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 in profit or loss in the period of a plan amendment or curtailment occurs, 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 in other income and operating expenses line item in the 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, 2018, 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. ***Revenue recognition***

Revenue from ordinary activities is recognized in such a way that it represents the transfers of the assets with the clients for an amount that reflects the consideration to which the Group expects to be entitled in exchange for those assets.

Warranties related to sales cannot be purchased separately and are used as an assurance of the sold products so these products meet the agreed-upon specifications. Consequently, Group management record warranties according to IAS 37 *"Provisions, Contingent Liabilities and Contingent Assets"* in accordance with the accounting treatment.

- Sale of goods

The Group obtains income from the sale of raw materials for the chemical, coatings, plastic and food industries in general, as well as paper and personal and household care items, at a point in time and over time. The Group recognizes an account receivable when the goods are delivered to the customer and the customer assumes control of the product, since it represents the moment in which the right to consideration becomes unconditional, assuming that only the passage of time is required before the Payment due.

- Variable consideration

The amount of the consideration may vary due to discounts, reimbursements, etc., which are recognized based on an appropriate estimate using all the available information of the clients. With these estimates, the net sales item reflects the actual consideration expected from customers.

- <u>Interest income</u>

  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.

bb. *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.

cc. *Earnings (loss) 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.

dd. *Reserve for repurchase of shares*

The acquisition of the Entity's own shares is 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 Group's accounting policies, which are described in Note 3, the management is required to makes judgments, estimates and assumptions about certain carrying amounts of assets and liabilities in the consolidated financial statements. The estimates and assumptions are based on historical experience and other factors considered relevant. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes 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.

a. *Critical judgments in applying accounting policies*

The following are the critical judgments, apart from those involving estimations (see Note 4.b below), that the management of the Entity has made in the process of applying the Entity's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

<u>*Significant increase in credit risk*</u>

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Entity takes into account qualitative and quantitative reasonable and supportable forward looking information.

Discount rate used to determine the carrying amount of the Entity's defined benefit obligation

The Entity's defined benefit obligation is discounted at a rate set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant judgment is required when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded.

b. *Key sources of estimation uncertainty*

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Calculation of loss allowance

When measuring ECL the Entity uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

If the ECL rates on trade receivables between 61 and 90 days past due had been 1% higher (lower) as of December 2018, the loss allowance on trade receivables would have been $100 higher (lower).

Discount rate used to determine the carrying amount of the Entity's defined benefit obligation

The determination of the Entity's defined benefit obligation depends on certain assumptions, which include selection of the discount rate. The discount rate is set by reference to market yields at the end of the reporting period on high quality corporate bonds. Significant assumptions are required to be made when setting the criteria for bonds to be included in the population from which the yield curve is derived. The most significant criteria considered for the selection of bonds include the issue size of the corporate bonds, quality of the bonds and the identification of outliers which are excluded. These assumptions are considered to be a key source of estimation uncertainty as relatively small changes in the assumptions used may have a significant effect on the Entity's financial statements within the next year.

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.

Useful life of properties, plant and equipment

The Group reviews the estimated useful life of its properties, 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 properties, 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.

Provisions and contingencies

At the end of 2018, 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.

Fair value measurements and valuation processes

Some of the Entity's assets and liabilities are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation committee, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Entity uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Entity engages third party qualified valuers to perform the valuation. The valuation committee works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the valuation committee's findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

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:

		2018		2017		2016
Cash	$	75,278	$	175,228	$	128,819
Investments		62,975		79,400		15,980
	$	138,253	$	254,628	$	144,799

6. Accounts receivable and recoverable taxes

		2018		2017		2016
Trade accounts receivable	$	878,270	$	1,024,521	$	1,010,790
Allowance for doubtful accounts		(44,870)		(45,387)		(78,921)
		833,400		979,134		931,869
Recoverable taxes in Mexico		31,081		46,575		57,396
Recoverable taxes in Brazil		27,991		40,254		85,481
Recoverable taxes in Central America		12,371		16,998		19,555
Other		91,555		65,001		28,837
	$	996,398	$	1,130,964	$	1,123,138

The average credit period granted for goods sales is 44 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. For accounts receivable that are between 60 and 120 days old, an allowance is recognized for doubtful accounts based on irrecoverable amounts determined by experiences of default of the counterparty and an analysis of its current financial position.

Before accepting a new client, the Group consults reference information databases as part of the credit analysis of the new potential client and defines the credit limits per client. The limits and ratings attributed to customers are reviewed annually. During 2018, 95% of the accounts receivable from customers are not due or impaired, and they are no more than 30 days old, according to the Group's classification and controls.

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.

	Accounts receivable – aging					
31/12/2018	**<30**	**31 - 60**	**61 - 90**	**91 - 120**	**>120**	**Total**
Expected credit loss rate	21.97%	14.57%	28.80%	61.97%	95.52%	
Estimated total gross carrying amount at default	14,974	1,065	1,053	1,057	26,721	44,870
Lifetime ECL						360 days

	Accounts receivable – aging					
31/12/2017	**<30**	**31 - 60**	**61 - 90**	**91 - 120**	**>120**	**Total**
Expected credit loss rate	15.71%	19.17%	30.79%	66.63%	90.77%	
Estimated total gross carrying amount at default	21,157	2,911	1,147	4,344	15,828	45,387
Lifetime ECL						360 days

Change in allowance for doubtful accounts

	2018	2017	2016
Balance at beginning of the year	$ 45,387	$ 78,921	$ 57,056
Provision for accounts deemed uncollectible during the year	6,970	54,636	19,031
Translation effects and accounts recovered during the year	(7,487)	(88,170)	2,834
Balance at end of the year	$ 44,870	$ 45,387	$ 78,921

7. Inventories

		2018		2017		2016
Finished goods:						
Coatings, solvents and mixtures	$	10,192	$	18,504	$	8,101
Paper		143,546		89,032		101,737
Chemicals and plastics		506,504		437,127		389,715
Food products		179,071		197,414		187,064
Lubricants		79,781		105,822		131,068
		919,094		847,899		817,685
Merchandise-in-transit		30,925		40,110		37,620
	$	950,019	$	888,009	$	855,305

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to $5,085,126, $4,962,315 and $4,846,153, in 2018, 2017 and 2016, 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 properties, the administration classifies it as investment property, meeting the requirements for it.

The fair value of the investment properties of the Group, as of December 31, 2018, 2017 and 2016, 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 2018 and 2017 and $ 21,825 for 2016, corresponding to the land of $ 15,200 for 2018 and $ 11,700 for 2017 and 2016 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, 2018, 2017 and 2016, the Group has not identified any signs of impairment and has not recognized declines in investment properties.

9. Properties, plant and equipment

	Balances as of December 31, 2017	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2018
Investment:					
Land	$ 207,151	$ -	$ (1,852)	$ (3,717)	$ 201,582
Building and constructions	619,932	14,936	(6,047)	(26,721)	602,100
Industrial machinery and equipment	428,925	39,318	(17,186)	10,260	461,317
Office furniture and equipment	57,749	1,559	(4)	(1,379)	57,925
Vehicle	232,017	60,337	(87,107)	4,329	209,576
Computers	78,643	5,357	30	(3,733)	80,297
Equipment acquired under financial leases	121,090	23,751	(405)	(35,909)	108,527
Total investments	1,745,507	145,258	(112,571)	(56,870)	1,721,324
Accumulated depreciation:					
Building and constructions	258,426)	(24,431)	2,860	13,124	(266,873)
Industrial machinery and equipment	(287,268)	(36,110)	2,251	(6,845)	(327,972)
Office furniture and equipment	(36,007)	2,770)	1	1,126	(37,650)
Vehicle	230,683)	11,804)	20,316	13,175	(208,996)
Computers	77,620)	(4,000)	(172)	1,759	(80,033)
Equipment acquired under financial leases	99,906)	(9,735)	365	12,578	(96,698)
Total accumulated depreciation	(989,910)	88,850)	25,621	34,917	(1,018,222)
Net investment	$ 755,597	$ 56,408	$ (86,950)	$ (21,953)	$ 703,102

	Balances as of December 31, 2016	Additions	Disposals	Reclassifications and translation effects	Additions because of business combinations	Balances as of December 31, 2017
Investment:						
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
Vehicles	249,401	7,376	(15,846)	(12,993)	4,079	232,017
Computers	70,076	3,454	(159)	3,375	1,897	78,643
Equipment acquired under financial leases	125,745	9,4089	(472)	(13,591)	-	121,090
Total investments	1,728,386	50,787	(26,947)	(31,761)	25,042	1,745,507
Accumulated depreciation:						
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)
Vehicles	(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

	Balances as of December 31, 2015	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2016
Investment:					
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
Vehicles	223,284	6,502	(15,957)	35,572	249,401
Computers	58,772	5,713	(242)	5,833	70,076
Equipment acquired under financial leases	115,198	8,597	-	1,950	125,745
Total investments	1,566,335	67,124	(28,969)	123,896	1,728,386
Accumulated depreciation:					
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)
Vehicles	(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

10. Business combinations

On June, 2018, 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 business were included on the consolidated financial statements since the date of acquisition.

a. ***Subsidiaries acquired and consideration transferred***

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

(1) 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
Current assets	
Cash and & cash equivalents	$ 455
Trade and other receivables	21,225
Inventories	22,051

	Conjunto LAR
Non-current assets	
Plant and equipment	$ 14,712
Other assets	349
Intangible assets	164,497
Current liabilities	
Trade and other payables	41,217
	$ 182,072

c. ***Goodwill arising on acquisition***

	LAR [1]
Consideration transferred	$ 177,032
Less: fair value of identifiable net assets acquired	182,072
Goodwill arising on acquisition	$ 5,040

(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	(455)
Amount paid in cash	$ 176,577

11. Intangible assets

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:

	2018	2017	2016
Supplier relationship	$ 158,747	$ 167,284	$ 51,425
LAR brand	45,156	45,156	-
Non-compete contract	-	50	99
Balances at end of year	$ 203,903	$ 212,490	$ 51,524

Accumulated amortization and cost

	2018	2017	2016
Balances at beginning of year	$ 212,490	$ 51,524	$ 51,574
Additional amounts recognized from business acquisitions	-	164,497	-
Amortization expense	(8,587)	(3,531)	(50)
Balances at end of year	$ 203,903	$ 212,490	$ 51,524

12. Goodwill

		2018		2017		2016
Balances at beginning of year	$	419,596	$	433,067	$	366,097
Impairment		(40,513)		-		-
Translation effect		(29,513)		(13,471)		66,970
Balances at end of year	$	349,570	$	419,596	$	433,067

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 identified and recognized impairment of the goodwill balances recorded as of December 31, 2018 in the amount of $ 40,513, which was recorded against liability from Coremal purchase, which is shown in Note 13. No impairment has been recognized. for balances as of December 31, 2017 and 2016.

13. Other accounts payable and accrued expenses

		2018		2017		2016
Liability from Coremal purchase	$	98,778	$	207,661	$	218,609
Accrued expenses		78,657		88,875		95,345
Accounts payable		61,010		63,126		65,116
Other accounts payable		2,256		23,407		43,201
	$	240,701	$	383,069	$	422,271

a. *Reconciliation of liability from Coremal purchase*

		2018		2017		2016
Balance at the beginning of the year	$	207,661	$	218,609	$	192,332
Payments		-		-		(40,951)
Goodwill impairment		(40,513)		-		-
Translation effect		(68,370)		(10,948)		67,228
Balance at the end of the year	$	98,778	$	207,661	$	218,609

b. *Reconciliation of accrued expenses*

		2018		2017		2016
Balance at the beginning of the year	$	88,875	$	95,345	$	100,382
Additions		249,798		270,939		312,498
Application against paid invoices		(260,016)		(277,409)		(317,535)
Balance at the end of the year	$	78,657	$	88,875	$	95,345

c. ***Current and long-term portions of other accounts payable and accrued expenses***

		2018		2017		2016
Current	$	238,698	$	173,050	$	194,018
Long term		2,003		210,019		228,253
	$	240,701	$	383,069	$	422,271

14. Bank loans and long-term debt

		2018		2017		2016
Unsecured by $875,000 (syndicated with HSBC, México S.A. (HSBC), BBVA Bancomer, SCOTIABANK y Grupo Financiero Inbursa por $315,000, $175,000, $192,500 y $192,500, respectively), at Equilibrium Interbank Interest Rate (TIIE) 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.	$	656,250	$	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
Unsecured loan with HSBC, at TIIE 91 days plus spread of between 1.50% to 3.00% depending on the leverage ratio of the Group, maturing February 2017.		-		-		40,000
Unsecured loan with HSBC, at TIIE 91 days plus spread of between 1.50% to 3.00% depending on the leverage ratio of the Group, maturing March 2019.		80,000		-		-
Bank loan with Banco Brasil, S.A. for R$3,000,000 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		-

	2018	2017	2016
Bank loan with Banco GMAC for R$58,402 at an annual rate of 18.72% entered into December, 2018 and maturing December 2020	214	348	-
Bank loan with Banco GMAC for R$49,697 at an annual rate of 18.72% starting December, 2018 and maturing December, 2020.	187	293	-
Bank loan with Banco de America Central for $65,000 USD at an annual rate of 7.00% entered into Jun 2018 and maturing March, 2018.	1,000	1,283	-
Financial collection in advance with Delmonte FIDIC investment fund for R$108,535 at an monthly rate of 1.6%	16,700	644	-
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 plus spread of between 1.50% to 3.00%, depending on the leverage ratio of the Group, maturing September 2018.	-	-	35,000
Bank loan with Banco Santander for R$4,341,708 at an annual rate of 21.24% entered into May 2018 and maturing May 2018.	-	-	30,201
Bank loan with Banco do Brasil for R $3,442,980 at an annual rate of 4.03% entered into June 2018 and maturing June 2018	-	-	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 2018 and maturing March 2018.	-	-	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 2018 and maturing April 2018.	-	-	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 2018 and maturing April 2018.	-	-	14,394

	2018	2017	2016
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 2018 and maturing May 2018.	-	-	12,796
Bank loan with Banco do Brasil for R$1,744,706 at an annual rate of 4.03% entered into November 2018 and maturing April 2018.	-	-	11,523
Bank loan with Banco Santander for R$1,679,999 at an annual rate of 20.03% entered into June 2018 and maturing July 2018.	-	-	4,869
Bank loan with Finame BNDES with Banco Itau for R$ 703,794 at an annual rate of 5.58% entered into May 2016 and maturing January 2019.	279	4,108	7,802
Leasing with IBM for R$208,645 at an annual rate of 1.61% entered into November 2018 and maturing November 2019.	354	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 2016 and maturing November 2019.	2,371	5,129	7,237
Loan for $ 610,000 (syndicated debt with HSBC and Inbursa for $305,000 each), rate TIIE plus a margin of 1.50% to 3.00% depending on the leverage ratio, with equal quarterly payments of $35,000 from March 2018 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 2016 to an amount of $610,000.	-	-	470,000
Lease with GE Capital Mexico of transport equipment and computers in the amount of $139,430, $125,472 and $82,019 in 2018, 2017 and 2016, respectively, at TIIE 28 days plus 3.5816% fixed rate, entered into February 2016 and maturing in January 2020.	28,164	20,582	45,757

	2018	2017	2016
Bank loan with Banco Itau for R$20,097,194 at an annual rate of 4.53%, entered into September 2012 and maturing December 2018.	-	-	14,124
Leasing with Volvo for R$35,893 at an annual rate of 4.40% entered into in May 2013 and maturing in December 2020.	3,107	6,628	10,417
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 2018	-	-	4,692
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 2017 and maturing in December 2018.	-	-	11,450
Leasing with Banco Fidis with different annual interest rates and different maturity dates.	-	39	1,014
Leasing with Mercedes Benz for R$69,606 at an annual rate of 3.50% entered into in December 2016 and maturing in November 2018.	-	449	948
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 2018.	-	-	496
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 2018.	-	-	42
Bank loan with Itaucard for R$14.061 at an annual rate of 16.21% entered into in April 2013 and maturing in March 2018.	-	-	8
Bank loans	788,626	977,259	881,118
Less - Unamortized commissions paid	(7,219)	(10,717)	(8,232)
	781,407	966,542	872,886
Less - Current portion of long-term debt	405,414	300,292	500,911
Long-term debt	$ 375,993	666,250	$ 371,975

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

	2018	2017	2016
TIIE	8.1725%	7.870%	6.110%

a. The credits contracted include certain restrictive clauses that limit the Entity mainly to grant guarantees, for the years ended at December 31, 2018, 2017 and 2016, these have been fulfilled.

The maturities of the portion of the long-term debt as of December 31, 2018 are:

Year ending at December 31 of		Amount
2020	$	300,556
2021		71,134
2022		3,307
2023		996
	$	375,993

b. Reconciliation of liabilities arising from financing activities

	January 1, 2018	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2018
Bank loans	$ 966,542	$ 160,000	$ (344,122)	$ (128,589)	$ 121,696	$ 5,880	$ 781,407

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

	January 1, 2016	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2016
Bank loans	$ 939,602	$ 205,996	$ (354,216)	$ (78,525)	$ 92,048	$ 67,981	$ 872,886

15. Employee benefits

The net cost of the period for the derivative obligations on pension's plan, were to $1,297, $1,288 and $1,194 in 2018, 2017 and 2016, respectively. Other revelations required are considered less important.

The Entity executive's remunerations for years ended as of December 31, 2018, 2017 and 2016 were at $53,497, $51,880 y $56,008, respectively.

PTU expense amounted were $2,158, $1,738 and $1,191 in 2018, 2017 y 2016, 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, 2018, 2017 and 2016 the Group maintained 9,478,407, 4,215,393 and 2,178,700 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 30, 2018 resolved to establish:

- A maximum amount of $18,000 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 the period from May to December 2018, $ 4,831 of the $ 18,000 were used, leaving a remaining balance as of December 31, 2018 of $ 13,169.

During the period from January to April 2018, the balance of $ 3,256 of the prior year and the amount of $39,995 were used for the reserve of repurchase of shares that were not used in the fiscal year 2017, leaving a remaining of $5 of the amount authorized of $ 60,000, as described in the following paragraph.

II. 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 2018, only the amount of $ 20,000 was reserved for the share repurchase reserve since this was the amount that the Group's management estimated to use in that year, of which only $16,744 were used, the remaining balance amounted $3,256.

III. 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, 2018, 2017 and 2016, the outstanding portion payable by executives is $7,884, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.

IV. Common stock without par value as of December 31, 2018, 2017 and 2016, is as follows:

	Number of shares		Amount
Fixed capital Series "B"	9,487,842	$	80,304
Fixed capital Series "B"	121,034,207		1,024,417
Total	130,522,049	$	1,104,721

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, 2018, 2017 and 2016, 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:

		2018		2017		2016
Cash and cash equivalents	$	138,253	$	254,628	$	144,799
Debt		781,407		966,542		872,886
Net debt		643,154		711,914		728,087
Stockholders' equity	$	1,130,734		1,153,158		1,231,136
Index of net debt and equity		56.88%		61.74%		59.14%

The debt includes long-term debt and current portion.

Categories of financial instruments

		2018		2017		2016
Financial assets:						
Cash	$	138,253	$	254,628	$	144,799
Accounts receivable		924,955		1,027,137		960,706
Due from related parties		7,234		7,785		7,481
Financial liabilities:						
Banking loans	$	781,407	$	966,542	$	872,886
Trade accounts payable		1,331,709		1,313,877		1,100,641
Due to related parties		8,561		8,120		6,871
Other long-term accounts payable		2,003		210,019		228,253

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:

2018		2017		2016	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
$ 656,250	$ 607,774	$ 875,000	$ 875,000	$ 470,000	$ 470,000

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

2018		2017		2016	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
$ 132,376	$ 132,376	$ 68,679	$ 68,679	$ 344,418	$ 344,418

Financial risk management objectives

The Group's Treasury function is administrate the financial resources, control 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, Costa Rican colones 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, 2018, 2017 and 2016 would have been adversely affected by the amount of $13,133, $57,107 and $51,923, respectively. However, a decrease of $1 under the same circumstances would have positively affected the Entity's comprehensive income by the same amount.

a. Montary position of US dollars as of December 31, is as follows:

	2018	2017	2016
US Dollars:			
Monetary assets	29,883	29,457	25,653
Monetary liabilities	42,791	42,063	33,473
Short position	(12,908)	(12,606)	(7,820)
Amount in Mexican pesos	$ (253,727)	$ (247,871)	$ (161,592)

b. The exchange rates at the dates of the balance sheets and at the date of issuance of these financial statements were as follows:

	December 31, 2018	2017	2016	April 8, 2019
US Dollars	$ 19.6566	$ 19.6629	$ 20.664	$ 18.9701

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 TIIE and LIBOR rates, although the latter is no longer relevant) which, represent approximately 93% at December 31, 2018, 86% for 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:

	2018	2017	2016
Total debt	$ 781,407	$ 966,542	$ 872,886
Variable interest expense	121,696	121,728	76,544
Financial cost of debt percentage	15.57%	12.59%	8.77%
Sensitivity to + 100 base points	129,510	131,353	85,281
Sensitivity to -100 base points	113,882	112,022	67,823

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, 2018, 2017 and 2016 as the transition date is as follows:

	December 31, 2018			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	$ 405,414	$ 300,556	$ 75,437	$ 781,407
Trade accounts payable	1,331,709	-	-	1,331,709
Other accounts payable and accrued expenses	238,698	2,003	-	240,701
Due to related parties	8,561	-	-	8,561
	$ 1,984,382	$ 302,559	$ 75,437	$ 2,362,378

	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	8,120	-	-	8,120
	$ 1,795,339	$ 814,071	$ 62,198	$ 2,671,608

	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	6,871	-	-	6,871
	$ 1,802,441	$ 415,892	$ 184,336	$ 2,402,669

18. Financial derivatives

The Group uses financial derivatives in the form of cross currency swaps (CCS), exchange rate forwards and exchange rate options, as hedges to protect itself from exposure to variations in the BRL/USD. The current hedge as of December 31, 2018, is as follows:

In 2014, Coremal, S.A. de C.V., subsidiary of the Group, 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, 2018, 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, 2016	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).

At December 31, 2018, the Group settled the derivative financial instruments and loans that Coremal, S.A. hadwith HSBC, described in the previous paragraphs.

On May 9, 2018, the Group entered into a European purchase option derivative of the TIIE (Underlying Asset) Rate, which began its term on July 2, 2018. This instrument was contracted to cover the interest payment on the loan. Syndicated by the subsidiaries of Mexico in view of the risk of an increase in the TIIE rate (since said loans have such a reference rate as the interest rate), the general conditions of said instrument are the following:

Instrument	Counterparty	Starting date	Maturity	Notional amount in MXN	Fair value
Exchange rate option	Bancomer	July 2, 2018	March 31, 2021	656,250	5,272

19. Balances and transactions with related parties

a. Balance due from related parties are:

	2018	2017	2016
Mexichem Flúor, S.A. de C.V.	$ 3,340	$ 4,633	$ 4,455
Mexichem Resinas Vinílicas, S.A. de C.V.	3,428	1,216	2,321
Mexichem Soluciones Integrales, S.A. de C.V.	177	600	176
Mexichem Derivados, S.A. de C.V.	50	1,208	529
Mexichem Compuestos, S.A. de C.V.	239	128	-
	$ 7,234	$ 7,785	$ 7,481

b. Balance due to related parties are:

	2018	2017	2016
Quimir, S.A. de C.V.	$ 8,561	$ 7,709	$ 5,671
Mexichem Servicios Administrativos, S.A. de C.V.	-	411	490
Mexichem Compuestos, S.A. de C.V.	-	-	710
	$ 8,561	$ 8,120	$ 6,871

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

	2018	2017	2016
Mexichem Derivados, S.A. de C.V.:			
Sales	$ 4,069	$ 8,552	$ 3,530
Purchases	(2,122)	(1,892)	(1,457)
Quimir, S.A. de C.V.:			
Sales	196	26	16
Purchases	(31,873)	(37,416)	(43,548)
Mexichem Flúor, S.A. de C.V.			
Sales	21,397	23,335	18,960
Purchases	-	-	(732)
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	6,445	6,230	5,650
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	657	1,204	747

	2018	2017	2016
Mexichem Compuestos, S.A. de C.V.:			
Sales	787	622	3,082
Purchases	-	(2,368)	(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)

20. Net sales

	2018	2017	2016
Chemicals and lubricants	$ 5,889,003	$ 5,809,380	$ 5,597,580
Paper	574,339	523,608	541,693
	$ 6,463,342	$ 6,332,988	$ 6,139,273

21. Cost of sales

	2018	2017	2016
Inventories consumed	$ 5,085,126	$ 4,962,315	$ 4,846,153
Freight	175,561	154,935	178,100
Other	(4,541)	65,406	39,748
	$ 5,256,146	$ 5,182,656	$ 5,064,001

22. Operating expenses

	2018	2017	2016
Payroll	$ 507,314	$ 508,774	$ 482,967
Depreciation and amortization	117,647	127,063	131,944
Operations	93,799	54,342	60,543
Leasing	58,570	67,117	55,605
Telephone and systems	30,680	30,296	27,946
Maintenance	41,013	49,892	22,584
Fees	45,591	48,112	67,056
Other	45,496	35,859	110,468
	$ 940,110	$ 921,455	$ 959,113

23. Income taxes

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

ISR - Under the new Income Tax Act 2016 (Act 2016) the rate was 30% for 2018, 2017 and 2016 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:

	2018	2017	2016
ISR:			
Current tax	$ 45,465	$ 76,525	$ 18,225
Deferred tax	6,562	22,816	(27,325)
	$ 52,027	$ 99,341	$ (9,100)

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

	2018	2017	2016
Deferred ISR asset:			
Tax loss carryforwards	$ 24,392	$ 35,124	$ 37,012
Properties, plant and equipment	6,557	-	-
Provisions	14,209	19,687	37,159
Deferred ISR asset	45,158	54,811	74,171
Deferred ISR liability:			
Properties, plant and equipment	-	(3,682)	(4,647)
Other assets	(5,059)	(4,468)	(47)
Deferred tax liability	(5,059)	(8,150)	(4,694)
Total assets	$ 40,099	$ 46,661	$ 69,477

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:

	2018	2017	2016
Statutory rate	30%	30%	30%
Plus the effect of permanent differences mainly non-deductible expenses	1%	1%	9%
Plus effects of inflation	6%	40%	22%
Plus aditional 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	8%	85%	-
Effective rate	45%	218%	61%

d. The benefits from tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts to December 31, 2018, are:

Year of Expiration		Tax loss carryforwards
2023	$	4,941
2024		6,797
2025		4,131
2026		16,784
2027		13,807
2028		31,015
	$	77,475

e. Deferred income tax balances

2018		Beginning balance		Recognized in profit or loss		Endging balance
Deferred tax asset:						
Provisions	$	19,687	$	(5,478)	$	14,209
Tax loss carryforwards		35,124		(10,732)		24,392
Deferred tax liability:						
Properties plan and equipment		(3,682)		10,239		6,557
Other assets		(4,468)		(591)		(5,059)
Total asset (liability), net	$	46,661	$	(6,562)	$	40,099

2017		Beginning balance		Recognized in profit or loss		Endging balance
Deferred tax asset:						
Provisions	$	37,159	$	(17,472)	$	19,687
Tax loss carryforwards		37,012		(1,888)		35,124
Deferred tax liability:						
Properties plan and equipment		(4,647)		965		(3,682)
Other assets		(47)		(4,421)		(4,468)
Total asset (liability), net	$	69,477	$	(22,816)	$	46,661

2016		Beginning balance		Recognized in profit or loss		Endging balance
Deferred tax asset:						
Provisions	$	28,671	$	8,488	$	37,159
Tax loss carryforwards		24,461		12,551		37,012
Deferred tax liability:						
Properties plan and equipment		(300)		(4,347)		(4,647)
Other assets		(10,680)		10,633		(47)
Total asset (liability), net	$	42,152	$	27,325	$	69,477

24. Non-cash transactions

On April 2018, 2017 and 2016, at the Ordinary Annual General Shareholders' Meeting, fraction VI, it was approved to establish the amount of $18,000, $60,000 and $30,000, respectively, as the maximum amount of the resources that the Group 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 $(57,994) in 2018, $2,488 in 2017 and $43,340 in 2016 to cancel the remainder of the reserve.

During the years ended December 31, 2018, 2017 and 2016, the Group acquired equipment for a value of $23,782, $9,408 and $10,964, respectively, 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 $58,570, $67,117 and $55,605 as of December 31, 2018, 2017 and 2016, respectively. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year		Amount
2019	$	56,309
2020		53,599
2021		44,820
2022		36,117
2023 and onwards		185,062
	$	375,907

26. Business segment information

Business segment information of the Group is as follows:

	2018		2017		2016	
	Chemical products	Paper	Chemical products	Paper	Chemical products	Paper
Statement of income:						
Net sales	$ 5,889,003	$ 574,339	$ 5,809,380	$ 523,608	$ 5,597,580	$ 541,693
Depreciation	$ 107,193	$ 10,454	$ 116,566	$ 10,497	$ 120,295	$ 11,649
Operating income	$ 243,352	$ 23,734	$ 214,592	$ 19,325	$ 105,914	$ 10,245
Finance costs	$ (137,419)	$ (13,402)	$ (172,818)	$ (15,563)	$ (119,373)	$ (11,560)
Consolidated net income	$ 58,530	$ 5,703	$ (49,360)	$ (4,445)	$ (5,174)	$ (500)

	2018		2017		2016	
	Chemical products	Paper	Chemical products	Paper	Chemical products	Paper
Statements of financial position:						
Total assets	$ 3,219,387	$ 313,978	$ 3,559,522	$ 320,489	$ 3,338,361	$ 322,925
Total liabilities	$ 2,189,131	$ 213,500	$ 2,501,615	$ 225,238	$ 2,215,593	$ 214,557
Statements of cash flows:						
Operation activities	$ 298,291	$ 29,091	$ 329,197	$ 29,645	$ 77,274	$ 7,475
Investment activities	$ (10,877)	$ (1,061)	$ (174,324)	$ (15,698)	$ (73,336)	$ (7,094)
Financing activities	$ (342,504)	$ (33,404)	$ (43,191)	$ (3,890)	$ (232,867)	$ (22,526)

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 commercialized on Office Depot.

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

- Those operative segments have 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 Group operates in three principal geographical areas:

- México
- United States and Central America
- Brazil

Information on geographical area of the Entity is presented below:

	2018		2017		2016	
	Mexico and Central America	Brazil	Mexico and Central America	Brazil	Mexico and Central America	Brazil
Net sales	$ 4,971,429	$ 1,491,913	$ 4,772,129	$ 1,560,859	$ 4,560,302	$ 1,578,971
Total assets	$ 2,897,898	$ 635,467	$ 3,006,278	$ 873,733	$ 2,685,580	$ 978,706
Total liabilities	$ 1,681,761	$ 720,870	$ 1,852,643	$ 874,210	$ 1,434,037	$ 996,113

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

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

27. 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.

During financial year 2018, the amparo proceeding filed by subsidiary Suplia, S.A de C.V. against the Tax Ministry, related to a tax credit based 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 Group recorded a provision for $ 28 million to cover the principal and partially the update and surcharges.

28. Approval of the issuance of consolidated financial statements

On April 8, 2019, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz González, 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.

* * * * * *