

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

Consolidated Financial Statements
for the Years Ended December 31,
2020, 2019 and 2018, and
Independent Auditors' Report Dated
April 26, 2021



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

Independent Auditors' Report and Consolidated Financial Statements for 2020, 2019 and 2018

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

Opinion

We have audited the consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2020, 2019 and 2018, 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, 2020, 2019 and 2018, 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 *Independent Auditors' 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.

Emphasis of matter paragraph

We draw attention to Note 1 to the accompanying consolidated financial statements, which explains that, as a result of the Coronavirus (COVID 19) pandemic, Group management has assessed the effects derived from this situation on its consolidated financial information at December 31, 2020. The Group's financial position and results of operations at December 31, 2020 were not significantly affected by the pandemic. However, our audit planning and procedures were adapted to the circumstances so as to verify this situation and the assertions included by the Group in Note 1 to the consolidated financial statements. Our opinion has not been modified in this regard

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.



Business combination

The Group acquired seven entities in South America (Chile, Peru, Colombia, Argentina and Brazil), which are engaged in the distribution of chemical products for the mining industry, personal care and water treatment. This transaction was recorded in accounting in conformity with IFRS 3, "Business combination" (IFRS 3), by using the purchase method. Accordingly, the purchase price was allocated to the acquired assets and assumed liabilities.

The determination of the fair value of assets and assumed liabilities requires Management to utilize estimates and significant assumptions related to the technical valuation of intangible assets, property, plant and equipment, financial liabilities and the value of stockholders' equity, by utilizing the discounted cash flow methodology, future cash flow forecasts and determining the discount rate. The application of audit procedures to assess the fairness of these estimates and assumptions required Management to utilize a high level of judgment.

Our audit procedures include the following, among others:

- a) We reviewed the authorization granted by the Board of Directors to perform the acquisition.
- b) We read and analyzed the purchase-sale agreements.
- c) We verified that the transaction lay within the scope of IFRS 3.
- d) We corroborated the transaction payment.
- e) We tested the design and implementation of relevant internal controls and applied substantive procedures related to the acquisition.
- f) In conjunction with our internal specialists, we performed the following procedures:
 - We assessed the assumptions and methods employed to identify fair value estimates and the correct application of IFRS 3.
 - We assessed the methodology used to estimate the fair value of the acquired net assets and also challenged the projection period, which is in conformity with the practices accepted in the financial sector, and tested the fairness of discount rates.

As a result of the audit procedures we applied, we concluded that the new business combination was reasonable.

Other matter

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

Additional Information Other than the Consolidated Financial Statements and the Independent Auditors' Report

Management is responsible for the additional information. The additional 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 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 additional 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 additional information; we would have to report this matter. When we read the annual report, we will issue the conclusion about its reading, as required by Article 33, Section I, paragraph b) numeral 1.2. of the Provisions.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



C. P. C. Carlos Ignacio Muñoz Miranda
April 26, 2021



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

Consolidated Statements of Financial Position

As of December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

Assets	Notes	2020	2019	2018
Current assets:				
Cash and cash equivalents	5	\$ 279,227	\$ 125,787	\$ 138,253
Accounts receivable and recoverable taxes - Net	6	1,074,210	963,103	996,398
Due from related parties	21	5,193	5,033	7,234
Inventories	7	1,075,759	911,843	950,019
Prepaid expenses		<u>43,787</u>	<u>43,555</u>	<u>45,650</u>
Total current assets		2,478,176	2,049,321	2,137,554
Non-current assets				
Properties, plant and equipment - Net	9	745,656	716,824	690,737
Other investments		4,381	4,381	4,381
Investment properties	8	15,060	15,060	15,060
Other assets		72,517	68,129	79,696
Deferred income taxes	25	166,553	54,926	52,464
Intangible assets – Net	11	248,806	195,315	203,903
Right-of-use assets	13	308,940	324,025	-
Goodwill	12	<u>280,366</u>	<u>294,217</u>	<u>349,570</u>
Total non-current assets		<u>1,842,279</u>	<u>1,672,877</u>	<u>1,395,811</u>
Total		<u>\$ 4,320,455</u>	<u>\$ 3,722,198</u>	<u>\$ 3,533,365</u>

Liabilities and stockholders' equity

	Notes	2020	2019	2018
Current liabilities:				
Bank loans and current portion of long-term debt	16	\$ 703,995	\$ 560,243	\$ 405,414
Trade accounts payable		1,330,760	1,366,700	1,331,709
Other accounts payable and accrued expenses	15	382,285	252,142	238,698
Due to related parties	21	7,201	6,834	8,561
Short-term lease liability	14	50,391	44,947	-
Income taxes and statutory employee profit sharing		<u>35,808</u>	<u>23,719</u>	<u>32,234</u>
Total current liabilities		2,510,440	2,254,585	2,016,616
Long-term liabilities:				
Long-term other accounts payable and accrued expenses	15	5,021	2,044	2,003
Long-term debt	16	334,783	102,619	375,993
Long-term lease liability	14	279,092	283,519	-
Employee benefits	17	<u>16,713</u>	<u>10,898</u>	<u>8,019</u>
Total long-term liabilities		<u>635,609</u>	<u>399,080</u>	<u>386,015</u>
Total liabilities		3,146,049	2,653,665	2,402,631
Stockholders' equity:				
Contributed capital-				
Capital stock	18	1,096,837	1,096,837	1,096,837
Premium on sale of repurchased stock		58,176	58,176	58,176
(Loss) earned capital-				
Retained earnings		185,982	(1,264)	24,477
Reserve for repurchase of shares		-	10,311	13,169
Translation effects of foreign operations		(159,753)	(93,603)	(61,407)
Remeasurement of defined benefit obligation		<u>(6,836)</u>	<u>(1,924)</u>	<u>(518)</u>
Total stockholders' equity		<u>1,174,406</u>	<u>1,068,533</u>	<u>1,130,734</u>
Total		<u>\$ 4,320,455</u>	<u>\$ 3,722,198</u>	<u>\$ 3,533,365</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2020, 2019 and 2018

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

	Notes	2020	2019	2018
Net sales	22	\$ 6,257,455	\$ 6,345,505	\$ 6,463,342
Cost of sales	23	<u>(5,018,960)</u>	<u>(5,182,573)</u>	<u>(5,256,146)</u>
Gross profit		1,238,495	1,162,932	1,207,196
Profit in business acquisition	10	115,239	-	-
Operating expenses	24	<u>(1,030,364)</u>	<u>(1,008,060)</u>	<u>(940,110)</u>
Income from operations		323,370	154,872	267,086
Financing costs:				
Interest income		9,581	7,599	8,560
Interest expense		(158,693)	(157,363)	(146,883)
Exchange (loss) gain		<u>(14,660)</u>	<u>7,086</u>	<u>(12,498)</u>
		<u>(163,772)</u>	<u>(142,678)</u>	<u>(150,821)</u>
Income before income taxes		159,598	12,194	116,265
Income taxes (benefit) expense	25	<u>(25,821)</u>	<u>27,104</u>	<u>52,027</u>
Consolidated net income (loss)		<u>\$ 185,419</u>	<u>\$ (14,910)</u>	<u>\$ 64,238</u>
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		(4,912)	(1,406)	104
Exchange differences on translating foreign operations		<u>(66,150)</u>	<u>(32,196)</u>	<u>(38,684)</u>
Total comprehensive (loss) income for the year		<u>\$ 114,357</u>	<u>\$ (48,512)</u>	<u>\$ 25,658</u>
Earnings per share:				
From continuing operations:				
Basic and diluted earnings (losses) per common share (in Mexican pesos)		<u>\$ 1,4206</u>	<u>\$ (0,1142)</u>	<u>\$ 0,4922</u>
Weighted average shares outstanding		<u>130,522,049</u>	<u>130,522,049</u>	<u>130,522,049</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020, 2019 and 2018
(In thousands of Mexican pesos)

	Contributed capital				(Loss) earned capital				Total stockholders' equity
	Common stock			Total	Retained earnings	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	
	Nominal	In trust	Premium on sale of repurchased stock						
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
Cancellation of reserve for repurchase of shares	-	-	-	-	13,169	(13,169)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(24,000)	24,000	-	-	-
Repurchase of shares	-	-	-	-	-	(13,689)	-	-	(13,689)
Net comprehensive result for the year	-	-	-	-	(14,910)	-	(32,196)	(1,406)	(48,512)
Balance as of December 31, 2019	1,104,721	(7,884)	58,176	1,155,013	(1,264)	10,311	(93,603)	(1,924)	1,068,533
Cancellation of reserve for repurchase of shares	-	-	-	-	1,827	(1,827)	-	-	-
Repurchase of shares	-	-	-	-	-	(8,484)	-	-	(8,484)
Net comprehensive result for the year	-	-	-	-	185,419	-	(66,150)	(4,912)	114,357
Balance as of December 31, 2020	\$ 1,104,721	\$ (7,884)	\$ 58,176	\$ 1,155,013	\$ 185,982	\$ -	\$ (159,753)	\$ (6,836)	\$ 1,174,406

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, 2020, 2019 and 2018

(In thousands of Mexican pesos)

(Indirect method)

	Notes	2020	2019	2018
Cash flows from operating activities:				
Consolidated net income (loss)		\$ 185,419	\$ (14,910)	\$ 64,238
Adjustments for:				
Income taxes expense	25	(25,821)	27,104	52,027
Depreciation and amortization	24	167,869	163,941	117,647
Gain on sale of property and equipment		(1,648)	(10,324)	(14,059)
Profit in business acquisition		(115,239)	-	-
Amortization of commissions paid		5,176	3,406	3,498
Interest paid		134,899	153,957	143,385
Interest income		(9,581)	(7,599)	(8,560)
Unrealized exchange (gain) loss		(639)	4,447	(13,178)
		<u>340,435</u>	<u>320,022</u>	<u>344,998</u>
Changes in working capital:				
Accounts receivable and recoverable taxes	6	204,524	35,496	135,117
Inventories	7	76,277	38,176	(62,010)
Prepaid expenses		(232)	2,095	(11,074)
Other assets		(21,225)	(5,009)	10,358
(Decrease) increase in:				
Trade accounts payable		(240,961)	34,991	17,832
Other accounts payable and accrued expenses	15	(59,672)	(27,139)	(45,369)
Due to related parties	21	367	(1,727)	441
Income taxes paid		<u>(28,000)</u>	<u>(63,006)</u>	<u>(62,911)</u>
Net cash provided by operating activities		<u>271,513</u>	<u>333,899</u>	<u>327,382</u>
Cash flows from investing activities:				
Purchase of machinery and equipment		(53,280)	(86,102)	(121,507)
Sale of machinery and equipment		5,401	9,395	101,009
Acquisition of subsidiaries		(217,419)	-	-
Interest collected		<u>9,581</u>	<u>7,598</u>	<u>8,560</u>
Net cash used in investing activities		<u>(255,717)</u>	<u>(69,109)</u>	<u>(11,938)</u>
Cash flows from financing activities:				
Borrowings	16	3,325,095	1,649,029	160,000
Repayment of loans received	16	(2,934,935)	(1,791,129)	(344,122)
Payment of leasing		(88,673)	(75,072)	(15,114)
Purchase of own common shares		(8,484)	(13,689)	(48,082)
Interest and commissions paid	16	<u>(137,505)</u>	<u>(120,357)</u>	<u>(128,589)</u>
Net cash provided (used) in financing activities		<u>155,498</u>	<u>(351,218)</u>	<u>(375,907)</u>



	Notes	2020	2019	2018
Effects of changes in exchange rates on cash held in foreign currency		<u>(17,854)</u>	<u>73,962</u>	<u>(55,912)</u>
Net increase (decrease) in cash and cash equivalents		153,440	(12,466)	(116,375)
Cash and cash equivalents at beginning of year		<u>125,787</u>	<u>138,253</u>	<u>254,628</u>
Cash and cash equivalents at end of year		<u>\$ 279,227</u>	<u>\$ 125,787</u>	<u>\$ 138,253</u>

The accompanying notes are part of the consolidated financial statements.



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

Notes to Consolidated Financial Statements

For the years ended December 31, 2020, 2019 and 2018

(In thousands of Mexican pesos)

1. Activity and significant events

Activity

Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the “Group”) operates in México, Central America 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, 11850, Ciudad de México.

Significant events

The Group has consolidated itself as a highly competitive global entity following its successful acquisition of the Latin American business division of Ixom Operations Pty LTD (currently Pochteca Sudamérica), which will permit the expansion of its operations to Argentina, Brazil, Chile, Colombia and Peru. Accordingly, it has a robust presence in these countries as a supplier of specialized chemicals for the personal care, agriculture, resin and adhesive markets, that will be reinforced by the portfolio of Grupo Pochteca to promote growth in these regions, while also incorporating mining solutions in which Pochteca Sudamérica is highly competitive.

The strategy implemented within the organization in recent years to diversify its portfolio, segments and geographic regions has enabled it to largely mitigate the reduced demand generated by the COVID pandemic. In Mexico, our performance was varied as segments associated with essential sectors grew, while a downward trend was reported for oil, lubricants and paper.

The 2020 performance of Grupo Pochteca improved at the level of operating profit and EBITDA. A significant improvement was attained over the same period of the prior year due to diversification efforts in different sectors and geographic regions, which enabled the Group to leverage the growing demand for products like sanitizers, personal care lines and chemicals for the food industry, which offset the marked decline reported by other business segments. Similarly, operating in different countries implied that currency translation effects in Mexico reduced margins, which were strengthened in other countries. Furthermore, as a significant portion of the portfolio of products distributed by Pochteca forms part of the supply chain of customers engaged in essential activities in Mexico and Brazil, we were able to continue operating at all of our plants and branches during the pandemic period.

Portfolio and market diversification allowed us to protect our sales despite the impact generated by Covid-19 in all the countries where we operate, including our operations in Chile, Peru, Colombia and Argentina.

Covid-19

As of December 31, 2019, the SARS-COV-2 virus outbreak, which led to the COVID-19 pandemic, has adversely affected many local economies worldwide. In many countries, businesses and companies have been forced to suspend their operations for long and/or indefinite periods. The measures implemented to contain the spread of this virus include: Travel bans, quarantines, social distancing and the closure of nonessential services. These restrictions have implied significant interruptions for many businesses around the world, thus resulting in economic deceleration. International stock markets have also experienced considerable volatility and have been significantly weakened. From the start of the health emergency, Grupo Pochteca implemented different prevention and mitigation measures to protect the health of its collaborators, suppliers, customers and the general population. As of that date, it intensified its already strict control over the operating expenses of all its subsidiaries, while striving to avoid affecting the quality of its products or its service level standards. Inventories were optimized as the Group sought to maintain a financial balance while fulfilling customer commitments.



According to the evolution of the health emergency and the restrictions established throughout the country, the Entity is making operating and investment adjustments to limit these activities to previously acquired commitments and activities that are essential for the operation, asset maintenance and customer safety, while also optimizing its cash flows.

2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2020.

Impact of the initial application of Interest Rate Benchmark Reform amendments to IFRS 9, IAS 39 and IFRS 7).

In September 2019, the IASB issued Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group’s accounting in the following ways:

- The Group has floating rate debt, linked to CU IBOR, which it cash flow hedges using interest rate swaps.
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9. The new disclosure requirements are presented in note 6.

b. *Initial impact of the application of other new and modified IFRSs that are effective for fiscal years and reporting periods beginning on or after January 1, 2020.*

In this year, the Entity has applied the modifications and interpretations to IFRS mentioned below issued by the Committee that are effective for the reporting period beginning on January 1, 2020. The adoption has not had any material impact on the disclosures or amounts in these consolidated financial statements.



*Amendments to the
Conceptual
Framework
references in IFRS*

The Entity has adopted the amendments included in Amendments to the Conceptual Framework references in IFRS for the first time this year. The amendments include derivative amendments to the affected standards that now refer to the new Conceptual Framework. Not all amendments, however, update such pronouncements with respect to Conceptual Framework references and phrases that refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Conceptual Framework they refer to (the IASC Conceptual Framework adopted by the IASB in 2001, the IASB Conceptual Framework of 2010, or the new and revised Conceptual Framework of 2018) or to indicate the definitions of the standards that have not been updated with the new definitions developed in the revised Conceptual Framework.

The standards that have had modifications are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

*Amendments to IFRS
3 Definition of a
business*

The Entity has adopted the amendments to IFRS 3 for the first time in the year. The amendments clarify that while businesses usually have exits, exits are not required for an integrated set of activities or assets to qualify as a business. To be considered a business, a set of activities or assets must include, at a minimum, inputs and a substantive process that together contribute to the creation of outputs.

The modification eliminates the evaluation of whether market participants are capable of replacing some input or process and continuing with the exits. The amendments also introduced additional guidance that helps determine whether a substantive process has been acquired.

The amendments introduced an optional concentration test that allows a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all the fair values of the acquired assets are concentrated in the same identifiable asset or group of similar asset.

The amendments are applied prospectively to all business combinations or asset acquisitions for which the acquisition date is on or after January 1, 2020.

*Amendments to IAS 1
and IAS 8 Definition
of materiality*

The Entity has adopted the amendments to IAS 1 and IAS 8 in the year. The amendments made the definition of "material" in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS. The concept of "obscuring" material information with immaterial information has been included as part of the new definition.

The threshold of materiality that influences users has been changed from, 'could influence' to 'reasonably expected to influence'.

The definition of "material" in IAS 8 has been replaced by a reference to the definition in IAS 1. In addition, the IASB modified other standards and the Conceptual Framework to contain a definition of "material" to ensure consistency.



c. ***New and revised IFRS Standards in issue but not yet effective***

At the date of authorization of these financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective.

Amendments to IAS 1	<i>Classification of Liabilities as Current or Non-current.</i>
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	<i>Property, Plant and Equipment—Proceeds before Intended Use</i>
Amendments to IAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
Annual Improvements to IFRS Standards 2018-2020 Cycle	<i>Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture</i>

Management does not expect the adoption of the aforementioned standards to have a significant impact on the Entity's consolidated financial statements in future periods, except as indicated below:

Amendments to IFRS 3 Definition of a business

The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 January 2020, with early adoption allowed.

Amendments to IFRS 3 – Conceptual Framework

The amendments update IFRS 3 so that it can refer to the 2018 Conceptual Framework rather than the 1989 Framework. They also added a requirement that, for obligations within the scope of IAS 37, a buyer applies IAS 37 to determine whether the acquisition date is a present obligation or exists as a result of a past event. For liens that are within the scope of IFRIC 21 Liens, the buyer applies IFRIC 21 to determine whether the obligation gives rise to a liability to pay the levy that occurred on the acquisition date.

Finally, the amendments add an explicit statement that the buyer will not recognize a contingent asset acquired from a business combination.

The amendments are effective for business combinations whose acquisition date is on or after the initial period of the first annual period beginning on or after January 1, 2022. With the option of early application if the entity also applies all other updated references (published together with the Conceptual Framework) at the same time or in advance.

Amendments to IAS 16 – Property, Plant and Equipment—Proceeds before Intended Use.

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with IAS 2 Inventories.



The amendments also clarify the meaning of ‘testing whether an asset is functioning properly’. IAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity’s ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Amendments to IAS 37 – Onerous Contracts—Cost of Fulfilling a Contract

The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application..

The amendments are effective for annual periods beginning on or after 1 January 2022, with early application permitted.

Annual Amendments to IFRS 2018-2020 standards

The Annual Improvements include amendments to four Standards:

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16(a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent’s consolidated financial statements, based on the parent’s date of transition to IFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after 1 January 2022, with early application permitted.



IFRS 9 Financial Instruments

The amendment clarifies that when applying the '10%' test to evaluate whether to write off a financial liability, an entity includes only the installments paid or received between the entity (the borrower) and the provider, including installments paid or received by the entity or the provider.

Amendments are applied prospectively to modifications or changes that occur on or after the date the entity first applies the amendment.

The modification is effective for annual periods beginning on or after January 1, 2022, with the option of early application.

IFRS 16 Leases

The modifications eliminate the figure of reimbursement for improvements to leases.

The modifications eliminate the figure of reimbursement for improvements to leases.

3. Significant accounting policies

a. *Statement of compliance*

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

b. *Entity going concern*

The accompanying consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern. As of December 31, 2020 and 2019 the consolidated statement of financial position shows a deficiency in working capital of \$ 32,264 and \$205,264, respectively.

The Group's management considers that this situation will not affect the continuity of its operation, since it has generated financial strategies that will allow you to settle the liabilities according to the cash flow generated by the Group. In addition, the Group has revolving credit lines with financial institutions that it can make use of.

c. *Basis of preparation*

The accompanying financial statements have been translated from Spanish into English for use outside of Mexico. These financial statements are presented on the basis of IFRS. Certain accounting practices applied by the Entity that conform with IFRS may not conform with accounting principles generally accepted in the country of use.

The consolidated financial statements the Group have been prepared on the historical cost basis as explained in the accounting policies below.

a) Historical cost

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



b) 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 Group 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.

d. ***Basis of consolidation***

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

- 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 Group 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 Group 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 Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group 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 Group obtains control over the subsidiary and ceases when the Group 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 Group gains control until the date when the Group ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Group 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. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.



Non-controlling interests in subsidiaries are identified separately from the Group equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation may initially be measured at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement is made on an acquisition-by-acquisition basis. Other non-controlling interests are initially measured at fair value. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income of subsidiaries is attributed to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group 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 Group 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.

Subsidiary	Main activity	Functional currency
Pochteca Materias Primas, S. A. de C. V.	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 quetzals
Pochteca Do Brasil Participações Ltd.	Trading of raw materials	Brazilian reals
Pochteca Papel, S. A. de C. V.	Trading of paper	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 reals



Subsidiary	Main activity	Functional currency
Mecotrans Transportes e Logística Ltda.	Transportation of chemical products	Brazilian reals
Coremal Química Ltda.	Trading of raw materials	Brazilian reals
Latam Chemicals, LLC	Trading of raw materials	US Dollars
Conjunto LAR de México, S. A. de C. V.	Trading of raw materials	Mexican pesos
Pochteca Chile, S. A.	Trading of raw materials	Mexican pesos
Active Chemicals Chile, S. A.	Trading of raw materials	Mexican pesos
Pochteca Colombia, S. A. S.	Trading of raw materials	Colombian Colones
Doproquim Distribuidora e Importadora de Productos Químicos, LTDA.	Trading of raw materials	Brazilian reals
FORBUSI Importadora e Exportadora, LTDA.	Trading of raw materials	Brazilian reals
IXOM Perú, S. A.	Trading of raw materials	Peruvian Soles
IXOM Argentina, S. A.	Trading of raw materials	Mexican pesos

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, 2019, the Group presented the amount it is intended to depreciate the following year for short-term right-of-use assets. However, the Group's management has determined that this entire heading must be classified as long-term.

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 Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group’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 Group 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 Group 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.

(i) *Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group’s debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group’s core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;



- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) the financial instrument has a low risk of default,
- (2) the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (3) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations..

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

For financial guarantee contracts, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Group considers the changes in the risk that the specified debtor will default on the contract.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) *Definition of default*

The Group 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 Group, in full (without taking into account any collateral held by the Group).

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

(iii) *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:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event (see (ii) above);
- 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;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) *Write-off policy*

The Group 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 Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

(v) *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 Group understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The Group 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 Group 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 Group. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group 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 Group 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.

h. *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 Group 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 Group, 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 Group 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 Group'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 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.

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 Group derecognizes financial liabilities when, and only when, the Group'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 Group 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 Group 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.

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***

Property, machinery and equipment are stated at acquisition cost, less accumulated depreciation or accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation on revalued buildings is recognized in profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained earnings.

Freehold land is not depreciated.

Machinery and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:



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

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset.

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

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.

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. ***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 useful lives which are disclosed in the Note 11.

m. ***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.

n. ***Goodwill***

Goodwill is initially recognized and measured as set out in the Note 12 Business combinations.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are 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 the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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

The Group policy for goodwill arising on the acquisition of an associate is described below.

o. ***Business combinations***

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



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

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 *Income Taxes* and IAS 19 respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the Group's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquirer's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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 Group'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.



If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

p. ***Leases***

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.



The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Group applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Variable rents that do not depend on an index or rate are not included in the measurement the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Operating expenses" in consolidated statements of income.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has not used this practical expedient. For a contracts that contain a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

q. ***Foreign currencies***

In preparing the financial statements of each individual group, transactions in currencies other than the Group'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 Group'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).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Group are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in other comprehensive income.

r. ***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 Group 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.

s. ***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 20.

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.

t. ***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.

Employee benefits from termination and retirement

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 annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they occur. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment.



Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements).
- Net interest expense or income.
- Remeasurement.

Past service costs are recognized immediately as the benefits are acquired; otherwise, they are amortized using the straight-line method over the average period until the benefits are acquired.

The retirement benefit obligation recognized in the consolidated statements of financial position represents the actual deficit or surplus in the Entity's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Statutory employee profit sharing (PTU)

PTU is recorded in the results of the year in which it is incurred and is presented in operating expenses and cost line item in the consolidated statement of income and other comprehensive income.

u. *Stock option plan for key executives*

Since 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 6,000,000 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 Trustees, 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, 2020, 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.



v. ***Income taxes***

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

Current tax

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

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 recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 date.

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 Group reviewed investment property portfolios and concluded that none of the Group 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 Group has not recognized any deferred taxes on changes in fair value of the investment properties as the Group 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.

w. **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group 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.

1. Onerous contracts

Present obligations arising under onerous contracts are recognized and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract.

2. Restructurings

A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the Group.

3. Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognized at the date of sale of the relevant products, at the management of the Group best estimate of the expenditure required to settle the Group obligation.

4. Contingent liabilities acquired in a business combination

Contingent liabilities acquired in a business combination are initially measured at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognized in accordance with IAS 37 and the amount initially recognized less cumulative amortization recognized in accordance with the principles of IFRS 15.



x. **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.

y. **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.

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

aa. **Reserve for repurchase of shares**

The acquisition of the Group’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 Group has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Significant increase in credit risk

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 Group takes into account qualitative and quantitative reasonable and supportable forward looking information.

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

The Group'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 Group 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 2020, the loss allowance on trade receivables would have been \$100 higher (lower).

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

The determination of the Group'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 Group'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 2020, 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 Group's assets and liabilities are measured at fair value for financial reporting purposes, applying the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to establish an appropriate valuation technique. The Chief Financial Officer reports the results to the valuation committee each quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

Impairment

When performing impairment tests on assets, the Group requires estimates to be made of the use value assigned to its property, machinery and equipment, intangible assets, goodwill and cash-generating units, in the case of certain assets. Value in use calculations require the Group to determine the future cash flows to be generated from the cash generating units and an appropriate discount rate to calculate the present value of the cash flows. The Group uses cash flow income projections using estimates of market conditions, prices, and production and sales volumes.

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:

	2020	2019	2018
Cash	\$ 188,062	\$ 71,799	\$ 75,278
Investments	<u>91,165</u>	<u>53,988</u>	<u>62,975</u>
	<u>\$ 279,227</u>	<u>\$ 125,787</u>	<u>\$ 138,253</u>



6. Accounts receivable and recoverable taxes

	2020	2019	2018
Trade accounts receivable	\$ 928,495	\$ 803,228	\$ 878,270
Allowance for doubtful accounts	<u>(61,642)</u>	<u>(49,478)</u>	<u>(44,870)</u>
	866,853	753,750	833,400
Recoverable taxes in Mexico	96,105	95,689	31,081
Recoverable taxes in Brazil	21,126	19,200	27,991
Recoverable taxes in Central America	29,593	25,247	12,371
Recoverable taxes Sudamérica	14,553	-	-
Officials and employees	18,544	17,570	17,314
Other	<u>27,436</u>	<u>51,647</u>	<u>74,241</u>
	<u>\$ 1,074,210</u>	<u>\$ 963,103</u>	<u>\$ 996,398</u>

During 2020, 2019 and 2018, the average credit term on the sale of materials was 39, 43 and 44 days, respectively. Does not charge interest on accounts receivable from customers. The Group has recognized an allowance for doubtful accounts for 97% of all accounts receivable with 120 days or more, due to experience that accounts receivable over 120 days are not recovered. 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 2020, 91% of the accounts receivable from customers are not due or impaired, and they are no more than 30 days age, 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					Total	
	31/12/2020	<30	31 - 60	61 - 90	91 - 120		>120
Expected credit loss rate		1.60%	2.61%	3.69%	12.43%	30.47%	-
Estimated total gross carrying amount at default		<u>\$ 1,022</u>	<u>\$ 209</u>	<u>\$ 92</u>	<u>\$ 238</u>	<u>\$ 60,081</u>	<u>\$ 61,642</u>
Lifetime ECL							

	Accounts receivable – aging					Total	
	31/12/2019	<30	31 - 60	61 - 90	91 - 120		>120
Expected credit loss rate		3.47%	7.13%	13.75%	28.37%	76.63%	-
Estimated total gross carrying amount at default		<u>\$ 3,703</u>	<u>\$ 1,368</u>	<u>\$ 637</u>	<u>\$ 802</u>	<u>\$ 42,968</u>	<u>\$ 49,478</u>
Lifetime ECL							360 days



Change in allowance for doubtful accounts

	2020	2019	2018
Balance at beginning of the year	\$ 49,478	\$ 44,870	\$ 45,387
Provision for accounts deemed uncollectible during the year	5,507	22,213	6,970
Subsidiary acquisition effect	10,695	-	-
Translation effects and accounts recovered during the year	<u>(4,038)</u>	<u>(17,605)</u>	<u>(7,487)</u>
Balance at end of the year	<u>\$ 61,642</u>	<u>\$ 49,478</u>	<u>\$ 44,870</u>

7. Inventories

	2020	2019	2018
Finished goods:			
Coatings, solvents and blends	\$ 43,318	\$ 35,265	\$ 10,192
Paper	54,408	158,518	143,546
Chemicals and plastics	510,770	469,946	506,504
Food products	213,789	163,590	179,071
Lubricants	79,223	67,833	79,781
Raw material	<u>96,044</u>	<u>-</u>	<u>-</u>
	997,552	895,152	919,094
Merchandise-in-transit	<u>78,207</u>	<u>16,691</u>	<u>30,925</u>
	<u>\$ 1,075,759</u>	<u>\$ 911,843</u>	<u>\$ 950,019</u>

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to \$4,874,835, \$4,975,599 and \$5,085,126, in 2020, 2019 and 2018, respectively.

8. Investment properties

As of December 30, 2016 and March 22, 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, 2020, 2019 and 2018, 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 2020, 2019 and 2018, corresponding to the land of \$ 15,200 for 2020 and 2019 and \$ 11,700 for 2018 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, 2020, 2019 and 2018, the Group has not identified any signs of impairment and has not recognized declines in investment properties.



9. Properties, plant and equipment

	Balances as at the beginning of 2020	Additions	Disposals	South America	Translation effects	Balances as of December 31, 2020
Investment:						
Land	\$ 199,995	\$ -	\$ -	\$ 5,488	\$ (3,278)	\$ 202,205
Building and constructions	616,869	8,485	(108)	89,881	(21,403)	693,724
Industrial machinery and equipment	495,105	28,191	(3,728)	6,167	(8,901)	516,834
Office furniture and equipment	60,488	1,331	-	7,180	(1,346)	67,653
Vehicle	199,329	11,084	(11,130)	891	(10,188)	189,986
Computers	85,385	4,189	(334)	4,749	(3,277)	90,712
Equipment acquired under financial leases	<u>138,785</u>	<u>7,552</u>	<u>-</u>	<u>429</u>	<u>(2,104)</u>	<u>144,662</u>
Total investments	1,795,956	60,832	(15,300)	114,785	(50,497)	1,905,776
Accumulated depreciation:						
Building and constructions	(295,218)	(21,213)	-	(34,339)	13,565	(337,205)
Industrial machinery and equipment	(354,080)	(28,760)	20	(3,442)	3,525	(382,737)
Office furniture and equipment	(39,881)	(2,721)	-	(2,241)	853	(43,990)
Vehicle	(190,024)	(22,565)	10,434	(795)	13,429	(189,521)
Computers	(82,436)	(7,925)	355	(1,866)	1,644	(90,228)
Equipment acquired under financial leases	<u>(117,493)</u>	<u>(1,400)</u>	<u>738</u>	<u>(404)</u>	<u>2,120</u>	<u>(116,439)</u>
Total accumulated depreciation	<u>(1,079,132)</u>	<u>(84,584)</u>	<u>11,547</u>	<u>(43,087)</u>	<u>35,136</u>	<u>(1,160,120)</u>
Net investment	\$ <u>716,824</u>	\$ <u>(23,752)</u>	\$ <u>(3,753)</u>	\$ <u>71,698</u>	\$ <u>(15,361)</u>	\$ <u>745,656</u>
Balances as at the beginning of 2019						
		Additions	Disposals	Translation effects		Balances as of December 31, 2019
Investment:						
Land	\$ 201,582	\$ -	\$ -	\$ (1,587)	\$ 199,995	
Building and constructions	602,100	26,271	-	(11,502)	616,869	
Industrial machinery and equipment	461,317	39,710	(339)	(5,583)	495,105	
Office furniture and equipment	57,925	3,219	-	(656)	60,488	
Vehicle	209,576	9,764	(23,209)	3,198	199,329	
Computers	80,297	7,138	-	(2,050)	85,385	
Equipment acquired under financial leases	<u>108,527</u>	<u>37,048</u>	<u>(146)</u>	<u>(6,644)</u>	<u>138,785</u>	
Total investments	1,721,324	123,150	(23,694)	(24,824)	1,795,956	
Balances as at the beginning of 2019						
		Additions	Disposals	Translation effects		Balances as of December 31, 2019
Investment:						
Accumulated depreciation:						
Building and constructions	(279,238)	(22,426)	-	6,446	(295,218)	
Industrial machinery and equipment	(327,972)	(27,831)	242	1,481	(354,080)	
Office furniture and equipment	(37,650)	(2,775)	-	544	(39,881)	
Vehicle	(208,996)	(11,078)	23,210	6,840	(190,024)	
Computers	(80,033)	(3,504)	-	1,101	(82,436)	
Equipment acquired under financial leases	<u>(96,698)</u>	<u>(21,849)</u>	<u>117</u>	<u>937</u>	<u>(117,493)</u>	
Total accumulated depreciation	<u>(1,030,587)</u>	<u>(89,463)</u>	<u>23,569</u>	<u>17,349</u>	<u>(1,079,132)</u>	
Net investment	\$ <u>690,737</u>	\$ <u>33,687</u>	\$ <u>(125)</u>	\$ <u>(7,475)</u>	\$ <u>716,824</u>	



	Balances at the begining of 2018	Additions	Disposals	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
Vehicles	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	<u>121,090</u>	<u>23,751</u>	<u>(405)</u>	<u>(35,909)</u>	<u>108,527</u>
Total investments	<u>1,745,507</u>	<u>145,258</u>	<u>(112,571)</u>	<u>(56,870)</u>	<u>1,721,324</u>
Accumulated depreciation:					
Building and constructions	(270,791)	(24,431)	2,860	13,124	(279,238)
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)
Vehicles	(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	<u>(99,906)</u>	<u>(9,735)</u>	<u>365</u>	<u>12,578</u>	<u>(96,698)</u>
Total accumulated depreciation	<u>(1,002,275)</u>	<u>(88,850)</u>	<u>25,621</u>	<u>34,917</u>	<u>(1,030,587)</u>
Net investment	<u>\$ 743,232</u>	<u>\$ 56,408</u>	<u>\$ (86,950)</u>	<u>\$ (21,953)</u>	<u>\$ 690,737</u>

10. Business combinations

In October 2020, the Group concluded the acquisition of seven entities in South America (Chile, Peru, Colombia, Argentina and Brazil), collectively referred to as “Pochteca Sudamérica”. This group of companies is engaged in the distribution of chemical products for the mining industry, personal care and water treatment in these countries; the transaction was recorded in accounting by utilizing the purchase method. The results of the business acquisition were included in the consolidated financial statements as of the acquisition date.

a. Subsidiaries acquired and consideration transferred

	Principal activity	Date of acquisition	Proportion of voting equity interests acquired	Consideration transferred
Pochteca South America	Purchase and sell of raw material ⁽¹⁾	October 1 st 2020	100	<u>\$ 284,986</u>

⁽²⁾ Pochteca Sudamérica was acquired in order to continue the Group’s expansion activities and is composed by a group of entities specializing in the sale of personal care and water treatment products.

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

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

	Pochteca South America
Current assets	
Cash and & cash equivalents	\$ 67,567
Trade and other receivables	315,791
Inventories	240,193
Non-current assets	
Plant and equipment	71,698
Intangible assets	63,620
Other assets	74,635
Current liabilities	
Trade and other payables	<u>433,279</u>
	<u>\$ 400,225</u>



c. *Goodwill arising on acquisition*

	Pochteca South America ⁽¹⁾
Consideration transferred	\$ 284,986
Less: fair value of identifiable net assets acquired	<u>(400,225)</u>
Profit in business acquisition	<u>\$ 115,239</u>

(1) This effect was reflected in the statement of income as a gain on the acquisition of business.

d. *Net cash outflow on acquisition of subsidiaries*

	Pochteca South America
Consideration paid in cash	\$ 284,986
Less: cash and cash equivalent balances acquired	<u>(67,567)</u>
Amount paid in cash	<u>\$ 217,419</u>

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:

	2020	2019	2018
Supplier relationship	\$ 141,620	\$ 150,159	\$ 158,747
LAR brand	45,156	45,156	45,156
Client relationship ⁽²⁾	60,764	-	-
Non-compete contract	<u>1,266</u>	<u>-</u>	<u>-</u>
Balances at end of year	<u>\$ 248,806</u>	<u>\$ 195,315</u>	<u>\$ 203,903</u>

Accumulated amortization and cost

	2020	2019	2018
Balances at beginning of year	\$ 195,315	\$ 203,903	\$ 212,490
Additional amounts recognized from business acquisitions	63,620	-	-
Amortization expense	<u>(10,129)</u>	<u>(8,588)</u>	<u>(8,587)</u>
Balances as of December 31	<u>\$ 248,806</u>	<u>\$ 195,315</u>	<u>\$ 203,903</u>

- (1) The useful life of the supplier relationship is 20 years.
- (2) The useful life of the client relationship is 13 years for the Peru Subsidiary, 10 years for Colombia and Chile, 7 years for Argentina and 5 years for Brazil.
- (3) The useful life of the non – compete contract is 3 years.



12. Goodwill

	2020	2019	2018
Balances at beginning of year	\$ 294,217	\$ 349,570	\$ 419,596
Impairment Coremal purchase	-	(45,774)	(40,513)
Translation effect	<u>(13,851)</u>	<u>(9,579)</u>	<u>(29,513)</u>
Balances at end of year	<u>\$ 280,366</u>	<u>\$ 294,217</u>	<u>\$ 349,570</u>

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

The Group has recognized impairment of goodwill balances recorded as of December 31, 2019 in the amount of \$ 45,774. No impairment has been recognized for the balances as of December 31, 2020.

13. The Group as lessee

The Group leases several assets including buildings, plant and IT equipment. The average lease term is 4 years for 2020 and 2019.

The expired contracts were replaced by new leases for identical underlying assets. This resulted in additions to right-of-use assets of \$38,106 and \$1,624 in 2020 and 2019 respectively.

The maturity analysis of lease liabilities is presented in Note 14.

Right-of-use assets	Buildings
Cost	
As of December 31, 2019	\$ 373,339
Additions	35,118
Disposals	(24,496)
Effects acquisition subsidiary	<u>5,997</u>
As of December 31, 2020	<u>\$ 389,958</u>
Accumulated depreciation	Buildings
As of December 31, 2019	\$ (49,314)
Charge for the year	<u>(31,704)</u>
As of December 31, 2020	<u>\$ (81,018)</u>
Book value	
As of December 31, 2020	<u>\$ 308,940</u>

Amounts recognized in Consolidated Statement of Income	2020
Depreciation expense on right-of-use assets	\$ 56,200
Interest expense on lease liabilities	\$ 21,917
Expense relating to short-term leases	\$ 234
Expense relating to leases of low value assets	\$ 2,809

The total cash outflow for leases amount to \$88,673 and \$75,072 for 2020 and 2019, respectively.



14. Lease liabilities

	2020	2019
Maturity analysis:		
Year 1	\$ 66,223	\$ 61,688
Year 2	55,558	52,212
Year 3	47,521	42,512
Year 4	43,613	40,928
Year 5	39,383	38,823
Onwards	<u>164,160</u>	<u>240,522</u>
Less: unearned interest	<u>(86,975)</u>	<u>(148,219)</u>
	<u>\$ 329,483</u>	<u>\$ 328,466</u>
Analyzed as:		
Non-current	\$ 279,092	\$ 283,519
Current	<u>50,391</u>	<u>44,947</u>
	<u>\$ 329,483</u>	<u>\$ 328,466</u>

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group treasury function.

a) Reconciliation of obligations derived from lease liabilities

	Balance as of January 1, 2020	Additions	Inflation adjustments	Interest accruals	Payments	Balance as of December 31, 2020
Lease liabilities	<u>\$ 328,466</u>	<u>\$ 38,106</u>	<u>\$ 14,569</u>	<u>\$ 21,917</u>	<u>\$ (73,575)</u>	<u>\$ 329,483</u>
	Balance as of January 1, 2019	Additions	Inflation adjustments	Interest accruals	Payments	Balance as of December 31, 2020
Lease liabilities	<u>\$ -</u>	<u>\$ 371,715</u>	<u>\$ 4,871</u>	<u>\$ 12,012</u>	<u>\$ (60,132)</u>	<u>\$ 328,466</u>

15. Other accounts payable and accrued expenses

	2020	2019	2018
Liability from Coremal purchase	\$ -	\$ 45,774	\$ 98,778
Accrued expenses	335,775	129,660	78,657
Accounts payable	46,510	76,708	61,010
Other accounts payable	<u>5,021</u>	<u>2,044</u>	<u>2,256</u>
	<u>\$ 387,306</u>	<u>\$ 254,186</u>	<u>\$ 240,701</u>



a. *Reconciliation of liability from Coremal purchase*

	2020	2019	2018
Balance at the beginning of the year	\$ 45,774	\$ 98,778	\$ 207,661
Cancellation	(37,337)	(45,774)	(40,513)
Translation effect	<u>(8,437)</u>	<u>(7,230)</u>	<u>(68,370)</u>
Balance at the end of the year	<u>\$ -</u>	<u>\$ 45,774</u>	<u>\$ 98,778</u>

b. *Reconciliation of accrued expenses*

	2020	2019	2018
Balance at the beginning of the year	\$ 129,660	\$ 78,657	\$ 88,875
Additions	861,599	590,397	505,742
Application against paid invoices	<u>(655,484)</u>	<u>(539,394)</u>	<u>(515,960)</u>
Balance at the end of the year	<u>\$ 335,775</u>	<u>\$ 129,660</u>	<u>\$ 78,657</u>

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

	2020	2019	2018
Current	\$ 382,285	\$ 252,142	\$ 238,698
Long term	<u>5,021</u>	<u>2,044</u>	<u>2,003</u>
	<u>\$ 387,306</u>	<u>\$ 254,186</u>	<u>\$ 240,701</u>

16. **Bank loans and long-term debt**

	2020	2019	2018
Unsecured by \$875,000 (syndicated with HSBC México, S.A. (HSBC), BBVA Bancomer, S.A. (Bancomer), Scotiabank Inverlat, S.A. (Scotiabank) y Banco Inbursa, S.A. (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 2019 and until March 2021.	\$ 72,917	\$ 364,583	\$ 656,250



	2020	2019	2018
Unsecured loan with HSBC, at TIIE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing April 2020.	-	200,000	-
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 days plus spread of 4.50%, maturing May 2025.	100,000	-	-
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 days plus spread of 4.50%, maturing July 2022.	250,000	-	-
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 days plus spread of 4.10%, maturing January 2021.	150,000	-	-
Unsecured loan with SANTANDER, at TIIE 91 days plus spread of 3.85%, maturing March 2021.	150,000	-	-
Unsecured loan with BBVA Bancomer (BBVA), at TIIE 91 days plus spread of 4.50%, maturing June 2021.	70,000	-	-
Unsecured loan with Scotiabank, at TIIE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing April 2020.	100,000	50,000	-
Unsecured loan with HSBC, at TIIE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing March 2020.	-	-	80,000
Bank loan with Banco GMAC for R\$58,402 at an annual rate of 18.72% entered into December, 2018 and maturing December 2020	-	107	214
Bank loan with Banco GMAC for R\$49,697 at an annual rate of 18.72% starting December 2018 and maturing December 2020.	7	97	187



	2020	2019	2018
Bank loan with Banco de America Central for \$65,000 USD at an annual rate of 7.00% entered into June 2018 and maturing May 2020.	1,472	287	1,000
Financial collection in advance with Delmonte FIDIC investment fund for R\$108,535 at an monthly rate of 1.6%	-	-	16,700
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 2020.	-	-	279
Leasing with IBM for R\$208,645 at an annual rate of 1.61% entered into November 2016 and maturing November 2020.	-	-	354
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 2020.	-	-	2,371
Lease with Element Fleet Management y Start Banregio, S.A. de C.V.of transport equipment and computers, at TIEE 28 days plus 3.5816% fixed rate, entered into February 2015 and maturing in November 2023	35,210	45,131	28,164
Leasing with Volvo for R\$35,893 at an annual rate of 4.40% entered into in May 2013 and maturing in December 2020.	16	1,034	3,107
Bank loan with Banco HSBC for R\$9,000,000.00 at annual rate of 3.95% + 100% of the CDI variation from September 2020 to September 2021.	34,492	-	-
Bank loan with Banco SOFISA for R\$8,000,000.00 at annual rate of 7.54% + 100% of the CDI variation from October 2020 to October 2025.	30,659	-	-
Financial leasing with Mercedes Benz for R\$1,084,985 at annual rate of 11.62% from December 2020 to December 2025.	4,158	-	-



	2020	2019	2018
Bank loan with Banco Santander for R\$1,429,842 at annual rate of 2.38% plus CDI from May 2016 to August 2018.	547	-	-
Bank loan with Banco Itau for R\$4,500,000.00 at annual rate of 10.03% from December 2020 to March 2021.	17,246	-	-
Bank loan with Banco Santander for R\$1,095,686 at annual rate of 8.99% plus CDI from November 2020 to November 2023.	4,199	-	-
Financial leasing with Santander for R142,678 at annual rate of 9.028% from January 2020 to January de 2023.	2,807	-	-
Bank loan with BANCO ABC BRASIL for R\$5,039,277 at annual rate of 7.44% + 100% of the CDI variation from October 2020 to April 2024.	19,313	-	-
Leasing with Santander Bank for R\$171,622 with an annual real rate of 10.96% entered into in February 2020 and maturing in February 2022.	284	608	-
Leasing with HP for an amount of R\$138,000 at an annual rate of 1.0777% entered into in May 2020 and maturing in April 2023.	372	595	-
Leasing with Rodobens for R\$1,111,500 at an annual rate of 1.45% entered into in February 2020 and maturing in February 2022.	2,041	4,289	-
Bank loans	<u>1,045,740</u>	<u>666,731</u>	<u>788,626</u>
Less - Unamortized commissions paid	<u>(6,962)</u>	<u>(3,869)</u>	<u>(7,219)</u>
	1,038,778	662,862	781,407
Less - Current portion of long-term debt	<u>703,995</u>	<u>560,243</u>	<u>405,414</u>
Long-term debt	<u>\$ 334,783</u>	<u>\$ 102,619</u>	<u>\$ 375,993</u>

The Group has an unsecured loan of \$100,000 with Banco Mercantil del Norte, S.A. at a 28-day TIIE rate plus a margin of 3.60%, maturing in August 2021. As of December 31, 2020 the amount of the facility has not been drawn down.



- a. The TIIE rates as of December 31, are as follows:

	2020	2019	2018
TIIE	4.553%	7.9355%	8.1725%

- b. The loans contracted include certain restrictive clauses that mainly limit the Group to grant guarantees outside the Group's ordinary course of business. For the years ended at December 31, 2020, 2019 and 2018, these have been fulfilled.

- c. The maturities of the portion of the long-term debt as of December 31, 2020 are:

Year ending as of December 31 of	Amount
2022	\$ 253,074
2023	40,880
2024	29,542
2025	<u>11,287</u>
	<u>\$ 334,783</u>

- d. Reconciliation of liabilities arising from financing activities

	January 1, 2020	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2020
Bank loans and long- term debt	<u>\$ 662,862</u>	<u>\$ 3,325,095</u>	<u>\$(2,950,033)</u>	<u>\$ (118,887)</u>	<u>\$ 112,982</u>	<u>\$ 6,759</u>	<u>\$ 1,038,778</u>
	January 1, 2019	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2019
Bank loans and long- term debt	<u>\$ 781,407</u>	<u>\$ 1,649,029</u>	<u>\$(1,791,129)</u>	<u>\$ (120,357)</u>	<u>\$ 110,902</u>	<u>\$ 33,010</u>	<u>\$ 662,862</u>
	January 1, 2018	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2018
Bank loans and long- term debt	<u>\$ 966,542</u>	<u>\$ 160,000</u>	<u>\$(344,122)</u>	<u>\$ (128,589)</u>	<u>\$ 121,696</u>	<u>\$ 5,880</u>	<u>\$ 781,407</u>

17. Employee benefits

The net cost of the period for the derivative obligations on pension's plan, were to \$1,894, \$918 and \$1,297 in 2020, 2019 and 2018, respectively. Other revelations required are considered less important.

The Group executive's remunerations for years ended as of December 31, 2020, 2019 and 2018 were at \$65,434, \$69,164 and \$53,497, respectively.

Statutory profit sharing expense amounted were \$1,592, \$4,818 and \$2,158 in 2020, 2019 y 2018, respectively.



18. 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, 2020, 2019 and 2018 the Group maintained 12,711,167, 11,402,524 and 9,478,407 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 29, 2020 resolved to establish:

- It was noted that since the consolidated result obtained for the year ended December 31, 2019, shows a loss and there are no retained earnings, it was not appropriate to establish any amount for the Company's reserve of repurchase of shares.

During the period from January to April 2020, the balance of \$ 8,984 of the prior year and the amount of \$19,294 were used for the reserve of repurchase of shares that were not used in the fiscal year 2020, leaving a remaining of \$10,810 of the amount authorized of \$ 24,000, as described in the following paragraph.

II. The Stockholders' Ordinary General Meeting of April 30, 2019, resolved to establish:

- A maximum amount of \$24,000 that the Group 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 2019, \$4,706 of the \$24,000 were used, leaving a remaining balance as of December 31, 2019 of \$19,294.

During the period from January to April 2019, the balance of \$8,984 of the prior year and the amount of \$13,169 were used for the reserve of repurchase of shares that were not used in the fiscal year 2019, leaving a remaining of \$4,185 of the amount authorized of \$18,000.

III. The Stockholders' Ordinary General Meeting of April 30, 2018, resolved to establish::

- A maximum amount of \$18,000 that the Group 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 \$43,251 of the prior year and the amount of \$43,256 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.

IV. 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, 2020, 2019 and 2018, 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.



V. Common stock without par value as of December 31, 2020, 2019 and 2018, is as follows:

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

- VI. 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 Group is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2020, 2019 and 2018, their par value amounts to \$9,668, \$9,325 and \$8,484 respectively.
- VII. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Group 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.

19. 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 Group'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:

	2020	2019	2018
Cash and cash equivalents	\$ 279,227	\$ 125,787	\$ 138,253
Debt	<u>1,038,778</u>	<u>662,862</u>	<u>781,407</u>
Net debt	759,551	537,075	643,154
Stockholders' equity	<u>\$ 1,174,406</u>	<u>\$ 1,068,533</u>	<u>\$ 1,130,734</u>
Index of net debt and equity	<u>64.68%</u>	<u>50.26%</u>	<u>56.88%</u>

The debt includes long-term debt and current portion.



Categories of financial instruments

	2020		2019		2018	
Financial assets:						
Cash	\$	279,227	\$	125,787	\$	138,253
Accounts receivable	\$	912,833	\$	822,967	\$	924,955
Due from related parties	\$	5,193	\$	5,033	\$	7,234
Financial liabilities:						
Banking loans	\$	1,038,778	\$	662,862	\$	781,407
Trade accounts payable	\$	1,330,760	\$	1,366,700	\$	1,331,709
Lease liability	\$	329,483	\$	328,466	\$	-
Due to related parties	\$	7,201	\$	6,834	\$	8,561
Other long-term accounts payable	\$	5,021	\$	2,044	\$	2,003

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:

2020		2019		2018	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
\$ 72,917	\$ 72,917	\$ 360,714	\$ 310,010	\$ 649,031	\$ 607,774

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

2020		2019		2018	
Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
\$ 965,861	\$ 980,726	\$ 302,148	\$ 302,148	\$ 132,376	\$ 132,376

Financial risk management objectives

The Group's Treasury function is administrate the financial resources, control the financial risks relating to the operations of the Group 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. 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 colons and Guatemalan quetzals).

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 Group's profit after tax at December 31, 2020, 2019 and 2018 would have been adversely affected by the amount of \$7,462, \$13,133 and \$57,107, respectively. However, a decrease of \$1 under the same circumstances would have positively affected the Group's comprehensive income by the same amount.

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

	2020	2019	2018
US Dollars:			
Monetary assets	21,526	24,795	29,883
Monetary liabilities	<u>(45,828)</u>	<u>43,214</u>	<u>42,791</u>
Short position	<u>(24,302)</u>	<u>(18,419)</u>	<u>(12,908)</u>
Amount in Mexican pesos	<u>\$ (484,793)</u>	<u>\$ (347,110)</u>	<u>\$ (253,727)</u>

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

	April 26, 2021	2020	December 31, 2019	2018
US Dollars	\$ <u>19.8695</u>	\$ <u>19.9487</u>	\$ 18.8452	\$ 19.6566

Interest rate risk

The Group is exposed to an interest rate risk based on loan interest rates because its subsidiaries obtain loans at variable interest rates (primarily the TIIE rate, although the latter is no longer relevant) which, represent approximately 85% at 2020, 92% at 2019 and 2018, of the total debt contracted by the Group. The Group 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:



	2020		2019		2018
Total debt	\$ 1,038,778	\$	662,862	\$	781,407
Variable interest expense	\$ 112,982	\$	110,902	\$	121,696
Financial cost of debt percentage	10.88%		16.73%		15.57%
Sensitivity to + 100 base points	\$ 123,370	\$	117,531	\$	129,510
Sensitivity to -100 base points	\$ 102,594	\$	104,273	\$	113,882

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 Group. 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 Group 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, 2020, 2019 and 2018 as the transition date is as follows:

	December 31, 2020			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 726,158	\$ 242,283	\$ 70,337	\$ 1,038,778
Trade accounts payable	1,330,760	-	-	1,330,760
Lease liability	50,391	44,273	234,819	329,483
Other accounts payable and accrued expenses	382,285	5,021	-	387,306
Due to related parties	<u>7,201</u>	<u>-</u>	<u>-</u>	<u>7,201</u>
	<u>\$ 2,496,795</u>	<u>\$ 291,577</u>	<u>\$ 305,156</u>	<u>\$ 3,093,528</u>



	December 31, 2019			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 560,243	\$ 84,708	\$ 17,911	\$ 662,862
Trade accounts payable	1,366,700	-	-	1,366,700
Lease liability	44,947	33,564	249,955	328,466
Other accounts payable and accrued expenses	252,142	2,044	-	254,186
Due to related parties	<u>6,834</u>	<u>-</u>	<u>-</u>	<u>6,834</u>
	<u>\$ 2,230,866</u>	<u>\$ 120,316</u>	<u>\$ 267,866</u>	<u>\$ 2,619,048</u>

	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	<u>8,561</u>	<u>-</u>	<u>-</u>	<u>8,561</u>
	<u>\$ 1,984,382</u>	<u>\$ 302,559</u>	<u>\$ 75,437</u>	<u>\$ 2,362,378</u>

20. 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.

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

Instrument	Counterparty	Starting date	Maturity	Rate payable and exchange rate agreed	Notional amount in USD	Fair value
Currency swap	HSBC	September 30, 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).

As of December 31, 2018, the Group settled the derivative financial instruments and loans that Coremal, S.A. had with HSBC, described in the previous paragraphs.

On May 9, 2018, the Group entered into a European purchase option derivative of the THIE (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 THIE 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	586

21. Balances and transactions with related parties

a. Balance net due from related parties are:

	2020	2019	2018
Mexichem Flúor, S.A. de C.V.	\$ 4,316	\$ 3,200	\$ 3,340
Mexichem Resinas Vinílicas, S.A. de C.V.	675	1,697	3,428
Mexichem Soluciones Integrales, S.A. de C.V.	-	-	177
Mexichem Derivados, S.A. de C.V.	-	-	50
Mexichem Compuestos, S.A. de C.V.	<u>202</u>	<u>136</u>	<u>239</u>
	<u>\$ 5,193</u>	<u>\$ 5,033</u>	<u>\$ 7,234</u>

b. Balance net due to related parties are:

	2020	2019	2018
Quimir, S.A. de C.V.	\$ 6,829	\$ 6,623	\$ 8,561
Mexichem Compuestos, S.A. de C.V.	<u>372</u>	<u>211</u>	<u>-</u>
	<u>\$ 7,201</u>	<u>\$ 6,834</u>	<u>\$ 8,561</u>



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

	2020	2019	2018
Mexichem Derivados, S.A. de C.V.:			
Sales	\$ 1,912	\$ 3,745	\$ 4,069
Purchases	\$ (2,112)	\$ (1,513)	\$ (2,122)
Quimir, S.A. de C.V.:			
Sales	\$ -	\$ -	\$ 196
Purchases	\$ (32,033)	\$ (33,548)	\$ (31,873)
	2020	2019	2018
Mexichem Flúor, S.A. de C.V.			
Sales	\$ 37,119	\$ 24,478	\$ 21,397
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	\$ 2,711	\$ 4,584	\$ 6,445
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	\$ 163	\$ 114	\$ 657
Mexichem Compuestos, S.A. de C.V.:			
Sales	\$ 706	\$ 545	\$ 787

22. Net sales

	2020	2019	2018
Chemicals and lubricants	\$ 5,968,043	\$ 5,830,814	\$ 5,889,003
Paper	<u>289,412</u>	<u>514,691</u>	<u>574,339</u>
	<u>\$ 6,257,455</u>	<u>\$ 6,345,505</u>	<u>\$ 6,463,342</u>

23. Cost of sales

	2020	2019	2018
Inventories consumed	\$ 4,874,835	\$ 4,975,599	\$ 5,085,126
Freight	144,892	229,377	175,561
Other	<u>(767)</u>	<u>(22,403)</u>	<u>(4,541)</u>
	<u>\$ 5,018,960</u>	<u>\$ 5,182,573</u>	<u>\$ 5,256,146</u>

24. Operating expenses

	2020	2019	2018
Payroll	\$ 555,722	\$ 556,632	\$ 507,314
Depreciation and amortization	167,869	163,941	117,647
Operations	86,890	109,334	93,799
Fees	66,990	50,203	45,591
Maintenance	28,415	40,296	41,013
Telephone and systems	35,833	33,303	30,680
Leasing	2,543	5,032	58,570
Other	<u>86,102</u>	<u>49,319</u>	<u>45,496</u>
	<u>\$ 1,030,364</u>	<u>\$ 1,008,060</u>	<u>\$ 940,110</u>



25. 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 2015 (Act 2015) the rate was 30% for 2020, 2019 and 2018 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 expense recognized are as follows:

	2020	2019	2018
ISR:			
Current tax	\$ 17,168	\$ 29,566	\$ 45,465
Deferred tax	<u>(42,989)</u>	<u>(2,462)</u>	<u>6,562</u>
	<u>\$ (25,821)</u>	<u>\$ 27,104</u>	<u>\$ 52,027</u>

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

	2020	2019	2018
Deferred ISR asset:			
Tax loss carryforwards	\$ 80,355	\$ 17,690	\$ 24,392
Provisions	<u>80,926</u>	<u>23,789</u>	<u>14,209</u>
Deferred ISR asset	161,281	41,479	38,601
Deferred ISR liability:			
Properties, plant and equipment	610	15,467	18,922
Other assets	<u>4,662</u>	<u>(2,020)</u>	<u>(5,059)</u>
Deferred tax liability	<u>5,272</u>	<u>13,447</u>	<u>13,863</u>
Total assets	<u>\$ 166,553</u>	<u>\$ 54,926</u>	<u>\$ 52,464</u>

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

	2020	2019	2018
Statutory rate	30%	30%	30%
Plus the effect of non-deductible expenses	6%	38%	1%
Plus effects of inflation	14%	61%	6%
Plus effect of unused fiscal losses and tax compensations not recognized as deferred tax assets and other	6%	93%	8%
Less profit in business acquisition	<u>(72)%</u>	<u>-%</u>	<u>-%</u>
Effective rate	<u>(16)%</u>	<u>222%</u>	<u>45%</u>



- 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, 2020, are:

Year of Expiration	Tax loss carryforwards
2023	\$ 843
2024	3,682
2025	4,191
2026	13,888
2027	4,045
2028	239
2029	1,815
2030	<u>260,532</u>
	<u>\$ 289,235</u>

- e. Deferred income tax balances

2020	Beginning balance	Recognized in profit or loss	Acquisition effect South America	Ending balance
Deferred tax asset:				
Provisions	\$ 23,789	\$ 26,478	\$ 30,659	\$ 80,926
Tax loss carryforwards	17,690	12,905	49,760	80,355
Deferred tax liability:				
Properties plan and equipment	15,467	(6,444)	(8,413)	610
Other assets	<u>(2,020)</u>	<u>10,050</u>	<u>(3,368)</u>	<u>4,662</u>
Total asset, net	<u>\$ 54,926</u>	<u>\$ 42,989</u>	<u>\$ 68,638</u>	<u>\$ 166,553</u>
2019	Beginning balance	Recognized in profit or loss		Ending balance
Deferred tax asset:				
Provisions	\$ 14,209	\$ 9,580		\$ 23,789
Tax loss carryforwards	24,392	(6,702)		17,690
Deferred tax liability:				
Properties plan and equipment	18,922	(3,455)		15,467
Other assets	<u>(5,059)</u>	<u>3,039</u>		<u>(2,020)</u>
Total asset, net	<u>\$ 52,464</u>	<u>\$ 2,462</u>		<u>\$ 54,926</u>
2018	Beginning balance	Recognized in profit or loss		Ending 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	8,683	10,239		18,922
Other assets	<u>(4,468)</u>	<u>(591)</u>		<u>(5,059)</u>
Total asset, net	<u>\$ 59,026</u>	<u>\$ (6,562)</u>		<u>\$ 52,464</u>



26. Non-cash transactions

On April 2020, 2019 and 2018, at the Ordinary Annual General Shareholders' Meeting, fraction VI, it was approved to establish the amount of \$24,000, \$18,000 and \$60,000, 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 in 2020, 2019, and 2018 for an amount of \$(1,827), \$(10,831) and \$(57,994), respectively, to cancel the remainder of the reserve.

During the years ended December 31, 2020, 2019 and 2018, the Group acquired equipment for a value of \$35,118, \$1,624 and \$23,782, 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.

27. Commitments

The Group leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$58,192, \$58,570 and \$67,117 as of December 31, 2020, 2019 and 2018, respectively. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2021	\$ 66,223
2022	55,558
2023	47,521
2024	43,613
2025 and onwards	<u>203,543</u>
	<u>\$ 416,458</u>

28. Business segments information

Business segments information of the Group is as follows:

	2020			2019			2018		
	Chemical products	Paper	Total	Chemical products	Paper	Total	Chemical products	Paper	Total
Statement of income:									
Net sales	\$ 5,968,043	\$ 289,412	\$ 6,257,455	\$ 5,830,814	\$ 514,691	\$ 6,345,505	\$ 5,889,003	\$ 574,339	\$ 6,463,342
Depreciation	\$ 160,105	\$ 7,764	\$ 167,869	\$ 150,643	\$ 13,298	\$ 163,941	\$ 107,193	\$ 10,454	\$ 117,647
Operating income	\$ 308,414	\$ 14,956	\$ 323,370	\$ 142,310	\$ 12,592	\$ 154,872	\$ 243,352	\$ 23,734	\$ 267,086
Finance costs	\$ (156,197)	\$ (7,575)	\$ (163,772)	\$ (131,105)	\$ (11,573)	\$ (142,678)	\$ (137,419)	\$ (13,402)	\$ (150,821)
Consolidated net income	\$ 176,843	\$ 8,576	\$ 185,419	\$ (13,701)	\$ (1,209)	\$ (14,910)	\$ 58,535	\$ 5,703	\$ 64,238
Statements of financial position:									
Total assets	\$ 4,120,630	\$ 199,825	\$ 4,320,455	\$ 3,420,286	\$ 301,912	\$ 3,722,198	\$ 3,219,387	\$ 313,978	\$ 3,533,365
Total liabilities	\$ 3,000,542	\$ 145,507	\$ 3,146,049	\$ 2,438,423	\$ 215,242	\$ 2,653,665	\$ 2,189,131	\$ 213,500	\$ 2,402,631
Statements of cash flows:									
Operation activities	\$ 258,954	\$ 12,558	\$ 271,512	\$ 306,817	\$ 27,083	\$ 333,900	\$ 298,291	\$ 29,091	\$ 327,382
Investment activities	\$ (243,568)	\$ (11,811)	\$ (255,379)	\$ (63,503)	\$ (5,606)	\$ (69,109)	\$ (10,877)	\$ (1,061)	\$ (11,938)
Financing activities	\$ 148,306	\$ 7,192	\$ 155,498	\$ (322,730)	\$ (28,488)	\$ (351,218)	\$ (342,503)	\$ (33,404)	\$ (375,907)

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.



The Group'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, especially paper, paperboard, high specialty 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 individual segments were 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
- South America
- Brazil

For analysis purposes and based on the significance of the operations, the Group's management has decided to segment the information by 3 geographical areas.

- México and Central America – Includes information of México, Guatemala, El Salvador, Costa Rica and the United States of America
- Sudamérica – Includes information of Chile, Perú, Colombia, Argentina y Brasil
- Brazil (Coremal)

Information on geographical area of the Group is presented below:

	2020				2019			2018		
	Mexico and Central America	South America (1)	Brazil	Total	Mexico and Central America	Brazil	Total	Mexico and Central America	Brazil	Total
Net sales	\$ 4,428,348	\$ 310,358	\$ 1,518,749	\$ 6,257,455	\$ 4,893,759	\$ 1,451,746	\$ 6,345,505	\$ 4,772,129	\$ 1,560,859	\$ 6,332,988
Total assets	\$ 2,826,547	\$ 920,062	\$ 573,846	\$ 4,320,455	\$ 3,083,581	\$ 638,617	\$ 3,722,198	\$ 3,006,278	\$ 873,733	\$ 3,880,011
Total liabilities	\$ 1,993,387	\$ 254,012	\$ 898,650	\$ 3,146,049	\$ 1,779,349	\$ 874,316	\$ 2,653,665	\$ 1,852,643	\$ 874,210	\$ 2,726,853

(1) In October 2020, the Group completed the acquisition of seven entities in South America (Chile, Peru, Colombia, Argentina and Brazil) under the joint venture "Pochteca Sudamérica. See note 10.

29. Operating lease arrangements

a. **The Group as lessee**

1. **Lease contracts**

Operating leases relate to leases from warehouses whose lease terms are from 2 to 15 years. All operating leases over 1 year contain clauses for review of market rents each year. The Group does not have the option to buy the leased warehouses at the expiration date of the lease periods.



2. Non-cancellable operating lease commitments

2020

Less than one year \$ 3,043

3. Recognized liabilities related to non-cancellable leases

2020

Onerous lease contracts (Note 14)
Current \$ 279,092
Long-term 50,391
\$ 329,483

30. Contingencies

For the operations with related parties, the Group 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.

Coremal, S.A. and its subsidiaries (Coremal, a Group subsidiary) are involved in other legal proceedings related to labor and tax cases. With regard to unrecorded cases, based on the recommendation of its external legal advisors, Group management expects to receive a favorable verdict and, accordingly, did not include a provision in the financial statements. At December 31, 2020, the amount derived from the legal proceedings reported by the legal advisors of Coremal as regards the holding company is R\$6,692 thousands of Brazilian reais, the value in Mexican pesos amounts to \$31,239.

Tax on the Circulation of Goods and Services (ICMS) infringement notices related to industrialization remittances.

Coremal is engaged in a tax proceeding, which its legal advisors consider will probably result in a loss of R\$31,115 thousands of Brazilian reais related to the collection of differences involving the ICMS rates applicable to industrialization remittance transactions, the substitute ICMS applicable to the acquisition of solvents from other states and the non-authorization of ICMS credits for transactions involving the acquisition of solvents, according to the tax assessment notice issued by the Regional Tax Office of Osasco (DRT).

Tax credit for the Social Integration Program and Contribution to Social Security Financing (PIS and COFINS) by removing ICMS from the calculation basis.

Coremal will provide legal and administrative follow-up on the future rulings issued by the competent authority in Brazil regarding the PIS and COFINS federal taxes due to incorrect inclusion of ICMS in the calculation basis used for these taxes. On August 26, 2020, Coremal received notification from the Brazilian authority regarding the status of tax processes involving the determination whereby ICMS does not form part of the calculation basis utilized for PIS and COFINS. Considering the legal period established for this claim, Coremal could obtain a potential tax advantage as of 2002, albeit subject to a ruling issued by the authorities, which implies a degree of uncertainty at the date of issuance of these financial statements regarding the amount and time needed to obtain the potential tax advantage. Accordingly, Group management and its legal advisors consider that the issued ruling is of a generic and illiquid nature for Coremal and has therefore not established an amount that could be effectively recovered in the future.

Group management understands that significant doubts remain as to the exact amount of the potential tax advantage obtained by Coremal and, accordingly, did not recognize a credit amount at December 31, 2020.



31. Subsequent events

As described in Note 1 to the Consolidated Financial Statements, the COVID-19 pandemic continues throughout the world and in Mexico; therefore, it is expected that the Mexican authorities, through the different governments where Grupo Pochteca operates, will continue to take measures to control the spread of this virus. At the date of issuance of these Consolidated Financial Statements, the Entity's Management considers that the financial position of Grupo Pochteca is adequate to face the economic impacts in the following 12 months, measures to be taken in case the contingency is prolonged are also being evaluated.;such as, to restructure the Entity's financial debt by signing a letter of mandate and commitment in connection with the structuring and granting of a loan under the "Bilateral Loan" modality in favor of Grupo Pochteca, S.A. B. de C.V., Pochteca Papel y Pochteca Materias Primas, up to \$1,000,000 with HSBC México, S.A., this letter of mandate was signed on March 31, 2021.

At the date of issuance of these financial statements, the Entity continues with an action protocol and with the necessary sanitary measures to safeguard the safety of its customers, employees and contractors. It is also in a process of continuous evaluation to identify and define the necessary measures to mitigate the financial and operational risks arising from this contingency.

The Group is expected to continue to be affected in its financial information and operations due to the current sanitary contingency

32. Approval of the issuance of consolidated financial statements

On April 12, 2021, 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.

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