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

Consolidated Financial Statements for the Years Ended December 31, 2022, 2021 and 2020, and Independent Auditors' Report Dated April 12, 2023

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

Independent Auditors' Report and Consolidated Financial Statements for 2022, 2021 and 2020

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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, 2022, 2021 and 2020, 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, 2022, 2021 and 2020, 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.

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.

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Impairment of long-lived assets

The consolidated financial statements as of December 31, 2022, include balances of properties, plant and equipment, other assets, intangible assets, and goodwill, which come from acquisition of businesses. Those long-lived assets have been identified as Cash-Generating Units ("CGU").

In Note 3 Group management describes applied policies to determine the recoverable amount of the CGU.

Our audit procedures included, among others:

a) Involve the Financial Advisory Services internal specialists to:

   Critically evaluate whether the model used by management to determine the value in use of the individual cash-generating units complies with the requirements of IAS 36.

   Evaluate the reasonableness of the assumptions used by the administration of Group to determine the proper discount rates in each case.

   Review that the projected cash flows are consistent with the historical audited financial information, and that any of the effects of any non-recurring items, that are not consistent with our understanding of the operations of the Group, are properly excluded.

   Recalculate the projections to test the amounts.

b) Perform tests on internal controls and substantive procedures related to the information used to build the financial model that determines the recoverable amount of the CGU.

Blocking order issued by the Financial Intelligence Unit ("UIF" for its acronym in Spanish)

On October 7, 2021, the UIF issued a blocking order which included Pochteca Materias Primas, S. A. de C. V. (PMP) (a subsidiary of the Entity) on its Blocked Persons List, thereby blocking the bank accounts of PMP with the financial institutions with which it has commercial relations.

As a result of this measure, PMP requested that the UIF renew its access to its economic resources, a request that was granted on October 18, 2021. Furthermore, PMP and the Entity have reiterated their willingness to continue collaborating with the authority to clarify this situation and comply with all applicable laws and regulations. PMP has filed the legal proceedings to which it is entitled to completely normalize the operation of these bank accounts.

The audit procedures we applied to determine the possible effects resulting from this situation include the following:

a) Obtain confirmation from the Entity's external attorneys regarding the current situation of the blocking order issued by the UIF against PMP.

b) The involvement of our Financial Advisory internal specialists to critically assess the applied audit procedures, while incorporating others related to the headings affected by the UIF blocking order.

c) We constantly review publications that could constitute contradictory evidence regarding our audit procedures and/or media exposure.

d) We attended different meetings with Group Management and Board members to clearly understand the situation and the measures that the Group will implement to resolve this matter.

e) We performed tests of internal controls related to the lines of credit granted to customers.

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 when 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 consolidated 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.

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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 of the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Galaz, Yamazaki, Ruiz Urquiza, S. C.
Affiliated to a Member Firm of Deloitte Touche Tohmatsu Limited

C. P. C. Roberto Velasco Gómez
Mexico City, Mexico.
April 12, 2023

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

Consolidated Statements of Financial Position

As of December 31, 2022, 2021 and 2020
(In thousands of Mexican pesos)

Assets	**Notes**	**2022**	**2021**	**2020**
Current assets:				
Cash and cash equivalents	5	$ 218,753	$ 498,065	$ 279,227
Accounts receivable and recoverable taxes – Net	6	1,427,673	1,649,359	1,074,210
Due from related parties	21	3,091	8,909	5,193
Inventories	7	1,744,169	1,424,275	1,075,759
Prepaid expenses		96,210	97,139	43,787
Total current assets		3,489,896	3,677,747	2,478,176
Non-current assets				
Properties, plant, and equipment - Net	9	785,864	720,042	745,656
Other investments		4,381	4,381	4,381
Investment properties	8	15,060	15,060	15,060
Other assets		102,847	82,387	38,671
Deferred income taxes	26	148,771	166,640	166,553
Intangible asset – Net	11	276,850	294,239	282,652
Right-of-use assets	13	326,972	295,850	308,940
Derivative financial instruments		80,444	29,383	-
Goodwill	12	277,978	277,815	280,366
Total non-current assets		2,019,167	1,885,797	1,842,279
Total		$ 5,509,063	$ 5,563,544	$ 4,320,455

Liabilities and stockholders' equity	**Notes**	**2022**	**2021**	**2020**
Current liabilities:				
Bank loans and current portion of long-term debt	16	$ 480,390	$ 544,805	$ 703,995
Trade accounts payable		1,614,856	1,716,045	1,330,760
Other accounts payable and accrued expenses	15	254,600	466,933	382,285
Due to related parties	21	9,229	5,110	7,201
Short-term lease liabilities	14	63,877	53,306	50,391
Income taxes and statutory employee profit sharing		55,335	49,915	35,808
Total current liabilities		2,478,287	2,836,114	2,510,440
Long-term liabilities:				
Long-term other accounts payable and accrued expenses	15	32,813	121,026	5,021
Long-term debt	16	1,200,427	994,589	334,783
Long-term lease liabilities	14	284,471	271,340	279,092
Employee benefits	17	18,829	18,075	16,713
Total long-term liabilities		1,536,540	1,405,030	635,609
Total liabilities		4,014,827	4,241,144	3,146,049
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
Earned capital (loss) -				
Retained earnings		417,408	190,590	185,982
Reserve for repurchase of shares		190,590	184,195	-
Translation effects of foreign operations		(265,881)	(202,460)	(159,753)
Remeasurement of defined benefit obligation		(2,894)	(4,938)	(6,836)
		339,223	167,387	19,393
Total stockholders' equity		1,494,236	1,322,400	1,174,406
Total		$ 5,509,063	$ 5,563,544	$ 4,320,455

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, 2022, 2021 and 2020
(In thousands of Mexican pesos, except earnings per common share expressed in Mexican pesos)

	Notes	2022	2021	2020
Net sales	22	$ 10,443,627	$ 8,938,152	$ 6,257,455
Cost of sales	24	(8,366,450)	(6,939,967)	(5,018,960)
Gross profit		2,077,177	1,998,185	1,238,495
Other non-recurring income	23	-	229,090	115,239
Operating expenses	25	(1,544,307)	(1,721,812)	(1,030,364)
Income from operations		532,870	505,463	323,370
Financing costs:				
Interest income		27,587	156,956	9,581
Interest expense		(265,962)	(230,854)	(158,693)
Interest earned by derivative financial instrument		15,576	-	-
Gain on valuation of derivative Financial instrument		59,661	-	-
Exchange loss, net		(37,277)	(81,670)	(14,660)
		(200,415)	(155,568)	(163,772)
Income before income taxes		332,455	349,895	159,598
Income taxes (benefit) expense	26	99,292	159,305	(25,821)
Consolidated net income		$ 233,163	$ 190,590	$ 185,419
Other comprehensive income:				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		2,044	1,898	(4,912)
Exchange differences on translating foreign operations		(63,421)	(42,707)	(66,150)
Total comprehensive income for the year		$ 171,786	$ 149,781	$ 114,357
Earnings per share:				
From continuing operations:				
Basic and diluted earnings per common share (in Mexican pesos)		$ 1.7868	$ 1.4602	$ 1.4206
Weighted average shares outstanding		$ 130,522,049	$ 130,522,049	$ 130,522,049

The accompanying notes are part of the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2022, 2021 and 2020
(In thousands of Mexican pesos)

	Contributed capital				Earned capital (loss)				
	Common stock								
	Nominal	In trust	Premium on sale of repurchased stock	Total	Retained earnings	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	Total stockholders' equity
Balance as of 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 income 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
Cancellation of reserve for repurchase of shares	-	-	-	-	(185,982)	185,982	-	-	-
Repurchase of shares	-	-	-	-	-	(1,787)	-	-	(1,787)
Net comprehensive income for the year	-	-	-	-	190,590	-	(42,707)	1,898	149,781
Balance as of December 31, 2021	1,104,721	(7,884)	58,176	1,155,013	190,590	184,195	(202,460)	(4,938)	1,322,400
Cancellation of reserve for repurchase of shares	-	-	-	-	184,195	-	-	-	-
Repurchase of shares	-	-	-	-	(190,590)	-	-	-	-
Net comprehensive income for the year	-	-	-	-	233,213	-	(63,421)	2,044	171,836
Balance as of December 31, 2022	$ 1,104,721	$ (7,884)	$ 58,176	$ 1,155,013	$ 417,408	$ 190,590	$ (265,881)	$ (2,894)	$ 1,494,236

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, 2022, 2021 and 2020
(In thousands of Mexican pesos)
(Indirect method)

	Notes	2022	2021	2020
Cash flows from operating activities:				
Consolidated net income		$ 233,213	$ 190,590	$ 185,419
Adjustments for:				
Income taxes expense (benefit)	26	99,292	159,305	(25,821)
Depreciation and amortization	25	199,778	183,203	167,869
Impairment loss		14,726	-	-
Gain on sale of property and equipment		(1,954)	(500)	(1,648)
Recognition effect Brazilian tax		-	(34,417)	-
Profit in business acquisition		-	-	(115,239)
Amortization of commissions paid		19,245	6,308	5,176
Interest paid		207,055	162,222	134,899
Interest income		(27,587)	(21,121)	(9,581)
Gain on valuation of derivative financial instrument		(59,661)	-	-
Unrealized exchange loss (gain)		2,498	(22,432)	(639)
		686,605	623,158	340,435
Changes in working capital:				
Accounts receivable and recoverable taxes	6	227,504	(578,865)	204,524
Inventories	7	(319,894)	(348,516)	76,277
Prepaid expenses		929	(53,352)	(232)
Other assets		(50,499)	(58,253)	(21,225)
Trade accounts payable		(101,189)	464,516	(240,961)
Other accounts payable and accrued expenses	15	(361,508)	193,160	(59,672)
Due to related parties	21	4,119	(2,091)	367
Income taxes paid		(40,080)	(86,000)	(28,000)
Net cash provided by operating activities		45,987	153,757	271,513
Cash flows from investing activities:				
Purchase of machinery and equipment		(69,949)	(66,867)	(53,280)
Sale of machinery and equipment		3,947	2,670	5,401
Acquisition of subsidiaries		-	-	(217,419)
Interest collected		27,587	21,121	9,581
Net cash used in investing activities		(38,415)	(43,076)	(255,717)
Cash flows from financing activities:				
Borrowings	16	294,520	2,430,112	3,325,095
Repayments of loans received	16	(175,000)	(1,984,000)	(2,934,935)
Payments of leasing		(62,280)	(77,754)	(66,756)
Purchase of own common shares		-	(1,787)	(8,484)
Leasing interest paid		(22,016)	(21,131)	(21,917)
Interest and commissions paid	16	(199,867)	(210,423)	(137,505)
Net cash (used in) provided by financing activities		(164,643)	135,017	155,498

	Notes	2022	2021	2020
Effects of changes in exchange rates on cash held in foreign currency		(122,241)	(26,860)	(17,854)
Net (decrease) increase in cash and cash equivalents		(279,312)	218,838	153,440
Cash and cash equivalents at beginning of year		498,065	279,227	125,787
Cash and cash equivalents at end of year		$ 218,753	$ 498,065	$ 279,227

The accompanying notes are part of the consolidated financial statements.

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, Alcaldia Miguel Hidalgo, 11850, Ciudad de México.

The main activity of the group is to hold shares of a group of companies dedicated to the marketing and distribution of raw materials, paper, and cardboard, serving more than 40 industrial sectors, among which are: automotive industry, oil exploration and drilling, metalworking industry, food industry, personal and home care, paints and coatings, water treatment, cleaning and sanitation, mining, construction, and dozens of other industries in Mexico, Central America, and Chile, Argentina, Colombia, Peru, Ecuador and Brazil, in South America.

It is a leading company in the distribution of chemicals and integral solutions in the Latin American market, operates in 11 countries of the American continent, thus becoming a regional solution for the productive chains of multinational companies with presence in the area and a relevant alternative for large suppliers that seek to venture into these markets, to serve them. The Entity groups its nine product lines into two main business segments:

Chemicals:

- Inorganic chemicals
- Solvents and mixtures
- Food chemicals
- Lubricants and greases
- Personal and home care
- Mining
- Construction and building
- Integral Solutions, Environmental and outsourced logistics

Paper:

- Paper, cardboard, packaging material

Significant events

On October 7, 2021, the Financial Intelligence Unit ("UIF" for its acronym in Spanish) issued an order including Pochteca Materias Primas, S.A. de C.V. (PMP), a subsidiary of Grupo Pochteca, S.A.B. de C.V. ("Grupo Pochteca") on the blocked persons list. This order effectively blocked the bank accounts of PMP, notification of which was given through the financial institutions with which the company has commercial relations. PMP requested that the UIF unblock its bank accounts, a request that was granted several days later. On October 19, 2021, Grupo Pochteca, S.A.B. de C.V. ("Grupo Pochteca"), the parent company of PMP, published a Relevant Event on the Mexican Stock Exchange ("BMV" for its acronym in Spanish), through which it reported that, as of that date, the bank accounts of PMP were operating normally, while reiterating its willingness to collaborate with the authority to clarify the situation and stressing its commitment to continued compliance with all laws and regulations, together with the highest possible standards of transparency and accountability.

On January 3, 2022, and prior to the proceedings of the law, PMP was notified of the operative points of the UIF resolution. Consequently, on February 25, 2022, the Group informed the investor public through a relevant event published in the BMV that PMP had exercised its rights and initiated legal proceedings before the corresponding judicial bodies, specifically by requesting an annulment of the resolution of the UIF referred to above, with the aim of achieving the total normalization of the operation of PMP´s subsidiary bank accounts and their exclusion from the list of blocked companies. To date, PMP continues to carry out its operations as business as usual.

On March 28, 2022, the First Regional Metropolitan Court of the Federal Court of Administrative Justice gave notification of the agreement that admitted the proceeding for annulment filed by PMP against the ruling issued by the UIF.

On October 24, 2022, the Metropolitan Regional Chamber of the Federal Court of Administrative Justice issued a new resolution, which revokes the suspension previously granted to Pochteca Materias Primas, S.A. de C.V., without said resolution being final or prejudging the merits.

Within the framework of the legal process of which we have been informing in a timely manner and making use of the legal resources available to PMP to clarify the situation, the Administration, based on what is suggested by external lawyers, has an expectation of resolution of the matter by 2024. As a result of the above, the Group – through some of its subsidiaries – was forced to continue taking short-term debt and in turn restructure in the long term to ensure the continuity of the operation, increasing financial expenses given the sharp increase in rates mainly in Mexico, Brazil, Chile and Colombia; which led to the breach of one of the covenants of the loans, from which a waiver was obtained in a timely manner for up to the next 12 months, so as not to incur a cause of early maturity. (see Note 16).

It should be clarified that the situation mentioned in this note is only applicable to the subsidiary PMP, that is, no other of the Group's subsidiaries is a plaintiff in the aforementioned nullity trial.

The credits contracted include certain restrictive clauses that limit the Group mainly to granting guarantees outside the ordinary course of business of the Group. For the years ending December 31, 2022, 2021 and 2020, these have been fulfilled, except as mentioned in Note 16.

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 year, the Group has implemented amendments to IFRS issued by the International Financial Reporting Standards Board (IASB) that are mandatory for accounting periods beginning on or after January 1, 2022. Its adoption has not had a material impact on the disclosures, or the amounts reported in these financial statements.

Amendments to IFRS 3 - Reference to the Conceptual Framework	The Group has adopted amendments to IFRS 3 Business Combinations for the first time this year. The amendments update IFRS 3 as it relates to the 2018 Conceptual Framework instead of the 1989 Conceptual Framework. They also added a requirement that, for obligations within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets, a buyer applies IAS 37 to determine whether at the date of acquisition it is a present obligation or exists as a result of a past event. For encumbrances that are within the scope of IFRIC 21 Encumbrances, the buyer applies IFRIC 21 to determine whether the obligation gives rise to a liability to pay the lien that occurred on the date of acquisition.

Amendments to IAS 16 - Property, Plant and Equipment - Revenue before intended use	The Group has adopted amendments to IAS 16 Property Plant and Equipment for the first time this year. The amendments prohibit deducting from the cost of a property, plant, and equipment asset any income from the sale of goods produced, before it is ready for use, for example, income generated while the asset is being taken to a location and the necessary conditioning is made to make it operable in the manner in which it is intended in accordance with the intentions of management. Therefore, an entity should recognize such sales revenue and costs in results. The Group measures the costs of these goods produced 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 an assessment in which the physical and technical performance of the asset is capable of being used in the production or supply of goods or services, for rent or otherwise, or administrative purposes. If not presented separately in the statement of comprehensive income, the financial statements should disclose the amounts of income and costs in results related to items that are not an outlet for the Group's ordinary activities, in the line item(s) in the statement of comprehensive income that includes revenues and costs.
Annual Improvements to IFRS 2018-2021	The Group has adopted the amendments included in the Annual Improvements to IFRS cycle 2018-2020 for the first time in the year. IFRS 9 Financial Instruments The amendment clarifies that in the application of the '10%' test to assess whether to write off a financial liability, an entity includes only fees paid or received between the Group (the borrower) and the lender, including fees paid or received by the Group or by the lender for the benefit of another. IFRS 16 Leases The amendments eliminate the figure of reimbursement for improvements to leases.

IFRS standards issued that are not yet effective

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

At the date of authorization of these consolidated financial statements, the Group has not applied the following new and amended IFRS Standards that have been issued but are not yet in effect

Amendments to IFRS 10 and IAS 28 (amendments)	*Sale or contribution of assets between an investor and its associate or joint venture*
Amendments to IAS 1	*Classification of liabilities as current or non-current.*
Amendments to IAS 1 and Practical Statement 2	*Disclosure of accounting policies*
Amendments to IAS 8	*Definition of accounting estimates*
Amendments to IAS 12	*Deferred taxes related to assets and liabilities arising from a single transaction.*

Management does not expect the adoption of the above standards to have a significant impact on the Group's consolidated financial statements in future periods.

Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture

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

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

Amendments to IAS 1 Presentation of Financial Statements - Classification of Liabilities as Current and Non-Current

The amendments to IAS 1 published in January 2020 affect only the presentation of liabilities as current or noncurrent in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after 1 January 2023, with early application permitted. The IASB is currently considering further amendments to the requirements in IAS 1 on classification of liabilities as current or non-current, including deferring the application of the January 2020 amendments.

The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods.

Amendments to IAS 1 and Practice Statement 2 Materiality Judgments - Disclosure of Accounting Policies

The amendments change the requirements in IAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

The supporting paragraphs in IAS 1 are also amended to clarify that accounting policy information that relates to immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events, or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.

The IASB has also developed guidance and examples to explain and demonstrate the application of the 'four-step materiality process' described in IFRS Practice Statement 2.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to IFRS Practice Statement 2 do not contain an effective date or transition requirements.

Amendments to the IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors - Definition of accounting estimates.

The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

The definition of a change in accounting estimates was deleted. However, the IASB retained the concept of changes in accounting estimates in the Standard with the following clarifications:

- A change in accounting estimate that results from new information or new developments is not the correction of an error

- The effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors

The IASB added two examples (Examples 4-5) to the Guidance on implementing IAS 8, which accompanies the Standard. The IASB has deleted one example (Example 3) as it could cause confusion in light of the amendments.

The amendments are effective for annual periods beginning on or after 1 January 2023 to changes in accounting policies and changes in accounting estimates that occur on or after the beginning of that period, with earlier application permitted.

Amendments to IAS 12 Income Taxes – Deferred taxes relating to assets and liabilities arising from a single transaction.

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying IFRS 16 at the commencement date of a lease.

Following the amendments to IAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

The IASB also adds an illustrative example to IAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:

    - Right-of-use assets and lease liabilities
    - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset

- 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 that date

The amendments are effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted.

The directors of the Company anticipate that the application of these amendments may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

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. ***Basis of preparation***

The Group's consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and investment properties that are presented at fair value, as explained in the accounting policies included below.

i. Historical cost

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

ii. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group considers 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.

c. ***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, 2022, 2021 and 2020 have been prepared on the assumption that the Group will continue as a functioning company.

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. The gains and losses of subsidiaries acquired or sold during the year are included in the consolidated statements of income and other comprehensive income from the date the holder obtains control or until the date it is lost.

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.

The results of each component of other comprehensive income are attributed to the Company's shareholders and non-controlling interests. The total comprehensive income statements of subsidiaries are attributed to the company's shareholders and non-controlling interests, even if this results in a deficit in non-controlling interests.

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 IFRS 9, 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

Subsidiary	Main activity	Functional currency
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
Mecotrans Tansportes e Logistica Ltda.	Transportation of chemical products	Brazilian reals
Coremal Comercio, Distribuicao, Fabricacao E Representacoes de Produtos Quimicos, Eireli.	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 pesos
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
Pochteca Perú, S. A.	Trading of raw materials	Peruvian Soles
Pochteca Argentina, S. A.	Trading of raw materials	Mexican pesos
Pochteca Ecuador, S.A.S.	Trading of raw materials	US Dollars

The Group consolidates itself as a highly competitive global company, by successfully completing the acquisition of the Latin American business division of Ixom Operations Pty LTD (now Pochteca South America), which will allow the expansion of its operations to Argentina, Brazil, Chile, Colombia and Peru, with a solid presence in these countries as a supplier of specialty chemicals for the personal care, agriculture, resins and adhesives markets, will be reinforced by Grupo Pochteca's portfolio to boost growth in those regions. Likewise, the integration of solutions in mining and construction, in which Pochteca South America is highly competitive.

Grupo Pochteca's 2022 performance was better in terms of operating profit and EBITDA (Profit before taxes, depreciation, and amortization). An improvement was achieved compared to the same period of the previous year, thanks to diversification efforts both in sectors and geographies that allowed to take advantage of the growth in demand for products such as sanitizers, personal care lines and chemicals for the food industry, which offset the sharp decline presented in other business segments. Similarly, operating in various countries resulted in the fact that, just as the exchange rate effect in Mexico punished margins, in other countries it strengthened them. In addition, an important part of the portfolio of products distributed by Pochteca are part of the supply chain of customers in essential activities in Mexico and Brazil, so we were able to continue operating in all our plants and branches during the pandemic period

e. ***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.

f. ***Reclassifications***

Reclassifications were made in the statements of financial position and cash flows by production chains with suppliers of the subsidiary COREMAL that were reflected in the category of suppliers, as follows.

Consolidated statement of financial position	**As previously shown 31/12/2021**	**Reclassified**	**As currently shown 31/12/2021**
Supplier-based Accounts payable	$ 1,748,515	$ (32,470)	$ 1,716,045
Bank loans Working portion	512,335	32,470	544,805
Consolidated of statement of cash flows the consolidation			
Supplier-based Accounts payable	417,755	46,761	464,516
Loan payment	$ (1,937,239)	$ (46,761)	$ (1,984,000)

g. **Cash and cash equivalents**

In the consolidated statement of financial position, cash and balance sheets in banks comprise cash (e.g., cash on hand and demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and are subject to no material risks or changes in value. Cash equivalents are held for the purpose of meeting short-term cash obligations rather than being invested for other purposes.

Balances at banks for which there are contractual restrictions on their use are included in cash unless such restrictions result in a bank balance that no longer meets the definition of cash.

If contractual restrictions on the use of cash extend for more than twelve months after the closing date of the reporting period, the relative amounts are classified as non-current in the statements of financial position.

For purposes of the statement of cash flows, Cash and cash equivalents consist of cash and cash equivalents as defined in the preceding paragraphs, net of bank overdrafts that are payable upon request and form an integral part of the Group's cash management. Such overdrafts are presented as short-term loans in the statement of financial position.

h. ***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.

i. ***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.

- Debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria 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 guaranteed 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 organizations, 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 considered 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 amortized 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 are no past due amounts.

For financial guaranteed 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 considering 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 360 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:

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

(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, considering 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 guaranteed 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.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows owed to the Group in accordance with the contract and all cash flows the Group expects to receive, discounted at the original effective interest rate. For a lease receivable, the cash flows used to determine expected credit losses are consistent with the cash flows used in the measurement of leases receivable in accordance with IFRS 16 Leases.

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 investment's 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 investment's revaluation reserve is not reclassified to profit or loss but is transferred to retained earnings.

j. ***Financial liabilities and equity***

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

Financial liabilities are initially valued at fair value. Transaction costs that are directly attributable to the acquisition or issuance of financial liabilities (other than financial liabilities to FVTPL) are added to or deducted from the fair value of financial liabilities, if any, in the initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities from FVTPL are immediately recognized in income.

- *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 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*

  Financial liabilities are classified as financial liabilities at FVTPL or as other financial liabilities.

  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 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.

- *Other financial liabilities*

  Other financial liabilities (including loans and accounts payable) are subsequently valued at amortized cost using the effective interest rate method.

- *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 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.

k. ***Derivative financial instruments***

The Group uses financial instruments to manage its exposure to interest rate volatility risks (interest rate swaps). A more detailed explanation of derivative financial instruments is provided in Note 20.

Derivatives are initially recognized at fair value on the date the derivative contract is entered into and subsequently revalued at fair value at the end of the 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 case the timing of recognition in profit or loss will depend on the nature of the hedging relationship.

l. ***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.

m. ***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 property's 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 and 20
Machinery and equipment	10
Vehicles and allied equipment	4 and 15
Office furniture and equipment	10
Computers	3.3
Leasehold improvements	3

The 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.

n. ***Investment properties***

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is valued at their fair value.

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.

o. ***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.

p. ***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.

q. ***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.

r. ***Business combinations***

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

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

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

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

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

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.

s. ***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. (Note 25)

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 contract 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.

t. ***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.

u. ***Employee benefits***

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

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. The results of the defined plan will be recognized when the agreement occurs.

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.

Retirement benefit obligations recognized in the statement of financial position represent the present value of the defined benefit obligation, adjusted for unrecognized actuarial gains and losses and unrecognized past service costs, less the fair value of plan assets. Any assets arising from this calculation are limited to unrecognized actuarial losses and past service costs, plus the present value of future reimbursements and reductions in contributions to the plan.

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.

v. ***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 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 Trustors, Banco Ve por Más, Sociedad Anónima, Multiple Banking Institution, Grupo Financiero Ver por Más as a Trustee and several Group management executives as Trustees. As of December 31, 2021, 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.

w. ***Income taxes***

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

1. Current tax

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

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.

2. Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used to determine the tax result, the rate corresponding to these differences and, where applicable, the benefits of tax losses to be amortized and certain tax credits are included.

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.

3. 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.

x. ***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, considering 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.

y. ***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.

- 1) 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.

- 2) 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.

z. ***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.

aa. ***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.

bb. ***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 considers 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, considering 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 2021, 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. 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 2022, there are several 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 stablish 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, 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:

	2022	2021	2020
Cash	$ 154,076	$ 383,349	$ 188,062
Investments	64,677	114,716	91,165
	$ 218,753	$ 498,065	$ 279,227

6. Accounts receivable and recoverable taxes

	2022	2021	2020
Trade accounts receivable	$ 1,243,988	$ 1,302,853	$ 928,495
Allowance for doubtful accounts	(69,401)	(64,282)	(61,642)
	1,174,587	1,238,571	866,853
Recoverable taxes in Mexico	61,497	147,136	96,105
Recoverable taxes in Brazil	92,950	115,560	21,126
Recoverable taxes in Central America	67,269	26,612	29,593
Recoverable taxes Sudamericana	16,144	12,152	14,553
Officials and employees	15,226	109,328	18,544
Other	-	-	27,436
	$ 1,427,673	$ 1,649,359	$ 1,046,774

During 2022, 2021 and 2020, the average credit term on the sale of materials was 41, 40 and 39 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 2022, 2021 and 2020, 94%, 95% and 93% 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					
31/12/2022	**<30**	**31 - 60**	**61 - 90**	**91 - 120**	**>120**	**Total**
Expected credit loss rate	0.42%	0.93%	1.54%	0.22%	80.02%	%
Estimated total gross carrying amount at default	$ 1,362	$ 1,046	$ 316	$ 82	$ 66,595	$ 69,401
Lifetime ECL						

	Accounts receivable – aging					
31/12/2021	**<30**	**31 - 60**	**61 - 90**	**91 - 120**	**>120**	**Total**
Expected credit loss rate	0.25%	0.45%	1.69%	0.5%	76%	-
Estimated total gross carrying amount at default	$ 2,009	$ 1,285	$ 1,032	$ 80	$59,876	$ 64,282
Lifetime ECL						

Change in allowance for doubtful accounts

	2022	**2021**	**2020**
Balance at beginning of the year	$ 64,282	$ 61,642	$ 49,478
Provision for accounts deemed uncollectible during the year	9,677	26,506	5,507
Subsidiary acquisition effect	-	-	10,695
Translation effects and accounts recovered during the year	(4,558)	(23,866)	(4,038)
Balance at end of the year	$ 69,401	$ 64,282	$ 61,642

7. Inventories

	2022	**2021**	**2020**
Finished goods:			
Coatings, solvents, and blends	$ 464,807	$ 438,510	$ 387,899
Paper	29,439	47,006	54,408
Chemicals and plastics	812,557	466,570	206,873
Food products	216,294	217,817	173,105
Lubricants	55,941	64,047	79,223
Raw material	93,265	60,416	96,044
	1,672,303	1,294,366	997,552
Merchandise-in-transit	71,866	129,909	78,207
	$ 1,744,169	$ 1,424,275	$ 1,075,759

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to $8,177,864, $6,744,247, and $4,874,068 in 2022, 2021 and 2020, 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 receivable 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, 2022, 2021 and 2020, 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 2022, 2021 and 2020, corresponding to the land of $15,200 for 2022, for 2021 and 2020 $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, 2022, 2021 and 2020, 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 2022	Additions	Disposals	Translation effects	Balances as of December 31, 2022
Investment:					
Land	$ 200,729	$ -	$ -	$ (256)	$ 200,473
Building and constructions	692,809	28,820	-	(4,122)	717,507
Industrial machinery and equipment	520,181	18,122	(8,335)	1,810	531,778
Office furniture and equipment	67,648	5,704	(271)	(198)	72,883
Vehicle	210,901	8,339	(9,209)	4,748	214,779
Computers	97,265	8,964	(61)	(197)	105,971
Equipment acquired under financial leases	147,043	51,424	-	(7,920)	190,547
Total investments	1,936,576	121,273	(17,876)	(6,135)	2,033,838
Accumulated depreciation:					
Building and constructions	(351,810)	(35,402)	-	39,359	(347,853)
Industrial machinery and equipment	(396,969)	(9,315)	7,303	1,046	(397,935)
Office furniture and equipment	(46,676)	(11,435)	217	734	(57,160)
Vehicle	(209,512)	(22,938)	8,340	(734)	(224,844)
Computers	(96,350)	(6,671)	23	24	(102,974)
Equipment acquired under financial leases	(115,217)	(2,384)	-	293	(117,308)
Total accumulated depreciation	(1,216,534)	(88,145)	15,883	40,722	(1,248,074)
Net investment	$ 720,042	$ 33,228	$ (1,993)	$ 34,587	$ 785,864

	Balances as at the beginning of 2021	Additions	Disposals	Translation effects	Balances as of December 31, 2021
Investment:					
Land	$ 202,205	$ -	$ -	$ (1,476)	$ 200,729
Building and constructions	693,724	15,233	-	(16,148)	692,809
Industrial machinery and equipment	516,834	16,761	(11,410)	(2,004)	520,181
Office furniture and equipment	67,653	1,277	(475)	(807)	67,648
Vehicle	189,986	26,094	(5,589)	410	210,901
Computers	90,712	7,502	(352)	(597)	97,265
Equipment acquired under financial leases	144,662	6,864	-	(4,483)	147,043
Total investments	1,905,776	73,731	(17,826)	(25,105)	1,936,576

	Balances as at the beginning of 2021	Additions	Disposals	Translation effects	Balances as of December 31, 2021
Accumulated depreciation:					
Building and constructions	(337,205)	(23,050)	-	8,445	(351,810)
Industrial machinery and equipment	(382,737)	(24,692)	9,232	1,228	(396,969)
Office furniture and equipment	(43,990)	(3,613)	452	475	(46,676)
Vehicle	(189,521)	(26,326)	5,931	404	(209,512)
Computers	(90,228)	(7,524)	41	1,361	(96,350)
Equipment acquired under financial leases	(116,439)	(1,418)	-	2,640	(115,217)
Total accumulated depreciation	(1,160,120)	(86,623)	15,656	14,553	(1,216,534)
Net investment	$ 745,656	$ (12,892)	$ (2,170)	$ (10,552)	$ 720,042

	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	138,785	7,552	-	429	(2,104)	144,662
***Total investment*s**	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	(117,493)	(1,400)	738	(404)	2,120	(116,439)
Total accumulated depreciation	(1,079,132)	(84,584)	11,547	(43,087)	35,136	(1,160,120)
Net investment	$ 716,824	$ (23,752)	$ (3,753)	$ 71,698	$ (15,361)	$ 745,656

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, 2020	-	$ 284,986

(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		433,279
	$	400,225

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

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

(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		(67,567)
Amount paid in cash	$	217,419

11. Intangible assets

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

	2022	2021	2020
Supplier relationship [1]	$ 124,541	$ 133,081	$ 141,620
LAR brand	45,156	45,156	45,156
Client relationship [2]	34,483	54,508	60,764
Software equipment	72,565	60,330	33,846
Non-compete contract [3]	105	1,164	1,266
Balances at end of year	$ 276,850	$ 294,239	$ 282,652

Accumulated amortization and cost

	2022	2021	2020
Balances at beginning of year	$ 294,239	$ 282,652	$ 229,161
Additional amounts recognized from business acquisitions	17,403	26,484	63,620
Depreciation	(14,726)	-	-
Amortization expense	(20,066)	(14,897)	(10,129)
Balances as of December 31	$ 276,850	$ 294,239	$ 282,652

(1) The useful life of the relationship with suppliers is 20 years. As of December 31, 2022, 2021 and 2020, the Group has recognized $8,539 as amortization in the consolidated statement of income and other comprehensive results.

(2) The useful life of the customer relationship is 13 years for the subsidiary in Peru, 10 years for Colombia and Chile, 7 years for Argentina and 5 years for Brazil. Derived from an analysis of the useful life based on the CGUs, it was identified that Peru suggested impairing the intangibles during 2022, for which the Group recognized $14,686 as an impairment exclusively related to the CGUs of Peru.

(3) The service life of the non-compete contract is 3 years. In 2022, derived from what was described in the previous paragraph, $40 related to the UGE of Peru deteriorated.

12. Goodwill

	2022	2021	2020
Balances at beginning of year	$ 277,815	$ 280,366	$ 294,217
Impairment Coremal purchase	-	-	-
Translation effect	163	(2,551)	(13,851)
Balances at end of year	$ 277,978	$ 277,815	$ 280,366

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.

As December 2022, 2021 and 2020 no impairment expenses haven been recognized.

13. The Group as lessee

The Group leases several assets including buildings, plant, and IT equipment. The average lease term is 4 years for 2022 and 2021.

The expired contracts were replaced by new leases for identical underlying assets. This resulted in additions to right-of-use assets of $109,625 and $33,044 in 2022 and 2021 respectively

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

Right-of-use assets		Buildings
Cost		
As of December 31, 2020	$	389,958
Additions		45,743
Disposals		-
As of December 31, 2021		435,701
Additions		109,625
Disposals		(48,364)
As of December 31, 2022	$	496,962

Accumulated depreciation		Buildings
As of December 31, 2020	$	(81,018)
Charge for the year		(58,833)
As of December 31, 2021		(139,851)
Charge for the year		(66,489)
Disposals		36,350
As of December 31, 2022	$	(169,990)
Book value		
As of December 31, 2021	$	295,850
As of December 31, 2022	$	326,972

Amounts recognized in Consolidated Statement of Income		2022
Depreciation expense on right-of-use assets	$	66,489
Interest expense on lease liabilities	$	22,016
Expense relating to short-term leases	$	734
Expense relating to leases of low value assets	$	3,303

The total cash outflow for leases amount to $84,296, $98,885, and $88,673 for 2022, 2021 and 2020 respectively.

14. Lease liabilities

	2022	2021	2020
Maturity analysis:			
Year 1	$ 70,686	$ 67,904	$ 66,223
Year 2	62,698	56,643	55,558
Year 3	54,709	49,148	47,521
Year 4	48,393	45,409	43,613
Year 5	117,438	44,164	39,383
Onwards	37,678	116,436	164,160
Less: unearned interest	(43,254)	(55,058)	(86,975)
	$ 348,348	$ 324,646	$ 329,483
Analyzed as:			
Non-current	$ 284,471	$ 271,340	$ 279,092
Current	63,877	53,306	50,391
	$ 348,348	$ 324,646	$ 329,483

The Group does not face a significant liquidity risk about 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, 2022	Additions	Inflation adjustments	Interest accruals	Payments	Balance as of December 31, 2022
Lease liabilities	$ 324,646	$ 109,625	$ (23,643)	$ 22,016	$ (84,296)	$ 348,348

	Balance as of January 1, 2021	Additions	Inflation adjustments	Interest accruals	Payments	Balance as of December 31, 2021
Lease liabilities	$ 329,483	$ 33,044	$ 17,487	$ 21,131	$ (76,499)	$ 324,646

	Balance as of January 1, 2020	Additions	Inflation adjustments	Interest accruals	Payments	Balance as of December 31, 2021
Lease liabilities	$ 328,466	$ 38,106	$ 14,569	$ 21,917	$ (73,575)	$ 329,483

15. Other accounts payable and accrued expenses

	2022	2021	2020
Accrued expenses	180,487	376,370	335,775
Accounts payable	74,113	90,563	46,510
Other accounts payable	32,813	121,026	5,021
	$ 287,413	$ 587,959	$ 387,306

a. ***Reconciliation of accrued expenses***

	2022	2021	2020
Balance at the beginning of the year	$ 376,370	$ 335,775	$ 129,660
Additions	259,879	542,944	861,599
Application against paid invoices	(455,762)	(502,349)	(655,484)
Balance at the end of the year	$ 180,487	$ 376,370	$ 335,775

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

	2022	2021	2020
Current	$ 254,600	$ 466,933	$ 382,285
Long term	32,813	121,026	5,021
	$ 287,413	$ 587,959	$ 387,306

16. Bank loans and long-term debt

	2022	2021	2020
Unsecured by $875,000 (syndicated with HSBC México, S.A. (HSBC), BBVA Bancomer, S.A. (BBVA), 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 2018 and until March 2021.	$ -	$ -	$ 72,917
Bilateral loan whit Banco HSBC México, S.A. (HSBC), at TIIE 28 days plus spread of around 1.50% to 3.00% depending on the leverage index with 12 monthly maturities of $4,166,667 during the first year, 12 monthly payments of $8,333,333 during the second year, 12 monthly payments of $12,500,000 during the third year, 12 monthly payments of $16,666,667 during the fourth year, 11 monthly payments of $27,272,727 during the fifth year, and a balloon payment of $200,000,000 in the 60th month ending June 2026	947,135	975,000	-

	2022	2021	2020
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 28 days plus spread of 3.00%, maturing January 2021.	-	-	100,000
Unsecured loan with Bank Ve Por mas, S.A. de C.V., at TIIE 28 days plus spread of 4.5%, maturing June 2024.	167,964	100,000	-
Bank loan with Banco GMAC for R$49,697 at an annual rate of 18.72% starting December 2018 and maturing December 2021.	-	-	7
Bank loan with Banco de America Central for $65,000 USD at an annual rate of 7.00% entered in June 2018 and maturing May 2020.	-	-	1,472
Leasing with Volvo for R$35,893 at an annual rate of 4.40% entered in May 2013 and maturing in December 2020.	-	-	16
Bank loan with Banco HSBC for R$9,000,000.00 at annual rate of 3.95% + 100% of the CDI variation from September 2021 to September 2021.	27,295	33,880	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 2021 to October 2025.	7,654	18,369	30,659

	2022	2021	2020
Financial leasing with Mercedes Benz for R$1,084,985 at annual rate of 11.62% from December 2021 to December 2025.	2,657	3,543	4,158
Lease contracts with Element Fleet Management Corporation and Start Banregio, S.A. de C.V. of transport equipment, machinery, and computer equipment at the 28-day TIIE rate plus 3.5816% fixed rate, started in February 2015 and ends in November 2023	59,875	49,552	35,210
Bank loan with Banco Santander for R$1,429,842 at annual rate of 2.38% plus CDI from May 2016 to August 2021.	-	288	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 2021 to November 2023.	1,265	2,645	4,199
Financial leasing with Santander for R142,678 at annual rate of 9.028% from January 2021 to January de 2023.	925	1,847	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 in February 2020 and maturing in February 2022.	-	46	284
Leasing with HP for an amount of R$174,278.02 at an annual rate of 11.41% entered in May 2021 and maturing in June 2025.	463	586	-
Leasing with HP for an amount of $202,965.22 at an annual rate of 11.41% entered in May 2021 and maturing in June 2025.	505	670	-

	2022	2021	2020
Leasing with HP for an amount of $52,540,14 at an annual rate of 11.89% entered in June 2021 and maturing in October 2024	126	184	-
Bank loan with Banco HSBC for R$13,000,000 at annual rate of 4.10% plus CDI from October 2021 to September 2023.	518	49,445	-
Bank loan with Banco HSBC for R$18,000,000 at annual rate of 6.50% + 100% plus CDI from October 2021 to September 2024.	58,002	66,129	-
Leasing with Volvo for an amount of R$520,000 at an annual rate of 9.900004% entered in December 2020 and maturing December 2025	1,187	1,663	-
Leasing with banco Rodobens for an amount of R$464,500 at an annual rate of 111.35% entered in April 2020 and maturing June 2025	1,292	1,652	-
Bank loan with Banco Scotibank o for R$18,000,000 of Chile at annual rate of 2.68% from September 2021 to February 2023	77,461	51,424	-
Bank loan with Bancolombia, S.A. for R$700,000 USD whit at annual spread rate of 3.6% + Libor rate biannual of 0.246% from November 2021 to November 2022	15,853	14,056	-
Loan to purchase of two cars with Carro Faci, S.A. contracts made to July 2021 to June 2026 whit an annual rate of 9.30%	1,829	1,620	-
Bank loan for R$150,000.00 USD with BAC Credomatic whit a nominal rate of 7.5% from 15 December 2021 to 15 December 2023	11,649	3,086	-
Leasing with HP for an amount of R$138,000 at an annual rate of 1.0777% entered in May 2021 and maturing in April 2023.	91	232	372

	2022	2021	2020
Bank loan with SAFRA o for R$5,000,000 at annual rate of 0.4499% + 100% + 100% of the CDI variation from March 2021 to March 2025.	11,809	17,057	-
Bank loan with SAFRA o for R$5,000,000 at annual rate of 0.4499% + 100% + 100% of the CDI variation from June 2021 to May 2025	11,022	18,369	-
Bank loan with SAFRA o for R$5,000,000 at annual rate of 0.3999% + 100% + 100% of the CDI variation from December 2021 to November 2025	-	5,143	-
Bank loan with SAFRA o for R$5,000,000 at annual rate of 0.3999% + 100% + 100% of the CDI variation from December 2021 to November 2025	-	18,369	-
Bank loan with banco Itaucard for R$2,331,122.57 at annual rate of 10.55% from April 2021 to October 2026.	5,129	8,121	-
Bank loan with SANTANDER for an amount of Rm7 5,000,000.00 reais with an annual rate of 5,39402% + 100% of the CDI change that began in December 2021 and ends November 2025	-	18,369	-
Bank loan with Banco del Credito del Peru for R$3,000,0000.00 at annual rate of 3.93% from November 2021 to 30 November 2023	49,200	61,566	-
Financial lease with Bank Itaucard for R$ 121,575.44 reais with an annual rate of 17.45 % that began in April 2022 and ends April 2025.	334	-	-
Financial lease with Bank Itaucard for R$ 112,058.02 reais with an annual rate of 17.45 % that began in April 2022 and ends April 2025	309	-	-
Bank loan with Banco Sofisa for an amount of R$ 9,380,000 reais with an annual rate + IR that started in April 2022 and ends March 2025	25,846	-	-

	2022	2021	2020
Bank loan with Banco ABC Brasil for R$ 10,000,000 reais with an annual rate of 6.52% + IR that began in February 2022 and ends January 2025	27,554	-	-
Bank loan with BS2 for R$5,084,924.56 reais with an annual rate of 20.84% that began in May 2022 and ends May 2024.	15,144	-	-
Bank loan with Banco Santander for an amount of R$ 8,000,000 reais with an annual rate of 19.78% that began in May 2022 and ends May 2025	27,278	-	-
Financial leasing with Banco Santander for an amount of R$ 369,836.64 reais with an annual rate of 18.4813% that began in May 2022 and ends June 2025	1,124	-	-
Financial leasing with financial BMW for an amount of R$ 234,900,94 reais with an annual rate of 12.55% that started in June 2022 and ends June 2024.	702	-	-
Financial leasing with Banco BS2 for an amount R$256,443.57 reais with an annual rate of 21,987% starting July 2022 and ends by July 2025.	772	-	-
Leasing with Banco Daycoval for an amount of R$ 263,810 reais with an annual rate of 21.62% that began in September 2022 and ends September 2025.	911	-	-
Bank loan with Banco Itau for R$ 5,277,787.90 reais at an annual rate of 2.7631% that began in September 2021 and ends March 2023.	19,538	-	-
Financial leasing with Volkswagen Bank for an amount of R$ 69,679.44 reais with an annual rate of 9.90 % that began in August 2022 and ends August 2024.	217	-	-

	2022	2021	2020
Financial leasing with Volkswagen Bank for an amount of R$ 177,465.77 reais with an annual rate of 0% that began in August 2022 and ends February 2024.	507	-	-
Financial lease with Banco Itaucard for an amount of R$ 223,622.46 reais with an annual rate of 17.04% that began in October 2022 and ends October 2025.	786	-	-
Bank loan with BS2 for an amount of R$ 5,094,983.73 reais with an annual rate of 6.041 % + 100% of the CDI change that began in October 2022 and ends October 2024.	18,718	-	-
Leasing with Banco Daycoval for an amount of R$ 863,129.6 reais with an annual rate of 19.13% that began in November 2022 and ends November 2027.	3,171	-	-
Leasing with Banco Daycoval for an amount of R$ 296,908 reais with an annual rate of 19.20% that began in December 2022 and ends February 2026.	1,091	-	-
Bank loan with BS2 for R$ 3,569,589.03 reais at an annual rate of 19.562 %, which began in December 2022 and ends in December 2024	13,116	-	-
Financial leasing with Banco Safra for R$ 625,993.54 reais at an annual rate of 15.39% that began in January 2022 and ends January 2027.	3,953	-	-
Financial lease with Banco Itaucard for R$ 634,069.07 reais at an annual rate of 15.66% that began in March 2022 and ends May 2027.	2,057	-	-
Financial lease with Banco Itaucard for R$ 308,084.53 reais at an annual rate of 15.66% that began in March 2022 and ends May 2027.	999	-	-
Financial lease with Volvo Bank for R$ 692,582.76 reais at an annual rate of 13.56% which began in April 2022 and ends April 2026	2,425	-	-

	2022	2021	2020
Financial lease with Banco Itaucard for an amount of R$ 389,565.97 reais with an annual rate of 17.87% that began in June 2022 and ends August 2027.	1,337	-	-
Financial lease with Banco Itaucard for R$ 312,143.28 reais with an annual rate of 17.87% that began in August 2022 and ends October 2027.	1,110	-	-
Leasing with Volvo Bank for R$ 766,352.17 reais at an annual rate of 10.08% which began in August 2022 and ends August 2027.	2,814	-	-
Financial leasing with Banco Rodobens for an amount of R$ 899,021.18 reais with an annual rate of 17.05104% that began in September 2022 and ends September 2027	3,501	-	-
Financial lease with Banco Itaucard for R$ 721,751.53 reais at an annual rate of 16.48% that began in September 2022 and ends November 2027.	2,608	-	-
Leasing with Volvo Bank for R$ 766,352.17 reais at an annual rate of 10.08% which began in August 2022 and ends August 2027.	2,814	-	-
Factoring with COREMAL short-term suppliers	68,420	32,470	-
Leasing with Rodobens for R$1,111,500 at an annual rate of 1.45% entered in February 2021 and maturing in February 2022.	-	361	2,041
Bank loans	1,710,062	1,555,742	1,045,740
Less - Unamortized commissions paid	(29,245)	(16,348)	(6,962)
	1,680,817	1,539,394	1,038,778
Less - Current portion of long-term debt	480,390	544,805	703,995
Long-term debt	$ 1,200,427	$ 994,589	$ 334,783

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 2022. As of December 31, 2021 the amount of the facility has not been drawn down, in February 2021 the loan was arranged which was paid on 4 June 2021 when the Group received the funds from the bilateral loan with HSBC.

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

	2022	2021	2020
TIIE	10.31%	5.85%	4.55%

b. The contracted credits include certain restrictive clauses that essentially limit the Group as regards granting credits outside the normal course of business. For the years ended December 31, 2022, 2021 and 2020, these restrictions have been fulfilled, except for the following:

- Breach of a loan contract

As mentioned in note 1, the UIF ordered the suspension of any act, operation, or service with Pochteca Materias Primas, which implies that, even though this company's bank accounts are unblocked, certain legal and operating restrictions are applicable to financial instruments such as lines of credit, factoring and credit insurance. This situation has resulted in the implementation of certain measures to continue the regular business operation of this Mexican subsidiary, as described in other sections of this document.

Accordingly, different companies pertaining to Grupo Pochteca contracted short-term debt. These amounts were intended to primarily settle transactions with employees, commercial partners, and banks, while guaranteeing the continuity of the business and fulfilling obligations. These debts led the Group to non-comply with one of the obligations to make in relation to the credit with HSBC. For this reason, during the month of December 2022 the Group requested and obtained a waiver by HSBC, which describes the non-compliance with the calculation of the Reason for Debt Service Coverage provided for in clause Thirteen, section B, subsection b. of the bilateral Agreement, so the Bank will refrain from carrying out any extrajudicial or judicial act derived from or in relation to said Obligation from December 31, 2022 and until the following 12 months for that reason.

The Group's other loans described above do not contain such obligations.

c. The maturities of the portion of the long-term debt as of December 31, 2022 are:

Year ending as of December 31 of	Amount
2024	$ 569,385
2025	273,542
2026	308,764
2027	48,736
	$ 1,200,427

d. Reconciliation of liabilities arising from financing activities

	January 1, 2022	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2022
Bank loans and long-term debt	$ 1,539,394	$ 294,520	$ (175,000)	$ (199,867)	$ 185,038	$ 36,732	$ 1,680,817

	January 1, 2021	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2021
Bank loans and long-term debt	$1,038,778	$2,430,112	$(1,984,000)	$ (148,098)	$ 141,091	$ 61,511	$1,539,394

	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	$ 662,862	$3,325,095	$(2,934,935)	$ (118,887)	$ 112,982	$ (8,339)	$1,038,778

17. Employee benefits

The net cost of the period for the derivative obligations on pension's plan, were to $2,831, $2,099, and $1,894 in 2022, 2021 and 2020, respectively. Other revelations required are considered immaterial.

The Group executive's remunerations for years ended as of December 31, 2022, 2021 and 2020 were at $79,544, $80,404, and $65,434, respectively.

Statutory profit-sharing expense amounted were $10,195, $12,782, and $1.592 in 2022, 2021 and 2020, 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, 2022, 2021 the Group maintained 12,923,621 and 12,711,167 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, 2022, resolved to stablish:

- To establish the amount of $190,590 the following as the maximum amount of resources that the Group may allocate for the purchase of own shares or credit titles representing such shares, On the understanding that the acquisition and placement of the shares will be carried out through the Mexican Stock Exchange, S. A. B. de C. V. at market price.

During the period from May to December 2022, Account Balance $190,590 wasn't used.

II. At the Annual Ordinary General Meeting of Shareholders held on April 30, 2021, it was approved:

- Establish the amount of $185,982 as the maximum amount of resources that the Group may allocate to the purchase of own shares or credit titles representing such shares, with the understanding that the acquisition and placement of the shares will be made through the Mexican Stock Exchange, S. A. B. de C. V. at market price.

During the period from July to August 2021, the balance of $1,787 was used, leaving a remainder of $184,195 of the authorized amount of $185,982.

III. At the Annual Ordinary General Meeting of Shareholders held on April 29, 2020, the following was approved:

- It was noted that since the consolidated result obtained as of December 31, 2019 shows a loss and there are no accumulated profits, it was not appropriate to establish any amount for the Company's share repurchase fund.

During the period from January to April 2020, the balance of $8,484 from the previous year and the amount of $19,294 for the repurchase reserve of shares that were not used in fiscal year 2020 were used, leaving a remainder of $10,810 of the authorized amount of $24,000, as described in the following paragraph.

IV. The share capital in trust corresponds to the shares subscribed by the investment trust and administration number F/147, for the purchase option plan for key executives. The portion not yet exhibited by the executives as of December 31, 2022, 2021 and 2020 amounts to $7,884, and is presented in stockholders' equity as shares in trust, and, consequently, the value of the contributed capital is decreased by that same amount.

V. Common stock without par value as of December 31, 2022, 2021 and 2020, is as follows:

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

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, 2022, 2021 and 2020, their par value amounts to $10,183 $9,668, and $9,325 respectively.

The distribution of stockholders' equity, except for the updated amounts of the share capital contributed and the tax retained profits, will cause the ISR to be borne by the Group at the rate in force at the time of distribution. The tax paid for such distribution may be credited against the ISR of the year in which the dividend tax is paid and in the two immediately following years, against the tax of the year and the provisional payments thereof.

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.

VII. The following are the Account Balances common assets of the capital stock tax accounts:

	2022	**2021**	**2020**
Contributing Capital Account (CUCA)	$ 2,727,180	$ 2,106,601	$ 1,962,367
Tax Utility Account (CUFIN)	50,030	50,030	46,605
Post at the end of the year Account Balances	$ 2,322,210	$ 2,156,631	$ 2,008,972

19. Financial instruments

a. Classes and categories of financial instruments and their fair values.

- Classes of financial instruments based on their nature and characteristics
- The carrying amounts of financial instruments;
- Fair values of financial instruments (except financial instruments where the carrying amount approaches their fair value); and
- Levels of fair value hierarchy of financial assets and liabilities for which fair value was disclosed.

Fair value hierarchy levels 1 through 3 are based on the degree to which fair value is observable:

- Level 1: Fair value measures are those derived from quoted (unadjusted) prices in active markets, for identical assets or liabilities; •

- Level 2: Level 2 fair value measures are those derived from inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

- Level 3: Level 3 fair value measures are those derived from valuation techniques that include inflows to the asset or liability that are not based on observable market data (unobservable inflows)

b. *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, except as mentioned in note 1.

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:

	2022	2021	2020
Cash and cash equivalents	$ 218,753	$ 498,065	$ 279,227
Debt	1,680,817	1,539,394	1,038,778
Net debt	1,462,064	1,041,329	759,551
Stockholders' equity	1,494,236	1,322,400	1,174,406
Index of net debt and equity	97.85%	78.75%	64.68%

The debt includes long-term debt and current portion.

c. ***Categories of financial instruments***

		2022		2021		2020
Financial assets:						
Cash and cash equivalents	$	218,753	$	498,065	$	279,227
Accounts receivable		1,189,813		1,347,899		912,833
Due from related parties		3,091		8,909		5,193
Financial liabilities:						
Banking loans	$	1,680,817	$	1,539,394	$	1,038,778
Trade accounts payable		1,614,856		1,716,045		1,330,760
Lease liabilities		348,348		324,646		329,483
Due to related parties		9,229		5,110		7,201
Other long-term accounts payable		32,813		121,026		5,021

d. ***Fair value of financial instruments***

The fair value of the financial instruments presented below has been determined by the Group using commercially available information or other valuation techniques that require judgment to develop and interpret estimates of fair values and uses assumptions that are based on market conditions existing at each of the dates of the consolidated statements of financial position.

Consequently, the estimated amounts presented are not necessarily indicative of the amounts that the Group could realize in a current market exchange. The use of different assumptions and/or estimation methods could have a material effect on the estimated fair value amounts.

Financial instruments that are measured after initial recognition at fair value are grouped into the levels shown below, which cover the degree to which fair value is observed.

Level 1, fair value valuations are those derived from quoted (unadjusted) prices in active markets for liabilities or identical assets;

Level 2, fair value valuations are those derived from indicators other than quoted prices included within Level 1, but which include indicators that are observable for an asset or liability, either directly at quoted prices or indirectly, i.e., derived from these prices; and

Level 3, fair value valuations are those derived from valuation techniques that include indicators for assets or liabilities that are not based on observable market information (unobservable indicators).

The Group's cash and cash equivalents amounts, as well as accounts receivable and payable from third parties and related parties, approximate their fair value because they have short-term maturities. The Group's long-term debt is recorded at amortized cost and consists of interest-bearing debt at fixed and variable rates that are related to market indicators.

The fair value of long-term debt is obtained through the quoted market prices for similar instruments or through techniques such as estimated cash flows in the case of private debt instruments using interest rates of similar instruments that reflect the risk of the counterparty as well as the risk of the same Group for the reference term.

The fair value of bank debt is as follows:

2022		2021		2020	
Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
$ 1,680,817	$ 1,662,411	$ 1,593,394	$ 1,515,466	$ 1,038,778	$ 1,053,643

e. ***Financial risk management objectives***

The Group's Treasury function is administrating 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.

f. ***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.

g. ***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 on December 31, 2022, 2021 and 2020 would have been adversely affected by the amount of $1,923, $3,968, and $7,462, 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:

	2022	**2021**	**2020**
US Dollars:			
Monetary assets	26,909	34,438	21,526
Monetary liabilities	(44,058)	(41,125)	(45,828)
Short position	(17,149)	(6,687)	(24,302)
Amount in Mexican pesos	$ (332,030)	$ (137,642)	$ (484,793)

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

			December 31,	
	April 12, 2023	**2022**	**2021**	**2020**
US Dollars	$ 18.0660	$ 19.3615	$ 20.5835	$ 19.9487

h. ***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,) which, represent approximately 68% to 2022, 71% at 2021 and 85% at 2020 of the total debt contracted by the Group, respectively. 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:

	2022	**2021**	**2020**
Total debt	$ 1,680,817	$ 1,539,394	$ 1,038,778
Variable interest expense	185,038	141,091	112,982
Financial cost of debt percentage	11.01%	9.17%	10.88%
Sensitivity to + 100 base points	201,866	156,556	123,370
Sensitivity to -100 base points	168,250	126,768	102,594

i. ***Credit risk management***

The credit risk is that which arises when one of the party's 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. Overdue debts that are difficult to recover are sent to lawyers for collection through the courts.

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

j. ***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 on December 31, 2022, 2021 and 2020 as the transition date is as follows:

	December 31, 2022			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	$ 480,390	$ 689,994	$ 646,427	$ 1,816,811
Trade accounts payable	1,614,856	-	-	1,614,856
Lease liabilities	63,877	74,153	210,318	348,348
Other accounts payable	254,600	-	32,813	287,413
Due to related parties	9,229	-	-	9,229
	$ 2,422,952	$ 764,147	$ 889,558	$ 4,076,657

	December 31, 2021			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	$ 544,805	$ 247,489	$ 747,100	$ 1,539,394
Trade accounts payable	1,716,045	-	-	1,716,045
Lease liability	53,306	56,643	214,697	324,646
Other accounts payable	466,933	-	121,026	587,959
Due to related parties	5,110	-	-	5,110
	$ 2,786,199	$ 304,132	$ 1,082,823	$ 4,173,154

	December 31, 2020			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	$ 780,590	$ 268,643	$ 102,564	$ 1,151,797
Trade accounts payable	1,330,760	-	-	1,330,760
Lease liability	66,223	55,558	294,677	416,458
Other accounts payable	382,285	5,021	-	387,306
Due to related parties	7,201	-	-	7,201
	$ 2,567,059	$ 329,222	$ 397,241	$ 3,293,522

20. Financial derivatives

On June 2, 2021, the Group contracted a call option derivative referenced to an interest rate "CAP" (underlying asset). This instrument was contracted for the payment of interest accrued by the bilateral credit of the subsidiary PMP to hedge the risk of a TIIE interest rate increase (as these credits are subject to this reference rate). The general conditions of this instrument were as follows:

Instrument	Counterparty	Starting date	Maturity	Notional amount in USD	Fair value
Interest Rate Option "CAP"	HSBC Mexico, S. A	June 2, 2021	June 4, 2025	1,000,000	80,444

21. Balances and transactions with related parties

a. Balance net due from related parties are:

	2022	2021	2020
Mexichem Flúor, S.A. de C.V.	$ 1,497	$ 7,859	$ 4,316
Mexichem Resinas Vinílicas, S.A. de C.V.	1,486	858	675
Mexichem Soluciones Integrales, S.A. de C.V.	-	3	-
Mexichem Compuestos, S.A. de C.V.	108	189	202
	$ 3,091	$ 8,909	$ 5,193

b. Balance net due to related parties are:

	2022	2021	2020
Quimir, S.A. de C.V.	$ 5,365	$ 4,955	$ 6,829
Mexichem Servicios Administrativos, S. A. de C. V.	3,753	-	-
Mexichem Compuestos, S.A. de C.V.	111	155	372
	$ 9,229	$ 5,110	$ 7,201

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

	2022	2021	2020
Mexichem Derivados, S.A. de C.V.:			
Sales	$ 1,445	$ 1,172	$ 1,912
Purchases	(3,336)	(2,077)	(2,112)
Quimir, S.A. de C.V.:			
Purchases	$ (40,872)	$ (29,354)	$ (32,033)

	2022	2021	2020
Mexichem Flúor, S.A. de C.V.			
Sales	$ 32,787	$ 33,406	$ 37,119
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	$ 2,655	$ 2,691	$ 2,711
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	$	$ 10	$ 163
Mexichem Compuestos, S.A. de C.V.:			
Sales	$ 499	$ 499	$ 706

22. Net sales

	2022	2021	2020
Chemicals and lubricants	$ 10,125,405	$ 8,683,956	$ 5,968,043
Paper	318,222	254,196	289,412
	$ 10,443,627	$ 8,938,152	$ 6,257,455

23. Other non-recurring income

	2022	2021	2020
Gain in business acquisition (See note 10)	$ -	$ -	$ 115,239
Extraordinary income tax in favor of Brazil [1]	-	229,090	-
	$ -	$ 229,090	$ 115,239

[1] On August 26, 2019 Coremal, S.A. (Coremal, a subsidiary of the Group) was informed that it would be subject to a definitive, non-appealable tax credit issued by the State for the period from 2002 through 2019, whereby the calculation of Tax on the Circulation of Goods and Services “ICMS” should not be considered for the payment of Pis/Cofins. On May 13, 2021, Coremal received notification from the Supreme Court of Brazil (STF) regarding the status of tax processes and the determination whereby ICMS would be indicated in the tax invoice.

This extraordinary income occurred from September through December 2021, having the following effects on the consolidated financial statements:

	2022
Result status:	
Other income	$ 229,090
Administration Expenses	(244,717)
Loss of Operation	(15,627)
Financial income	135,834
Financial expenses	(24,447)
RIF	111,387
Taxes	(61,343)
Net in Results	$ 34,417
Financial Position Status:	
Taxes to be recovered	$ 81,982
Other assets	32,565
Total assets	114,547
Taxes Payable	17,231
Other account payable long-term	96,705
Total Liabilities	$ 113,936

24. Cost of sales

	2022	2021	2020
Inventories consumed	$ 8,177,864	$ 6,744,247	$ 4,874,835
Freight in the acquisition of merchandise	188,586	195,720	144,892
	$ 8,366,450	$ 6,939,967	$ 5,019,727

25. Operating expenses

	2022	2021	2020
Payroll	$ 840,005	$ 924,757	$ 603,364
Depreciation and amortization	199,778	183,203	167,869
	14,725	-	-
Operations	187,603	247,374	86,890
Leasing	34,915	2,994	2,543
Systems	45,800	52,382	35,833
Maintenance	38,350	29,549	28,415
Fees	120,391	211,995	66,990
Other	62,740	69,558	38,460
	$ 1,544,307	$ 1,721,812	$ 1,030,364

26. Income taxes

The Group is subject to income tax ("ISR", for its acronym in Spanish). 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 2022, 2021 and 2020 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%, in Chile, Perú, Colombia and Argentina the statutory tax rate for corporations is 27%, 29.5%, 31% y 35%, respectively

a. Income taxes expense recognized are as follows:

	2022	2021	2020
ISR:			
Current tax	$ 81,423	$ 159,392	$ 17,168
Deferred tax	17,869	(87)	(42,989)
	$ 99,292	$ 159,305	$ (25,821)

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

	2022	2021	2020
Deferred ISR asset:			
Tax loss carryforwards	$ 98,244	$ 83,348	$ 80,355
Provisions	140,448	117,869	80,926
Deferred ISR asset	238,692	201,217	161,281
Deferred ISR liability:			
Properties, plant, and equipment	(21,089)	(26,923)	610
Other assets	(68,832)	(7,654)	4,662
Deferred tax liability	(89,921)	(34,577)	5,272
Total assets	$ 148,771	$ 166,640	$ 166,553

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:

	2022 %	2021	2020
Statutory rate	30%	30%	30%
Plus, the effect of non-deductible expenses	3%	4%	6%
Plus, effects of inflation	8%	8%	14%
Plus, effect of unused fiscal losses and tax compensations not recognized as deferred tax assets and other	(11) %	4%	6%
Less profit in business acquisition	-	-	(72)%
Effective rate	30%	46%	(16)%

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, 2022, are:

Year of Expiration	Tax loss carryforwards
2025	$ 1,148
2026	9,210
2027	403
2029	1,735
2030	30,834
2031	6,627
2032	281,448
	$ 331,405

e. Deferred income tax balances

2022	Beginning balance	Recognized in profit or loss	Ending balance
Deferred tax asset:			
Provisions	$ 117,869	$ (1,554)	$ 116,315
Tax loss carryforwards	83,348	14,896	98,244
Deferred tax liability:			
Properties plan and equipment	(26,923)	5,834	(21,089)
Other assets	(7,654)	(37,045)	(44,699)
Total asset, net	$ 166,640	$ (17,869)	$ 148,771

2021	Beginning balance	Recognized in profit or loss	Ending balance
Deferred tax asset:			
Provisions	$ 80,926	$ 36,943	$ 117,869
Tax loss carryforwards	80,355	2,993	83,348
Deferred tax liability:			
Properties plan and equipment	610	(27,533)	(26,923)
Other assets	4,662	(12,316)	(7,654)
Total asset, net	$ 166,553	$ 87	$ 166,640

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	(2,020)	10,050	(3,368)	4,662
Total asset, net	$ 54,926	$ 42,989	$ 68,638	$ 166,553

27. Non-cash transactions

On April 2022 and 2021, at the Annual General Meeting of Shareholders, fraction VI, it was approved to establish the amount of the 190,590 and 185,982, respectively, (for 2020, no amount was approved), As a maximum amount of money which the Group may allocate to the purchase of own shares or credit titles representing such shares, on the understanding that the acquisition and placement of the own shares concerned, They were carried out by the Company through the Mexican Stock Exchange, S.A.B. de C.V. affecting the cumulative results of the Group in 2022, 2021, and 2020 for an amount of $(190,590), $(185,982) and $(1,827), respectively, to cancel the remainder of the reserve.

During the years ended December 31, 2022, 2021, and 2020, the Group acquired equipment worth $51,424, $26,664, and $35,118, respectively, through leasing. This acquisition is being reflected in Statement of Cash Flows through the payments of rents throughout the life of the lease.

During the year ending December 31, 2021, COREMAL was informed that it finally obtained an unappealable tax credit from the State from fiscal year 2002 through 2019 (PIS COFINS) (See Note 23), the effects on the results of this operation did not generate cash flow in favor of the amount of the $34,417.

28. Commitments

The Group leases the building where its corporate offices are located in addition to buildings where some branches are located (see Note 14). Rental expenses amounted to $84,296 for 2022, $76,499 for 2021 and $58,192 for 2020; The lease contracts have variable mandatory terms from 1 to 15 years and based on the following minimum payments:

Year	Amount
2023	$ 70,686
2024	62,698
2025	54,709
2026	48,393
2027 and onwards	11,862
	$ 248,348

29. Business segments information

Business segments information of the Group is as follows:

	2022			2021			2020		
	Chemical products	Paper	Total	Chemical products	Paper	Total	Chemical products	Paper	Total
Statement of income:									
Net sales	$ 10,125,405	$ 318,222	$ 10,443,627	$ 8,683,956	$ 254,196	$ 8,938,152	$ 5,968,043	$ 289,412	$ 6,257,455
Depreciation	193,690	6,088	199,778	177,993	5,210	183,203	160,105	7,764	167,869
Operating income	516,633	16,237	532,870	491,088	14,375	505,463	308,414	14,956	323,370
Finance costs	(242,757)	(7,629)	(250,386)	(224,289)	(6,565)	(230,854)	(151,353)	(7,340)	(158,693)
Derived financial instrument	59,661	-	59,661	-	-	-	-	-	-
Consolidated net income	226,107	7,106	233,213	185,170	5,420	190,590	176,843	8,576	185,419
Statements of financial position:									
Total assets	$ 5,364,597	$ 168,599	$ 5,533,196	$ 5,406,156	$ 157,388	$ 5,563,544	$ 4,120,630	$ 199,825	$ 4,320,455
Total liabilities	3,892,493	122,334	4,014,827	4,121,364	119,780	4,241,144	3,000,542	145,507	3,146,049
Statements of cash flows:									
Operation	$ 101,354	$ 3,185	$ 104,539	$ 150,714	$ 3,043	$ 153,757	$ 258,954	$ 12,559	$ 271,513
Investment	(37,244)	(1,171)	(38,415)	(41,851)	(1,225)	(43,076)	(248,045)	(7,672)	(255,717)
Financing	(159,627)	(5,016)	(164,643)	129,847	5,170	135,017	148,306	7,192	155,498

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 (principally Coremal in 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 – Including information of Chile, Perú, Colombia, Argentina y Brasil.
- Brazil (Coremal).

Information on geographical area of the Group is presented below:

	2022				2021				2020			
	Mexico and Central America	South America (1)	Brazil	Total	Mexico and Central America	South America (1)	Brazil	Total	Mexico and Central America	South America (1)	Brazil	Total
Net sales	$ 5,915,103	$ 1,835,431	$ 2,693,093	$ 10,443,627	$ 5,028,494	$ 1,614,532	$ 2,295,126	$ 8,938,152	$ 4,428,348	$ 310,358	$ 1,518,749	$ 6,257,455
Total assets	$ 3,315,251	$ 1,073,409	$ 1,120,403	$ 5,509,063	$ 3,386,504	$ 1,131,868	$ 1,045,172	$ 5,563,544	$ 2,826,547	$ 920,062	$ 573,846	$ 4,320,455
Total liabilities	$,2,518,504	$ 474,147	$ 1,022,176	$ 4,014,827	$ 2,712,875	$ 515,246	$ 1,013,023	$ 4,241,144	$ 1,993,387	$ 254,012	$ 898,650	$ 3,146,049

(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.

30. Operating lease arrangements

a. ***The Group as a 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

		2022
Less than one year	$	4,037

31. 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 subsidiary of the Group) 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. On December 31, 2022, the amount derived from the legal proceedings reported by the legal advisors of Coremal as regards the holding company is R$13,761 thousand of reals, the value in Mexican pesos amounts to $50,696.

Coremal made a payment of R$18,406 to the tax authority of São Paulo, considering a special reduction of 35% of the base granted for a period of 30 days in Article 95 of Law No. 6.374/89, in relation to the pending case number 4.073.216-2 with the Brazilian tax authorities. This payment allowed the company the access to request the other benefits with the authority of the state of Sao Paulo; the quantification of this case amounted to R$34,029 or its equivalent of $125,363 in Mexican pesos at the end of 2022.

On August 30, 2021, one of the Group's subsidiaries called Demser, S.A. de C.V. ("Demser") filed a nullity lawsuit against the resolution of the Ministry of Finance which established a tax credit for $60,367. By judgment of January 13, 2022, the Magistrates of the Third Metropolitan Regional Chamber of the Federal Court of Administrative Justice resolved, on the one hand, to declare the nullity of the contested resolution, as well as the one originally appealed, for the effect that the defendant authority issues a new resolution in which it does not consider as accumulated income the amount of $ 7,133, Considering that this amount corresponds to the payment of shares, a concept that is not considered as income and, on the other hand, they decided to declare unfounded various arguments put forward by the applicant company.

On 15 February 2023, Demser filed an application for direct amparo against that judgment in which he put forward, inter alia, arguments tending to demonstrate the illegality of the judgment in that part in which it confirmed the legality of the contested decision as being unduly founded and reasoned, since the Chamber ignored that the contested decisions are the result of a procedure followed illegally.

Management, based on information provided by its outside legal counsel, believes that there is a good likelihood of a favorable outcome.

32. Approval of the issuance of consolidated financial statements

On April 12, 2023, 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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