

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

Consolidated Financial Statements for
the Years Ended December 31, 2012,
2011, and January 1, 2011 (Transition
Date), and Independent Auditors'
Report Dated April 9, 2013

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

Independent Auditors' Report and Consolidated Financial Statements for 2012 and 2011, and January 1, 2011 (Transition Date)

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

We have audited the accompanying consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and subsidiaries (the "Entity") which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and January 1, 2011 (transition date) and the consolidated statements of income, changes in stockholders' equity and cash flows for the years ended December 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Responsibility of the Independent Auditors

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Grupo Pochteca, S. A. B. de C. V. and subsidiaries as of December 31, 2012 and 2011, and January 1, 2011 (transition date), and their financial performance and their cash flows for the years ended December 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Other matters

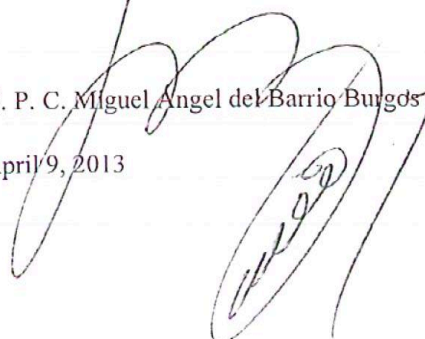
The accompanying consolidated financial statements have been translated into English for the convenience of readers.

As described in Note 2, the Entity adopted International Financial Reporting Standards ("IFRS") on January 1, 2011 and its amendments and interpretations issued by the International Accounting Standards Board (IASB, for its acronym in English), in effect as of December 31, 2012, and consequently applied IFRS 1, *First-Time Adoption of International Financial Reporting Standards*. These consolidated financial statements have been prepared in accordance with the standards and interpretations issued and outstanding as of the date thereof. January 1, 2011 is the "transition date".

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

C. P. C. Miguel Angel del Barrio Burgos

April 9, 2013



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

Consolidated Statements of Financial Position

As of December 31, 2012 and 2011, and January 1, 2011 (transition date)
(In thousands of Mexican pesos)

Assets	Notes	2012	2011	Transition date
Current assets:				
Cash and cash equivalents	5	\$ 361,938	\$ 94,596	\$ 70,505
Accounts receivable and recoverable taxes - Net	6	626,032	698,624	707,412
Due from related parties	16	5,456	9,826	4,153
Inventories – Net	8	563,178	642,298	695,206
Prepaid expenses		<u>15,967</u>	<u>42,128</u>	<u>23,640</u>
		1,572,571	1,487,472	1,500,916
Assets held for sale	7	<u>185,531</u>	<u>-</u>	<u>-</u>
Total current assets		1,758,102	1,487,472	1,500,916
Property, plant and equipment – Net	9	568,016	534,363	531,488
Investments in shares of associated company		4,660	3,760	3,760
Other assets		20,991	8,368	6,458
Derivative financial instruments		-	5,641	-
Deferred income taxes – Net	20	41,889	73,870	-
Goodwill	10	<u>101,556</u>	<u>101,556</u>	<u>101,556</u>
Total		<u>\$ 2,495,214</u>	<u>\$ 2,215,030</u>	<u>\$ 2,144,178</u>

Liabilities and stockholders' equity	Note	2012	2011	Transition date
Current liabilities:				
Bank loans and current portion of long-term debt	12	\$ 4,929	\$ 264,760	\$ 307,109
Trade accounts payable		788,313	629,057	711,233
Other accounts payable and accrued expenses	11	107,769	86,572	84,216
Due to related parties	16	28,069	14,327	18,038
Income taxes and statutory employee profit sharing		<u>7,735</u>	<u>29,324</u>	<u>1,278</u>
		936,815	1,024,040	1,121,874
Liabilities directly associated with assets classified as held for sale	7	<u>54,571</u>	<u>-</u>	<u>-</u>
Total current liabilities		991,386	1,024,040	1,121,874
Long-term liabilities:				
Other long-term accounts payable	11	25,945	-	-
Long-term debt	12	428,892	475,257	394,505
Deferred income taxes – Net	20	-	-	54,675
Employee benefits	13	<u>4,267</u>	<u>3,609</u>	<u>2,884</u>
Total long-term liabilities		<u>459,104</u>	<u>478,866</u>	<u>452,064</u>
Total liabilities		<u>1,450,490</u>	<u>1,502,906</u>	<u>1,573,938</u>
Stockholders' equity:				
Contributed capital-				
Capital stock	14	1,152,121	857,478	847,037
Capital loss-				
Accumulated deficit		(137,598)	(128,421)	(276,797)
Reserve for repurchase of shares		59,142	-	-
Translation effects of foreign operations		<u>(28,941)</u>	<u>(16,933)</u>	<u>-</u>
		<u>(107,397)</u>	<u>(145,354)</u>	<u>(276,797)</u>
Total stockholders' equity		<u>1,044,724</u>	<u>712,124</u>	<u>570,240</u>
Total		<u>\$ 2,495,214</u>	<u>\$ 2,215,030</u>	<u>\$ 2,144,178</u>

The accompanying notes are part of the consolidated financial statements.

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

Consolidated Statements of Income

For the years ended December 31, 2012 and 2011

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

	Notes	2012	2011
Continuing operations:			
Net sales	17	\$ 3,729,001	\$ 3,671,173
Cost of sales	18	<u>(3,122,336)</u>	<u>(3,037,120)</u>
Gross profit		606,665	634,053
Operating expenses	19	<u>(446,743)</u>	<u>(491,119)</u>
Consolidated income from operations		159,922	142,934
Financing costs:			
Interest expense		(71,425)	(72,841)
Exchange gain (loss)		3,635	(32,264)
Effects of valuation of financial instruments		<u>-</u>	<u>5,641</u>
		(67,790)	(99,464)
Income before income taxes		92,132	43,470
Income taxes expense (benefit)	20	<u>29,965</u>	<u>(115,885)</u>
Income from continuing operations		62,167	159,355
Discontinued operations:			
Loss from discontinued operations	21	<u>(11,344)</u>	<u>(10,979)</u>
Consolidated net income		<u>\$ 50,823</u>	<u>\$ 148,376</u>
Earnings per share:			
From continuing and discontinued operations:			
Basic earnings per common share (In Mexican pesos)		<u>\$ 0.0870</u>	<u>\$ 0.3379</u>
From continuing operations:			
Basic earnings per common share (In Mexican pesos)		<u>\$ 0.1064</u>	<u>\$ 0.3629</u>
Weighted average shares outstanding		<u>584,332,993</u>	<u>439,075,801</u>

The accompanying notes are part of the consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2012 and 2011
(In thousands of Mexican pesos)

	Contributed capital				Capital loss			
	Common stock							
	Nominal	In trust	Premium on sale of repurchased stock	Total	Accumulated deficit	Reserve for repurchase of shares	Translation effects of foreign operations	Total stockholders' equity
Balances at the beginning of 2011 (transition date)	\$ 875,096	\$ (28,059)	\$ -	\$ 847,037	\$ (276,797)	\$ -	\$ -	\$ 570,240
Issuance of common stock	-	10,441	-	10,441	-	-	-	10,441
Translation effects of foreign operations	-	-	-	-	-	-	(16,933)	(16,933)
Net income for the year	-	-	-	-	148,376	-	-	148,376
Balance as of December 31, 2011	875,096	(17,618)	-	857,478	(128,421)	-	(16,933)	712,124
Capital increase	300,000	-	(10,675)	289,325	-	-	-	289,325
Issuance of common stock	-	80	-	80	-	-	-	80
Creation of reserve for repurchase of shares	-	-	-	-	(60,000)	60,000	-	-
Repurchase of shares	-	-	5,238	5,238	-	(858)	-	4,380
Translation effects of foreign operations	-	-	-	-	-	-	(12,008)	(12,008)
Net income for the year	-	-	-	-	50,823	-	-	50,823
Balances as of December 31, 2012	<u>\$ 1,175,096</u>	<u>\$ (17,538)</u>	<u>\$ (5,437)</u>	<u>\$ 1,152,121</u>	<u>\$ (137,598)</u>	<u>\$ 59,142</u>	<u>\$ (28,941)</u>	<u>\$ 1,044,724</u>

The accompanying notes are part of the consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2012 and 2011

(In thousands of Mexican pesos)

(Indirect method)

	Notes	2012	2011
Operating activities:			
Income before income taxes	\$	92,132	\$ 43,470
Adjustments for:			
Depreciation		34,563	39,453
Loss in results for assets held for sale		(11,344)	(10,979)
Loss (income) on sale of equipment		2,920	(25,546)
Derivative financial instruments		-	(5,641)
Interest expense		<u>72,631</u>	<u>75,391</u>
		190,902	116,148
(Increase) decrease in:			
Accounts receivable and recoverable taxes		(35,289)	8,788
Inventories		33,411	52,908
Other assets		9,556	(26,071)
Increase (decrease) in:			
Trade accounts payable		199,806	(82,176)
Other accounts payable and accrued expenses		27,195	3,081
Due to related parties		18,112	(3,711)
Income taxes paid		<u>(5,738)</u>	<u>15,386</u>
Net cash provided by operating activities		<u>437,955</u>	<u>84,353</u>
Investing activities:			
Purchase of machinery and equipment		(82,713)	(46,925)
Sale of equipment		<u>11,351</u>	<u>30,143</u>
Net cash used in investing activities		<u>(71,362)</u>	<u>(16,782)</u>
Financing activities:			
Borrowings	12	440,000	726,939
Repayment of loans received	12	(740,300)	(679,994)
Commissions paid		(16,500)	-
Payment of financial leasing		(2,487)	(8,542)
Resale of own common shares		4,380	-
Interest paid		(69,495)	(75,391)
Issuance of common stock		<u>289,405</u>	<u>10,441</u>
Net cash used in financing activities		<u>(94,997)</u>	<u>(26,547)</u>
Effects of changes in exchange rates on cash held in foreign currency		(4,254)	(16,933)
Net increase in cash and cash equivalents		267,342	24,091
Cash and cash equivalents at beginning of year		<u>94,596</u>	<u>70,505</u>
Cash and cash equivalents at end of year		<u>\$ 361,938</u>	<u>\$ 94,596</u>

The accompanying notes are part of the consolidated financial statements.

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2012 and 2011, and January 1, 2011 (transition date)
(In thousands of Mexican pesos)

1. Activities and significant events

Activity

The main activity of Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the Entity) is the trading of raw materials for the chemical, coating, plastics and food industries, as well as the processing and marketing of paper, cardboard and products for graphic arts. The offices are located at Manuel Reyes Veramendi 6, Colonia San Miguel Chapultepec, Delegación Miguel Hidalgo, México, D. F.

Significant events

- a. ***Debt prepayment and procurement*** - On June 21, 2012, the Entity prepaid 4,500,000 Fiduciary Securitization Certificates with a face value of one hundred pesos each (see Note 12) with maturity in August 2014. These Certificates were paid through an unsecured loan granted by HSBC México, S. A. (HSBC) for \$440,000 (debt syndicated by HSBC and Banco Inbursa, S. A. (Inbursa) for \$190,000 and \$250,000, respectively). The debt was contracted at the THIE rate plus a margin of between 1.50% and 2.50% depending on the leverage ratio (see Note 12).

The Entity also prepaid outstanding credits of \$260,704 at December 31, 2011 through a capital increase of \$300,000 (see Note 14).

- b. ***Acquisition of real property*** - On June 25, 2012, the Entity acquired the Shell lubricant plant in Mexico, located in the city of León, Guanajuato, for the amount of US\$ 2,539,000 (equal to \$32,977 Mexican pesos) of which the amount of US\$ 507,000 (equal to \$6,585 Mexican pesos) was paid during 2012. The balance will be paid in the following manner: US\$ 250,000 (equal to \$3,247 Mexican pesos) on June 30, 2013; US\$ 350,000 (equal to \$4,546 Mexican pesos) on July 31, 2014, and US\$ 1,648,000 (equal to \$21,404 Mexican pesos) on July 31, 2015. These amounts are recorded under the heading of other accounts payable and accrued expenses in the accompanying consolidated statements of financial position (see Note 11).
- c. ***Assets held-for-sale*** – During 2012, the Entity's Management approved plans for the short-term divestment of foreign subsidiaries because the Entity's new strategy is focused on consolidating markets in which it has a market share equal to at least 10% of the consolidated EBITDA. The EBITDA is the indicator used by the Entity for business measurement purposes, but is not defined by International Financial Reporting Standards.

2. Basis of presentation

a. *Adoption of International Financial Reporting Standards*

As of January 1, 2012 the Entity adopted the International Financial Reporting Standards (“IFRS, IAS or NIC”) and its and interpretations issued by the International Accounting Standards Board (“IASB”) consequently the Entity applied the IFRS 1, *First time Adoption of International Financial Reporting Standards*. The consolidated financial statements have been prepared in accordance to such standards and interpretations as of their issuance.

Transition to IFRS

The consolidated financial statements for the year ended December 31, 2011 were the last annual consolidated financial statements of the Entity to be prepared in conformity with Mexican Financial Reporting Standards (“MFRS”) for public use. In preparing the consolidated financial statements as of December 31, 2012 and 2011 and for the years then ended, certain methods of valuation and application of accounting principles have changed with respect to the Entity’s consolidated financial statements previously presented under MFRS, in order to comply with IFRS. Comparative figures have been modified to reflect this adoption.

The required reconciliations of consolidated equity and net income, together with a description of the effects of transition to IFRS in the consolidated financial statements of the Entity are included in Note 26.

- b. ***Basis of measurement*** - The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of properties and lands at a fair value, as explained in the accounting policies below:
- i. Historical cost - Historical cost is generally based on the fair value of the consideration given in exchange for assets.
 - ii. Fair value - The price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market paid at the measurement date participants
- c. ***Basis of consolidation of financial statements*** – The financial statements of those companies in which the Entity has capital stock are consolidated. Control is achieved where the Entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The equity in their capital stock of the subsidiaries are shown below:

Subsidiary	Main activity
Pochteca Materias Primas, S. A. de C. V.	Trading of raw materials
Suplia, S. A. de C. V.	Trading of raw materials
Demser, S. A. de C. V.	Professional services
Servicios Administrativos Argostal, S. A. de C. V.	Professional services
Pochteca de Guatemala, S. A.	Trading of raw materials
Pochteca Brasil Ltda.	Trading of raw materials
Pochteca Papel, S. A. de C. V.	Trading of paper
Alcoholes Desnaturalizados y Diluentes, S. A. de C. V. ⁽¹⁾	Leasing
Adydsa del Sureste, S. A. de C. V. ⁽¹⁾	Leasing
Adydsa del Centro, S. A. de C. V. ⁽¹⁾	Leasing

Subsidiary	Main Activity
Transportadora de Líquidos y Derivados, S. A.	Transportation of chemical products
Pochteca de El Salvador, S. A.	Trading of raw materials
Pochteca de Costa Rica, S. A. ⁽³⁾	Trading of raw materials
Asesoría en Lubricantes Pochteca, S. A de C. V. ⁽³⁾	Professional services
Asesoría en Servicios Pochteca, S. A de C. V. ⁽²⁾	Professional services
Plásticos Argostal, S. A. de C. V.	Without operations
Químicos Argostal, S. A. de C. V.	Without operations

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

- (1) **Merger of subsidiaries** - On February 28, 2011, the subsidiaries Alcoholes Desnaturalizados y Diluentes, S. A. de C. V., Adydsa del Centro, S. A. de C. V. and Adydsa del Sureste, S. A. de C. V. merged with subsidiary Pochteca Materias Primas, S. A. de C. V. (merging company) The merger has no effect on the consolidated financial statements as it is a merger of subsidiaries under common control.
- (2) **Creation of new companies** - On August 16, 2011, a new subsidiary was created, Asesoría en Servicios Pochteca, S. A. de C. V., and is engaged in providing professional and administrative services exclusively to related parties.
- (3) On July 15, 2011 and September 10, 2011 the following companies were created: Pochteca de Costa Rica, S. A., a trading entity of raw materials for the chemical, coating, plastics and food industries and Asesoría en Lubricantes Pochteca, S. A. de C. V., providing professional and administrative services entity, mainly to affiliated companies.

Significant intercompany balances and transactions have been eliminated in these consolidated financial statements.

Equity in results and changes in stockholders' equity of subsidiaries acquired or sold during the year are included in the consolidated financial statements as of the respective transaction date.

Subsidiaries - The subsidiaries are all the companies over which the Entity has the power to govern their operating and financial policies, generally because it owns more than half of the voting stock. The existence and effects of the potential voting rights which are currently exercisable or convertible are considered when it is evaluated whether the Entity controls other Entity. The subsidiaries are consolidated from the date on which their control is transferred to Entity, and they cease to consolidate from the date on which control is lost.

The accounting policies of subsidiaries have been changed where necessary to ensure that there is consistency with the policies adopted by the Entity.

- d. ***Conversion of the financial statements of foreign subsidiaries*** – The individual financial statements of each of the Entity's subsidiaries are prepared in the currency of the primary economic environment in which the Entity 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 Entity'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. At January 1, 2011, conversion effects are presented in zeros due to the exemption selected by the Entity for its transition to IFRS.

3. Summary of significant accounting policies

The accompanying consolidated financial statements have been prepared in conformity with IFRS issued by the IASB. Their preparation requires that management make certain estimates and use certain assumptions that affect the amounts reported in the financial statements and their related disclosures; however, actual results may differ from such estimates. The Entity's management, upon applying professional judgment, considers that estimates made and assumptions used were adequate under the circumstances (Note 4). The significant accounting policies of the Entity are as follows:

- a. ***Cash and cash equivalents*** - Cash includes bank deposits and checking accounts and cash equivalents in short-term investments, highly liquid and easily convertible into cash, which are subject to insignificant value change risks.
- b. ***Reclassifications*** - Certain amounts in the consolidated financial statements for the year ended December 31, 2011 have been reclassified to conform to the presentation of the amounts in the 2012 consolidated financial statements.
- c. ***Financial assets*** - Financial assets are recognized when the Entity becomes a party to the contractual provisions of the instruments.

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

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'held-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All acquisitions and sales of financial assets are recognized or eliminated on the date of the negotiation. The acquisitions and sales of financial assets required the delivery of assets within the frame and time established by the standards, customs or the regulation of the market. The Entity only holds financial assets classified as FVTPL (derivative financial instruments) and loans and receivables. (see the categories of financial instruments in Note 14 – Financial assets at FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as FVTPL. Financial assets at FVTPL are stated at fair value, with any gains or losses arising on measurement in profit or loss.

- Loans and accounts receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including [trade and other receivables, bank balances and cash, and others [describe]]) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short, term receivables when the effect of discounting is immaterial.

Allowance for bad debts: Tests are applied to accounts receivable from customers to determine their impairment at the end of each period. These amounts are considered to be impaired when objective evidence is obtained to the effect that, as a result of one or more events arising after their recognition, the estimated future cash flows of the financial asset have been affected. Objective evidence of impairment may include: i) the customer's financial difficulties; ii) customer noncompliance as regards the payment of invoices; iii) the customer has either started bankruptcy proceedings or a financial reorganization process; or iv) observable changes in national and local economic conditions which are correlated with payment default. Accounts receivable from customers that have not undergone individual impairment are included in the impairment evaluation performed on a collective basis.

- d. ***Long lived assets held for sale*** – The assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This condition is when the sale is highly probable and the asset (or asset group) is held for immediate sale in its present condition. Management must be committed to the sale, which is expected to qualify for recognition as a completed sale within one year period from the date of classification.

When the Entity is committed to a sale plan involving loss of control of a subsidiary, all assets and liabilities of that subsidiary are classified as held for sale when the criteria described above, regardless of whether the entity will retain non-controlling interest in its former subsidiary after the sale.

The valuation is the lower of its carrying amount before the classification and fair value less costs to sell.

- e. ***Inventories and cost of sales*** - Inventories are stated at the lower of average cost or realizable value, using the average cost valuation method. The net realizable value represents the estimated sales price less termination costs and those required for sales purposes.
- f. ***Property, plant and equipment*** – Property, plant and equipment are recorded at acquisition cost prior to the transition. At transition the land and buildings decided use expert appraisal valuation to value at their fair value which represent the deemed cost of those assets.

Expenditures for property plant and equipment, including renewals and improvements which extend useful lives, acquired subsequent to the transition date to IFRS are capitalized and valued at acquisition cost.

Depreciation is recognized so as to write off the cost or deemed cost of assets. Depreciation of these assets, as well as other properties, begins when the assets are ready for their intended use. Depreciation is calculated under the straight-line method based on estimated useful lives of the assets. The average years of useful lives used to calculate depreciation in 2012 and 2011 are as follows:

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

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

- g. ***Borrowing costs*** – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All borrowing costs are recognized in profit or loss in the period which they are incurred.

- h. ***Investment in shares of associated company*** – The investment in shares of associated company is initially recognized at cost. The equity participation in Unión de Crédito de la Industria Litográfica, S. A. de C. V. corresponds to 5%; at the transition date; investment in shares was valued at deemed cost.
- i. ***Derivative financial instruments*** - The Entity recognizes all assets or liabilities arising from derivative transactions in the statement of financial position at fair value, regardless of the purpose for which they are held. Fair value is determined based on recognized market prices, when the instrument is not traded in an active market, fair value is determined based on valuation techniques accepted in the financial community.

– Derivative financial instruments designated as hedging

The Entity designates certain hedging instruments as fair value. The hedge of the foreign currency risk of a firm commitment is accounted for as cash flow hedges. At the inception of the hedge, the entity documents the relationship between the hedging instrument and the hedged item, as well as the objectives of risk management and management strategy for undertaking hedge transactions. Additionally, the inception of the hedge and on an ongoing basis, the Entity documents whether the hedging instrument is highly effective in offsetting the exposure to changes in fair value or changes in cash flows of the hedged.

- j. ***Goodwill*** - The goodwill generated by a business acquisition is recognized as an asset at the date on which control is acquired (business acquisition date); it refers to the amount by which the transferred payment exceeds fair value at the acquisition date of identifiable acquired assets and assumed liabilities. Impairment tests are applied to goodwill at least annually. At the transition date, the Company maintained its goodwill balance according to the previous financial reporting standards, which include the restatement of inflation until December 31, 2007.

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

- a. ***Impairment of long-lived assets in use*** - At the end of each reporting, the Entity 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 indications exists, the recoverable amount of the assets is estimated in order to determinate then extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Entity 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 held for use are tested for impairment at least annually, and whenever there is an indication that the assets may be impaired.

The impairment indicators considered for these purposes are, among others, operating losses or negative cash flows in the period if they are combined with a history or projection of losses, depreciation and amortization charged to results, which in percentage terms, in relation to revenues are substantially higher than those of previous years, obsolescence, reduction in product demand, competition and other legal and economic factors. At December 31, 2012, 2011 and January 1, 2011, the Entity had no deleterious effects on the financial position or results of operation.

- b. ***Financial liabilities and equity instruments*** - Financial liabilities are recognized when the Entity becomes a party to the contractual provisions of the instruments.

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

- Classification as debt or equity

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

- Equity instruments

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

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

- Financial liabilities

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

- Financial liabilities at FVTPL

A financial liability at FVTPL Is a financial liability classified as held for trading or designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item.

Other financial liabilities

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

- Derecognition of financial liabilities

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

- c. **Provisions** - Provisions are recognized for current obligations (legal or assumed) that result from a past event, that are probable to result in the future use of economic resources, and that can be reasonably estimated.

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

When the Entity expects to recover some or all of the economic benefits required to eliminate a provision, an account receivable is recognized as an asset if it is virtually certain that the disbursement will be received and the amount of the account receivable can be reliably measured.

Provisions are classified as current or noncurrent based on the estimated time period to meet the obligations covered.

- d. **Direct employee benefits** - Direct employee benefits are calculated based on the services rendered by employees, considering their most recent salaries. The liability is recognized as it accrues. These benefits include mainly statutory employee profit sharing (PTU) payable, compensated absences, such as vacation and vacation premiums, and incentives and it is shown in the account payable and accrued liabilities..
- e. **Retirement benefit costs** - Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees. Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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

- f. **Statutory employee profit sharing** - PTU is recorded in the profit or loss of the year in which it is incurred and presented under other income and operating expenses in the accompanying consolidated statements of income.
- g. **Stock option plan for key executives** - The Entity has created an investment and administration trust to which it contributed the amount of \$33,085 to acquire 22,056,811 shares of Grupo Pochteca, S. A. B. de C. V. at a price of one peso and fifty centavos per share. During 2008, the Board of Directors approved this capital increase, whereby the Entity treasury held 7,943,189 shares for subsequent use in the stock option plan for key executives. The shares were irrevocably assigned to certain Entity officers and employees, who became trust beneficiaries. Likewise, the Entity executives agreed to pay the value of the assigned shares within a three-year period.
- h. **Income taxes**

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

- Current tax

Income tax (ISR) and the Business Flat Tax (IETU) are recorded in the results of the year they are incurred.

- Deferred income taxes

To recognize deferred income taxes, based on its financial projections, the Entity determines whether it expects to incur ISR or IETU and, accordingly, recognizes deferred taxes based on the tax it expects to pay. Deferred taxes are calculated by applying the corresponding tax rate to temporary differences resulting from comparing the accounting and tax bases of assets and liabilities and including, if any, future benefits from tax loss carry forwards and certain tax credits. Deferred tax liabilities are generally recognized for all temporary differences. Deferred tax assets are recorded only when there is a high probability of recovery. These assets and liabilities are not recognized if the temporary differences arise from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income or accounting income

Deferred income tax liability is recognized for taxable temporary differences related to investments in subsidiaries and associated companies and participations in joint business, except when the Entity is able to control the reversal of the temporary difference and when it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets which arise from the temporary differences associated with such investments and participations are recognized only if it is probable that there will be sufficient future taxable profits against which such temporary differences can be used, and it is expected that they will reverse in the foreseeable future.

The carrying value of a deferred income tax asset is subjected to review at the end of each reporting period and is reduced when it is deemed probable that there will not be sufficient future taxable profits to allow for the recovery of all or part of the asset.

Deferred tax assets and deferred tax liabilities are measured at the tax rates expected to apply in the period when the liability is settled or the asset is realized, based on tax rates (and tax laws) that have been enacted or substantially approved at end of the reporting period under review. The valuation of liabilities and deferred tax assets reflects the tax consequences that would follow from the manner in which the entity expects, at the end of the reporting period under review, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and deferred tax liabilities are offset when there is a legal right to offset short-term assets with short-term liabilities and when they relate to income taxes relating to the same taxation authority and the Entity intends to liquidate its assets and liabilities on a net basis.

– Current and deferred taxes

Current and deferred taxes on income are recognized as revenue or expense in the statement of comprehensive income, except when they refer to items that are recognized outside profit or loss, either in other comprehensive income or directly in stockholders' equity, in which case the tax is also recognized outside profit or loss, or when they arise from the initial recognition of a business combination. In the case of business combinations, the tax effect is included within the recognition of the business combination.

- i. **Revenue recognition** - Revenue is recognized at the fair value of the consideration received or receivable, taking into account the estimated customer returns, rebates and other similar discounts.

Revenues are recognized in the period in which the risks and rewards of ownership of the inventories are transferred to the customers, who generally coincides with the delivery of products to customers and the customer assumes responsibility for them.

- j. **Transactions in foreign currency** - The individual financial statements of each of the Entity's subsidiaries are prepared in the currency of the primary economic environment in which the Entity 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 Entity's functional currency, as well as the presentation currency of the consolidated financial statements.

When preparing the financial statements of each entity, transactions denominated in currencies other than the Entity's functional currency (foreign currency) are recognized by using the exchange rates in effect on each transaction date. At the end of each reporting period, monetary items denominated in foreign currency are reconverted by using the exchange rates in effect at that date. The nonmonetary items recorded at fair value and denominated in foreign currency are reconverted by using the exchange rates in effect on the date when their fair value was determined. Nonmonetary items calculated according to their historical cost and denominated in foreign currency are not reconverted.

Exchange rate differences are recognized in the results of the period, except for:

- Exchange rate differences derived from loans denominated in foreign currency related to assets under construction for future productive use, which are included in the cost of these assets when considered as an adjustment of the interest costs of foreign currency loans; and
- Exchange rate differences derived from monetary items receivable from or payable to a foreign entity, when this payment is not planned and cannot be made (thereby forming part of the net investment of the foreign entity), which are initially recognized in other comprehensive income and reclassified from stockholders' equity to profits or losses when the net investment is totally or partially sold.

For the presentation purposes of the consolidated financial statements, the Entity's assets and liabilities denominated in foreign currency are expressed in Mexican pesos by using the exchange rates in effect at the end of the reporting period. Income and expense entries are converted by utilizing the average exchange rates in effect during the period, unless fluctuating significantly, in which case the exchange rates in effect at each transaction date are utilized. If applicable, exchange rate differences are recognized in other comprehensive income and accrued to stockholders' equity.

- k. **Classification of costs and expenses** - Costs and expenses presented in the consolidated statements of income were classified according to their function separating the cost of sales from other costs and expenses.
- l. **Earnings per share** -Basic earnings (loss) per common share are calculated by dividing consolidated net income (loss) by the weighted average number of common shares outstanding during the year.
- m. **Fund for repurchase of shares** - Shares acquired are shown as a decrease in the fund for repurchase of shares included in the consolidated statements of financial position in the line of retained earnings and are valued at acquisition cost.

4. Critical accounting judgments and key sources of estimation uncertainty

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

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and subsequent periods..

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

- a. **Useful life of property, plant and equipment** - The Entity reviews the estimated useful life of its property, plant and equipment at the end of each annual period. At the IFRS transition date, the Entity management performed a detailed analysis to modify the estimated useful life and components of property, plant and equipment. The level of uncertainty associated with the estimation of these useful lives is related to asset utilization.
- b. **Allowance for bad debts** - The Entity uses estimates to determine the allowance for bad debts. The factors considered for this purpose primarily involve the risks derived from the customer's financial position, customer guarantees and collection delays.
- c. **Realizable value of inventories** - The Entity reviews the realizable value of its inventories at the end of each period. The factors considered by the Entity to estimate its inventories are the sales prices of its products derived from changes in market demand.

5. Cash and cash equivalents

In the consolidated statements of cash flows, cash and cash equivalents include cash and banks and investment in money market instruments, net of outstanding banks overdrafts. Cash and cash equivalents at the end of the period is reported as shown in the consolidated statement of cash flow, it can be reconciled with the figures related in the consolidated statements of financial position as follows:

	2012	2011	Transition date
Cash	\$ 198,370	\$ 43,769	\$ 70,505
Investments	<u>163,568</u>	<u>50,827</u>	<u>-</u>
	<u>\$ 361,938</u>	<u>\$ 94,596</u>	<u>\$ 70,505</u>

6. Accounts receivable and recoverable taxes

	2012	2011	Transition date
Trade accounts receivable	\$ 636,033	\$ 39,946	\$ 47,778
Collection rights in trust ⁽¹⁾	-	658,132	638,796
Allowance for doubtful accounts	<u>(57,758)</u>	<u>(65,380)</u>	<u>(67,239)</u>
	578,275	632,698	619,335
Recoverable value-added tax	46,369	51,421	78,705
Other	<u>1,388</u>	<u>14,505</u>	<u>9,372</u>
	<u>\$ 626,032</u>	<u>\$ 698,624</u>	<u>\$ 707,412</u>

- (1) As of December 31, 2011, and January 1, 2012, as mentioned in Note 12b, the portfolio of the two subsidiaries was transferred into the Trust created as part of the debt certificates issuance and therefore, the balance represents fiduciary collection rights.

The accounts receivable from customers disclosed above are classified as loans and accounts receivable which are valued at their applied cost.

The average credit period granted for goods sales is 60 days. The Entity does not charge interest on accounts receivable from customers. The Entity has recognized an allowance for doubtful accounts equal to 0.3% of the sales of the last five years. In the case of accounts receivable aged more than 120 days, the Entity recognizes an allowance for doubtful accounts by considering the unrecoverable amounts determined according to its experience with counterparty noncompliance.

The limits and ratings assigned to customers are reviewed annually. The 71% of accounts receivable from customers which are not overdue or impaired have the best credit rating according to the rating system used by the Entity. For the year end accounts receivable balance, Dowell Schlumberger de México S. A. de C. V. is the Entity's most significant customer with debts of \$15,881, \$21,561 and \$10,191 as of December 31, 2012 and 2011 and at January 1, 2011, respectively. No other customer represents more than 2% of the total balance of accounts receivable from customers.

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 Entity 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.

a. Aging of accounts receivable due but recoverable

	2012	2011	Transition date
60-90 days	\$ 14,985	\$ 10,193	\$ 16,531
Greater than 90-120 days	<u>24,020</u>	<u>21,230</u>	<u>25,543</u>
Total	<u>\$ 39,005</u>	<u>\$ 31,423</u>	<u>\$ 42,074</u>

b. Change in allowance for doubtful accounts

	2012	2011	Transition date
Balance at beginning of the year	\$ 65,380	\$ 67,239	\$ 59,731
Provision for amounts deemed as bad during the year	2,200	-	7,508
Accounts recovered during the year	<u>9,822</u>	<u>1,859</u>	<u>-</u>
Balance at end of the year	<u>\$ 57,758</u>	<u>\$ 65,380</u>	<u>\$ 67,239</u>

When determining the recoverability of an account receivable, the Entity considers any modification of the account credit rating from the date on which the credit was initially granted until the end of the reporting period. Credit risk concentration is limited because the Entity's customer base is extensive and independent.

The allowance for doubtful accounts includes impaired accounts receivable from customers for the amount of \$57,758, \$65,380 and \$67,239 as of December 31, 2012 and 2011 and at January 1, 2011, respectively. Recognized impairment represents the difference between the book value of these accounts receivable and the current value of the resources the Entity expects to receive as a result of their settlement. The Entity does not hold any collateral for these balances.

Aging of accounts receivable impaired

	2012	2011	Transition date
120 + days - Total	<u>\$ 57,758</u>	<u>\$ 65,380</u>	<u>\$ 67,239</u>

7. **Assets held for sale**

During 2012, the Entity's Management approved plans for the short-term divestment of foreign subsidiaries because the Entity's new strategy is focused on consolidating markets in which it has a market share equal to at least 10% of the consolidated EBITDA. The EBITDA is the indicator used by the Company for business measurement purposes, but is not defined by IFRS. The Entity has not recognized any impairment losses derived from its foreign businesses when classifying these operations as available-for-sale or at the end of the reporting period.

The main assets and liabilities of foreign operations at the end of the reporting period are as follows:

	2012
Cash	\$ 18,763
Account receivable and recoverable taxes - Net	106,981
Inventories – Net	45,709
Property, machinery and equipment	10,096
Other assets	<u>3,982</u>
Assets held for sale	<u>185,531</u>
Bank loans	\$ 9,879
Trade account payable	40,550
Othr account payable and accrued liabilities	<u>4,142</u>
Liabilities directly associated to assets held for sale	<u>54,571</u>
Business net foreign assets classified as held for sale	<u>\$ 130,960</u>

8. Inventories

	2012	2011	Transition date
Finished goods: ⁽¹⁾			
Coatings, solvents and mixtures	\$ 152,784	\$ 192,499	\$ 169,874
Paper	130,743	164,016	197,983
Chemicals and plastics	96,195	85,842	99,557
Food products	47,987	49,992	66,665
Lubricants	<u>115,515</u>	<u>100,124</u>	<u>49,058</u>
	543,224	592,473	583,137
Allowance for impairment losses	<u>(3,431)</u>	<u>(25,505)</u>	<u>(10,465)</u>
	539,793	566,968	572,672
Merchandise-in-transit	<u>23,385</u>	<u>75,330</u>	<u>122,534</u>
	<u>\$ 563,178</u>	<u>\$ 642,298</u>	<u>\$ 695,206</u>

- (1) Inventories have been pledged as collateral for the long-term bank liability (see Note 12) for a balance up to \$24,000 through a fixed asset loan agreement.

The inventories recognized in cost of sales for inventory consumption during the period in respect of continuing operations was \$ 2,974,332 and \$ 2,893,491 in 2012 and 2011, respectively.

9. Property, plant and equipment

	Balance as of December 31, 2011	Additions	Disposals	Assets held for sale	Reclassifications	Balance as of December 31, 2012
<i>Investment:</i>						
Land	\$ 172,573	\$ 18,878	\$ (1,135)	\$ (312)	\$ -	\$ 190,004
Building and constructions	289,230	38,103	(1,962)	(1,901)	-	323,470
Industrial machinery and equipment	197,976	33,401	(2,648)	(2,604)	-	226,125
Office furniture and equipment	13,968	1,342	(2)	(1,966)	-	13,342
Vehicle	138,019	5,539	(5,604)	(3,239)	-	134,715
Computers	35,215	420		(4,356)	(11,330)	19,949
Equipment acquired under financial leases	<u>51,677</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>51,677</u>
Total investments	898,658	97,683	(11,351)	(14,378)	(11,330)	959,282
Accumulated depreciation	<u>(364,295)</u>	<u>(34,563)</u>	<u>-</u>	<u>7,592</u>	<u>-</u>	<u>(391,266)</u>
Net investment	<u>\$ 534,363</u>	<u>\$ 63,120</u>	<u>\$ (11,351)</u>	<u>\$ (6,786)</u>	<u>\$ (11,330)</u>	<u>\$ 568,016</u>

On June 25, 2012, the Entity acquired the lubricants Shell plant in Mexico, located in the city of Leon, Guanajuato for U.S. \$ 2.539 thousand dollars (\$ 32.977 Mexican peso equivalent), see Note 11.

This acquisition will enhance the Entity's position in the lubricants market in Mexico, by allowing the bulk lubricant handling and packaging according to the needs of its customers. The privileged location of this plant, in central Mexico, also strengthens the logistics structure of the entity. The capacity of the plant, coupled to a technology transfer agreement will allow the entity making refrigerants and specialty cleaners. The current facilities of the Institution in Leon, Guanajuato will be consolidated with the Shell plant to improve the synergies of this project.

	Balance as of transition date	Additions	Disposals	Balance as of December 31, 2011
Investment:				
Lands	\$ 196,662	\$ 313	\$ (24,402)	\$ 172,573
Building and constructions	284,768	11,139	(6,677)	289,230
Industrial machinery and equipment	169,766	28,310	(100)	197,976
Office furniture and equipment	11,501	2,467	-	13,968
Vehicle	136,458	6,616	(5,055)	138,019
Computers	40,034	2,375	(7,194)	35,215
Equipment acquired under financial leases	28,480	23,197	-	51,677
Total investments	<u>867,669</u>	<u>74,417</u>	<u>(43,428)</u>	<u>898,658</u>
Accumulated depreciation	<u>(336,181)</u>	<u>(39,453)</u>	<u>11,339</u>	<u>(364,295)</u>
Net investment	<u>\$ 531,488</u>	<u>\$ 34,824</u>	<u>\$ (32,089)</u>	<u>\$ 534,363</u>

The building of the subsidiary Pochteca Papel, S. A. de C. V. for \$71,417 was pledged as collateral for the loans with HSBC México, S. A: (HSBC)

10. Goodwill

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

The Entity has not identified or recognized the impairment losses of goodwill balances recorded at December 31, 2012 and 2011, and January 1, 2011. Management did not observe any changes in the main hypotheses giving rise to goodwill impairment.

11. Other accounts payable and accrued expenses

	2012	2011	Transition date
Account payable	\$ 74,033	\$ 51,487	\$ 73,760
Liabilities for purchase of fixed assets ⁽¹⁾	29,020	-	-
Reserves	19,348	20,611	4,904
Other account payable	<u>11,313</u>	<u>14,474</u>	<u>5,552</u>
	<u>\$ 133,714</u>	<u>\$ 86,572</u>	<u>\$ 84,216</u>
Short term	\$ 107,769	\$ 86,572	\$ 84,216
Long term	<u>25,945</u>	<u>-</u>	<u>-</u>
	<u>\$ 133,714</u>	<u>\$ 86,572</u>	<u>\$ 84,216</u>

- (1) On June 25, 2011, the Entity acquired the Shell lubricant plant in Mexico, located in the city of León, Guanajuato, for US\$ 2,539,000 (equal to \$32,977 Mexican pesos) of which US\$ 507,000 (equal to \$6,585 Mexican pesos) was paid during 2012. The balance will be paid in the following manner: US\$ 250,000 (equal to \$3,247 Mexican pesos) on June 30, 2013; US\$ 350,000 (equal to \$4,546 Mexican pesos) on July 31, 2014, and US\$ 1,648,000 (equal to \$21,404 Mexican pesos) on July 31, 2015. These

amounts are recorded under the heading of other accounts payable and accrued expenses in the accompanying consolidated statements of financial position (see Note 11).

12. Bank loans and long-term debt

	2012	2011	Transition date
Syndicated loan for \$ 440,000 with HSBC (HSBC syndicated debt and Inbursa for \$ 190,000 and \$ 250,000, respectively), at TIIE plus a margin of 1.50% to 2.50% depending on the leverage ratio, maturing in 2015.	\$ 440,000	\$ -	\$ -
Placement of debt certificates due in August 2014, secured by collection rights on the accounts receivables (prepaid in June 2012 see Note 1a).	-	450,000	350,000
Loan agreement held with Banco Inbursa, S. A. (Inbursa) documented with promissory notes at TIIE plus 4.25%, maturing in July 2012, supported by Kaluz, S. A. de C. V. (related party).	-	163,000	100,000
Mortgage loan with HSBC documented with promissory notes at TIIE plus 4 percentage points up to \$40,000 used to back up the working capital maturing on March and April 2012.	-	40,000	40,000
Credit line up to the amount of \$175,000 with Inbursa documented with promissory notes at TIIE plus 2.5%. Interest payable with repayments of \$2,916 per month from November 2007 through October 2012, guaranteed by Kaluz, S. A. de C. V. (related party).	-	29,167	64,167
Finance leasing agreement for transportation equipment with Banco Mifel, S: A. for \$23,197, bearing interest at a variable rate, maturing in December 2015 (prepaid on June, 2012, see Note 1a).	-	19,196	-
Collateral loan agreement held with UPS Capital Business Credit, with promissory notes at the London InterBank Offered Rate (LIBOR) plus 3%, maturing on September 25, 2014 (prepaid in June, 2012, see Note 1a).	-	17,056	20,143

	2012	2011	Transition date
Working capital loan with Unión de Crédito de la Industria Litográfica maturing in March 2011 at TIIE plus 6%, secured by inventory up to \$24,000.	-	12,000	12,000
Financial leasing agreement for transportation equipment with Ve por Más, S. A. for \$9,275, at TIIE plus 9, maturing in August 2013 and October 2014.	4,523	7,349	9,275
Mortgage loan with HSBC documented with a promissory note that bears interest at TIIE plus 4 with a net book value of \$12,000 payable in 36 monthly installments, maturing in April 2013 for the payment of the liabilities with the Lithographic Industry Credit Union.	-	5,333	9,333
Financial leasing agreement for machinery with De Lage Landen, S. A. de C. V. for \$10,945 with 15.10% annual interest rate, maturing in March and July 2012.	3,048	2,708	6,590
Mortgage loan with HSBC documented with a promissory note that bears interest TIIE rate plus 4% with a net book value of \$5,500 payable in 36 monthly installments, maturing in April 2013. To be used in the pre-payment of the machinery acquired. (prepaid in June 2012, see Note 1a)	-	2,445	4,278
Loan agreement contracted with Banco Internacional (Guatemala) at an interest rate of 8.5%, maturing in August 2012.	-	2,103	716
Loan agreement contracted with BBVA Bancomer, S. A. documented with promissory notes at TIIE plus 3.725%, maturing in February 2011.	-	-	60,000

	2012	2011	Transition date
Balance due (including accrued interest) on the purchase from Adydsa of Envases Universales de México, S. A. P. I. de C. V. and Administraciones Izague, S. A. de C. V. of \$36,558, with a rate of TIIE plus 1.5%, due in 2011 and secured by the acquired properties worth \$71,439.	-	-	36,558
Bank loans	447,571	750,357	713,060
Less – Commissions paid unamortized	13,750	10,340	11,446
	433,821	740,017	701,614
Less – Current portion	4,929	264,760	307,109
Long-term debt	\$ 428,892	\$ 475,257	\$ 394,505

The amount of TIIE and LIBOR as of December 31, are as follows:

	2012	2011	Transition date
TIIE	4.850%	4.790%	4.875%
LIBOR	0.500%	0.600%	0.300%

- a) In accordance with the syndicated loan agreement with Banco Inbursa, S. A. and HSBC México of up to \$440,000, the Entity is subject to certain obligations, restrictions and covenants, of which the most important are:

The following financial ratios must be maintained at all times:

- Interest Rate Hedge Ratio. An Interest Rate Hedge Ratio (a) greater than 3.0 to 1.0 from the Close Date until and including June 21, 2013; and (b) greater than 3.5 to 1.0 from and including June 21, 2013 until and including the maturity date.
- Leverage Ratio. A Leverage Ratio of (a) less than 2.5 to 1.0 from the close date until and including June 21, 2013; (b) less than 2.0 to 1.0 from and including June 21, 2013 until and including June 21, 2014; and (c) less than 1.5 to 1.0 from and including June 21, 2014 until and including the maturity date.
- Stockholders' Equity. Consolidated stockholders' equity of at least \$727,959.
- The Entity must not sell, encumber, transfer, lease or in any other way dispose of its goods, rights or any other assets without the prior written consent of the Agent.
- The Entity must not merge with third parties, split, transform itself or modify its common stock, corporate purpose or business activity in such a way as to generate a Substantial Adverse Change without the prior written authorization of the Agent.
- The Entity must not create, grant or permit mortgages, pledges, trusts, distraint or any other kind of encumbrance or actual or personal guarantee in any place or to any extent as regards the entity, its goods, rights and other assets (except for acts performed during the normal course of business).

- The obligors Pochteca Materias Primas, S. A. de C. V. (PMP) and Pochteca Papel, S. A. de C. V. (PP) must not perform transactions involving derivative financial instruments for speculative purposes or for reasons other than hedging.
 - The Entity must not declare or pay dividends or distributions to its stockholders (including the reimbursement or amortization of shares) for an annual amount exceeding the equivalent of 10% of the consolidated earnings before financing, interest, depreciation and amortization (UAFIDA) of the immediately preceding year.
- b) On August 22, 2011, the subsidiaries Pochteca Materias Primas, S. A. de C. V. and Pochteca Papel, S. A. de C. V. (the subsidiaries) issued a private offering of 1,000,000 debt certificates with face value of one hundred pesos each.

The debt certificates have a maturity of three years and will be paid in full at maturity. The debt certificates accrue interest at the Interbank Equilibrium Interest Rate (THIE) at 28 days plus 1.80 percentage points, payable monthly. After the fourth month of interest accrued up to the seventh month the interest will increase to THIE at 28 days plus 2.4, and from the eighth month THIE at 28 days plus 3.

On August 20, 2010, the subsidiaries issued a public offering of 3,500,000 debt certificates with face value of one hundred pesos. The debt certificates have a maturity of four years and will be paid in full at maturity. The debt certificates accrue interest at the THIE at 28 days plus 1.80 percentage points, payable monthly.

The issuance was made through the establishment of a trust called Fideicomiso Irrevocable de Emisión, Administración y Pago No. F/301485 HSBC Mexico, S. A. (the Trust).

On September 2, 2011, the Trust executed a PUT option with a notional amount of 25,000,000 U.S. dollars, maturing on August 20, 2014. This option covers part of the Portfolio as collateral, for the issuance of the trust certificates and it will be executed only in case of payment default. As of December 31, 2011, the fair value of this instrument was \$5,641 (income), which is included in “Long-term derivative financial instruments” line item in the consolidated statements of financial position. At December 31, 2010, the fair value of this instrument was \$1,854 (income), which was not recorded in the accompanying consolidated financial statements.

As of December 31, 2012 and 2011, these restrictions have been complied with.

- a. Maturities of long term-debt at December 31, 2012, are:

Year	Amount
2014	\$ 2,642
2015	<u>426,250</u>
	<u>\$ 428,892</u>

- b. As of December 31, 2012, minimum rental commitments under financial leases are as follows:

Total minimum lease obligations	\$ 7,769
Unearned interest	<u>198</u>
Present value of obligations	7,571
Current portion of obligations	<u>4,929</u>
Long-term portion of financial lease obligations	<u>\$ 2,642</u>

During 2012 and 2011, the Entity made payments and repayments of bank loans for \$740,300 and \$688,536, respectively.

13. Employee benefits

Net period cost for obligations resulting from the pension plan, severance payments and seniority premiums was \$1,384 and \$540 in 2012 and 2011, respectively. Other disclosures required under IFRS are not considered material. Translation effects to IFRS are shown in Note 26.

14. Stockholders' equity

- I. The Stockholders' Ordinary and Extraordinary General Meeting of November 22, 2012 resolved to perform a "reverse stock split" involving all the Entity's shares by issuing and delivering 1 (one) new paid and released Series "B" share for every five shares held by each stockholder, without reducing or increasing the Entity's paid-in capital. Share certificates were exchanged on March 26, 2013.
- II. On April 27, 2012, the Stockholders' Ordinary and Extraordinary Annual Meeting resolved to establish a Fund to Repurchase the Entity's own shares for up to a maximum authorized amount of \$60,000, which did not require a cash flow. In the case of the sale of shares held in the repurchase fund, the surplus or deficit of the historical share cost is recognized within the replacement premium of the repurchased shares.
- III. The Stockholders' Ordinary General Meeting of March 15, 2012 resolved to increase the Entity's variable capital by up to \$300,000 (without considering issuance costs) by issuing up to 180,000,000 (one hundred and eighty million) ordinary, nominative Series "B" shares at no par value, which will be deposited with the treasury. As a result of this increase, the number of shares rose by 166,666,667.
- IV. At General Meeting of Shareholders dated April 29, 2011, it was approved the conversion of 764.791 common shares, without par value, Series "B", fully paid, representing the variable portion of capital in equal number of shares, with the same characteristics but representing the fixed capital. This in order to match the theoretical value for the shares of fixed and variable parts of the capital.
- V. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives, as discussed in Note 4q. At December 31, 2012 and 2011, the outstanding portion payable by executives is \$17,538 and \$17,618, respectively, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.

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

	Number of shares			Amount	Amount
	2012	2011	Transition date	2012	2011 and transition date
Fixed capital Series "B"	42,498,823	41,773,983	41,009,192	80,304	\$ 80,304
Variable capital Series "B"	<u>580,117,158</u>	<u>413,450,491</u>	<u>414,215,282</u>	<u>1,094,792</u>	<u>794,792</u>
Total	<u>622,615,981</u>	<u>455,224,474</u>	<u>455,224,474</u>	<u>1,175,096</u>	<u>\$ 875,096</u>

VII. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2012 and 2011, and January 1, 2011, the Entity has not set aside any amount to create such reserve.

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

15. Financial instruments

Capital risk management

The Entity manages its capital to ensure that will continue as a going concern, while also maximizing the return to its stockholders through optimization of its capital structure.

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

Debt ratio

The Board of Directors regularly reviews the Entity'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:

	2012	2011	Transition date
Cash and cash equivalents	\$ 361,938	\$ 94,596	\$ 70,505
Debt	<u>433,821</u>	<u>740,017</u>	<u>701,614</u>
Net debt	71,883	645,421	631,109
Capital	<u>1,044,724</u>	<u>712,124</u>	<u>570,240</u>
Index of net debt and equity	<u>6.88%</u>	<u>90.63%</u>	<u>110.67%</u>

The debt includes long-term debt and current portion. Capital includes equity, earnings and comprehensive income of the Entity.

Categories of financial instruments

	2012	2011	Transition date
<i>Financial assets:</i>			
Cash	\$ 361,938	\$ 94,596	\$ 70,505
Loans and account receivable	631,488	708,450	711,565
Fair value through profit or loss for trading	-	5,641	-
<i>Financial liabilities:</i>			
Liabilities at amortized cost	\$ 1,276,148	\$ 1,383,401	\$ 1,430,885

Financial risk management objectives

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

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. According to the Entity's statutes, it is prohibited to hire any kind of lease. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative and hedging purposes.

Market risk

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

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

Exchange rate risk

The Entity 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 reales and Guatemalan quetzales).

Foreign currency sensitivity analysis

If the Mexican peso - US dollar exchange rate had increased by \$1 peso and all other variables had remained constant, the Entity's profit after tax at December 31, 2012 and 2011 would have been adversely affected by the amount of \$20,282 and \$22,908, respectively. However, a decrease of \$1 under the same circumstances would have positively affected the Entity's comprehensive income by the same amount. The monetary items related to Brazilian reales and Guatemalan quetzales are presented as available-for-sale; as the related exchange rate fluctuations are presented within discontinued operations, the Entity does not prepare a sensitivity analysis for these foreign currencies.

Interest rate risk

The Entity is exposed to an interest rate risk based on loan interest rates because its subsidiaries obtain loans at variable interest rates (primarily the THIE and LIBOR rates, although the latter is no longer relevant) which, at December 31, 2012 and 2011, represent approximately 100% and 99.35%, respectively, of the total debt contracted by the Entity. However, it minimizes this risk by providing follow-up on rate behavior, seeking variable rates when the rate is stable and following a downward trend and fixed rates when an upward trend is present.

Sensitivity analysis

The following sensitivity analyses are determined by considering the exposure of the interest rates contracted for derivative and nonderivative instruments at the end of the reporting period. In the case of variable-rate liabilities, the Entity 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:

	2012	2011
Total debt at variable rates	\$ 430,773	\$ 735,206
Variable interest expense	45,168	74,901
Financial cost of debt percentage	10.41%	10.19%
Sensitivity to + 100 base points	49,151	82,270
Sensitivity to -100 base points	40,536	67,565

Credit risk management

The credit risk is that which arises when one of the parties defaults on its contractual obligations, resulting in a financial loss for the Entity. The Entity 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 Entity'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 recovery of overdue debts based on their aging parameters, so as to timely identify doubtful accounts. Bad debts are sent to the attorneys for collection records.

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

Liquidity risk management

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

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

The maturity of long-term debt and the current portion thereof and accrued liabilities at December 31, 2012 and 2011 as the transition date is as follows:

December 31, 2012				
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 35,069	\$ 490,364	\$ -	\$ 525,433
Suppliers	788,313	-	-	788,313
Other account payable	3,075	25,945	-	29,020
Related parties	<u>28,069</u>	<u>-</u>	<u>-</u>	<u>28,069</u>
	<u>\$ 854,526</u>	<u>\$ 516,309</u>	<u>\$ -</u>	<u>\$ 1,370,835</u>
December 31, 2011				
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 277,440	\$ 37,302	\$ 471,551	\$ 786,293
Suppliers	629,057	-	-	629,057
Related parties	<u>14,327</u>	<u>-</u>	<u>-</u>	<u>14,327</u>
	<u>\$ 920,824</u>	<u>\$ 37,302</u>	<u>\$ 471,551</u>	<u>\$ 1,429,677</u>
Transition date				
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 327,686	\$ 59,700	\$ 373,451	\$ 760,837
Suppliers	711,233	-	-	711,233
Related parties	<u>18,038</u>	<u>-</u>	<u>-</u>	<u>18,038</u>
	<u>\$ 1,056,957</u>	<u>\$ 59,700</u>	<u>\$ 373,451</u>	<u>\$ 1,490,108</u>

Fair value of the financial instruments

The management believes that the book values of the financial assets and liabilities recognized at amortized cost in the consolidated financial statements approximate fair value, because the amortization period is short-term.

Based on the debt analysis performed by the Entity's management, which includes a comparison of rates, term of the debt, credit rating and its leverage ratio, it believes that the fair value approximate that recorded in its current portion and long-term debt.

Levels of valuation to fair value

The determination of fair value is based on a hierarchy which levels from 1 to 3, based on the degree to which the inputs to the calculation of fair value are observable, as described below:

- Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

- Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

16. Balances and transactions with related parties

- a. Balance due from related parties are:

	2012	2011	Transition date
Mexichem Fluor, S.A. de C.V.	\$ 2,635	\$ 7,821	\$ 3,786
Mexichem Colombia, S.A.	1,992	-	-
Mexichem Resinas Vinílicas, S.A. de C.V.	392	601	367
Mexichem Compuestos, S.A. de C.V.	210	-	-
Mexichem Soluciones Integrales, S.A. de C.V.	183	1,404	-
Mexichem Servicios Compuestos, S.A. de C.V.	17	-	-
Quimir, S.A. de C.V.	15	-	-
Mexichem Servicios, S.A. de C.V.	<u>12</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,456</u>	<u>\$ 9,826</u>	<u>\$ 4,153</u>

- b. Balance due to related parties are:

	2012	2011	Transition date
Quimir, S.A. de C.V.	\$ 9,860	\$ 10,597	\$ 13,721
Mexichem Fluor, S.A. de C.V.	8,675		
Mexichem Derivados, S.A. de C.V.	5,375	1,597	940
Mexichem Servicios Administrativos, S.A. de C.V.	2,291	737	1,315
Mexichem Compuestos, S.A. de C.V.	1,771	815	1,857
Kaluz, S.A. de C.V.	<u>97</u>	<u>581</u>	<u>205</u>
	<u>\$ 28,069</u>	<u>\$ 14,327</u>	<u>\$ 18,038</u>

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

	2012	2011	Transition date
Mexichem Derivados, S.A. de C.V.:			
Sales	\$ 204	\$ 342	\$ 159
Purchases	(15,892)	(12,902)	(2,365)
Quimir, S.A. de C.V.:			
Sales	-	603	299
Purchases	(38,105)	(29,164)	(4,874)
Mexichem Fluor, S.A. de C.V.:			
Sales	15,905	28,530	6,455
Purchases	(7,544)	(29,164)	(4,874)

Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	2,491	5,176	315
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	3,168	1,211	-
Mexichem Compuestos, S.A. de C.V.:			
Sales	399	894	248
Purchases	(705)	(884)	(884)
Mexichem Colombia, S.A. de C.V.:			
Sales	1,992	-	-
Mexichem Servicios Administrativos, S.A. de C.V.:			
Administrative services paid	(13,807)	(6,771)	(1,316)
Kaluz, S.A. de C.V.:			
Administrative services paid	(290)	-	-
Fees endorsement	<u>(2,256)</u>	<u>(9,088)</u>	<u>(3,515)</u>
	<u>\$ (54,440)</u>	<u>\$ (22,053)</u>	<u>\$ (5,475)</u>

17. Net sales

	2012	2011
Coatings, solvents and mixtures	\$ 1,346,402	\$ 1,072,028
Paper	662,081	707,327
Chemicals and plastics	604,477	764,496
Food products	344,995	369,363
Lubricants	<u>771,046</u>	<u>757,959</u>
	<u>\$ 3,729,001</u>	<u>\$ 3,671,173</u>

18. Cost of sales

	2012	2011
Inventories consumed	\$ 2,974,332	\$ 2,893,491
Freight	65,756	48,599
Other	<u>82,248</u>	<u>95,030</u>
	<u>\$ 3,122,336</u>	<u>\$ 3,037,120</u>

19. Operating expenses

	2012	2011
Outsourcing	\$ 284,729	\$ 323,137
Depreciation	34,563	39,453
Operations	25,080	21,024
Leasing	22,572	19,734
Telephone and systems	15,381	21,701
Maintenance	15,002	15,331
Fees	14,453	13,473
Other	<u>34,963</u>	<u>37,266</u>
	<u>\$ 446,743</u>	<u>\$ 491,119</u>

20. Income taxes

The Entity is subject to ISR and IETU.

ISR - The rate is 30% for 2011 and 2012, and will be 29% for 2013 and 28% for 2014 and thereafter.

IETU - Revenues, as well as deductions and certain tax credits, are determined based on cash flows of each fiscal year. IETU rate is 17.5%. The Asset Tax (IMPAC) Law was repealed upon enactment of the IETU Law; however, under certain circumstances, IMPAC paid in the ten years prior to the year in which ISR is paid for the first time, may be recovered, according to the terms of the law.

Income tax incurred will be the higher of ISR and IETU.

The Entity pays ISR individually and accounting consolidation accounting results are combined accordingly.

Based on its financial projections, the Entity determined that its main subsidiary Pochteca Materias Primas, S. A. de C. V. will basically pay ISR contrary to its preliminary conclusion, therefore, was canceled deferred flat tax liability January 1, 2011 by \$ 57.989 and recorded deferred tax asset at December 31, 2012 and 2011. The rest of its subsidiaries essentially also pay income tax, so it is recognized only consolidated deferred to December 31, 2012 and 2011.

Tax regime in other countries - The ISR of foreign subsidiaries is caused by the rules of the law of income tax of those countries.

- a. Income taxes expense are as follows:

	2012	2011
ISR:		
Current tax	\$ 17,265	\$ 11,692
Deferred tax	<u>10,513</u>	<u>(78,310)</u>
	27,778	(70,149)
IETU:		
Current tax	\$ 2,187	\$ 968
Deferred flat tax (IETU) cancellation	<u>-</u>	<u>(57,989)</u>
	2,187	(57,021)
	<u>\$ 29,965</u>	<u>\$ (127,170)</u>

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

	2012	2011	Transition date
Deferred ISR asset:			
Tax loss carryforwards	\$ 33,689	\$ 59,822	\$ 17,895
Accrued liabilities	8,736	27,452	6,086
Other, net	<u>17,794</u>	<u>20,811</u>	<u>4,442</u>
Deferred ISR asset	60,219	108,085	28,423
Deferred ISR liability:			
Property, machinery and equipment	(11,478)	(14,515)	(19,718)
Unrealized income	-	(10,176)	-
Other assets	(6,852)	(8,103)	(4,022)
Inventories, net	<u>-</u>	<u>(1,421)</u>	<u>(1,369)</u>
Deferred tax liability	(18,330)	(34,215)	(25,109)
Total Assets	<u>\$ 41,889</u>	<u>\$ 73,870</u>	<u>\$ 3,314</u>

- c. The main items originating a deferred IETU liability as of January 1, 2011 are:

	Transition date
Deferred flat tax liability:	
Customers billed uncollected	\$ (70,405)
Inventories	(42,744)
Prepaid expenses	(3,094)
Property, plant and equipment	(39,390)
Unpaid billed suppliers	<u>81,131</u>
	(74,502)
Flat tax credit for losses	<u>16,513</u>
Total deferred flat tax liability	<u>\$ (57,989)</u>

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

	2012	2011
Statutory rate	30%	30%
Add the effect of permanent differences mainly non deductible expenses	7%	66%
Add difference in statutory rates of the various subsidiaries in different tax jurisdictions	-	10%
Add deferred ISR tax effects	-	(83%)
Effect of deferred IETU	-	(216%)
Add variation in the valuation allowance for tax loss carryforwards	-	(92%)
Add (deduct) - effects of inflation	<u>(4%)</u>	<u>18%</u>
Effective rate	<u><u>33%</u></u>	<u><u>(267%)</u></u>

- e. The benefits from tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. The years of maturity and restated amounts to December 31, 2012, are:

Year of expiration	Tax loss carryforwards
2020	\$ 90,710
2021	<u>21,587</u>
	<u><u>\$ 112,297</u></u>

21. Discontinued operations

As described in Note 7, the Entity is in the process of selling its foreign businesses and expects to conclude this sale before the end of the year 2013. The combined results of discontinued operations included in the consolidated statements of comprehensive profit and loss are detailed below. The comparative profits and cash flows derived from the discontinued operations have been presented again to include the operations classified as discontinued in the current period.

	2012	2011
<i>Results from discontinued operations:</i>		
Net sales	\$ 345,783	\$ 312,630
Cost of sales	<u>305,969</u>	<u>275,201</u>
Gross profit	39,814	37,429
Operating expenses	<u>48,367</u>	<u>40,528</u>
Operation loss	(8,553)	(3,099)
Other expense, net	625	3,842
Interest expense	3,673	668
Exchange loss	<u>1,023</u>	<u>2,843</u>
	5,321	7,353
Loss before income taxes	(13,874)	(10,452)
Income taxes	<u>2,530</u>	<u>527</u>
Loss from discontinued operations	<u>\$ (11,344)</u>	<u>\$ (10,979)</u>

22. Transactions that did not affect cash flows

During the year ended December 31, 2011, the Entity acquired equipment for \$23,197 through a financial lease. The acquisition will be reflected in the consolidated statement of cash flows throughout the life of the lease as rental payments.

23. Commitments

The Entity leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$20,185 as of December 31, 2012 and \$20,833 as of December 31, 2011. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2013	\$ 12,777
2014	10,199
2015	8,977
2016	8,904
2017 and thereafter	<u>69,987</u>
	<u>\$ 110,844</u>

24. Subsequent events

- I. The Stockholders' Ordinary General Meeting of January 11, 2013 resolved the following:
 - a. The Meeting resolved to modify all the resolutions taken when discussing point III of the Agenda of the Stockholders' Ordinary General Meeting of November 22, 2012, to allow them to be worded in the following manner:
 - An increase of the Entity's authorized variable capital for an amount of up to \$66,134 is hereby approved, together with the subsequent issuance of up to 7,000,000 ordinary Series "B" shares if the effects of the agreed "reverse stock split" have arisen; or 35,000,000 ordinary Series "B" shares if the effects of this "reverse stock split" have not arisen.
- II. On February 1, 2013, the Entity acquired 100% of the shares of Productos Químicos Mardupol, S. A. de C. V., Servicios Corporativos Gilbert, S. A. de C. V. and Servicios Administrativos Mardupol, S. A. de C. V. (Mardupol). A total of 60% of the agreed price will be paid in cash, with the remaining 40% to be settled in fully subscribed and paid-in ordinary shares with full voting rights representing the Entity's common stock, with a price of \$4.00 pesos per share.

25. Business segment information

Business segment information of the Entity is as follows:

	December 31, 2012					
	Coatings, solvents and mixtures	Paper	Chemicals and plastics	Food products	Lubricants	Total consolidated
Statements of income:						
Net sales	\$ <u>1,346,402</u>	\$ <u>662,081</u>	\$ <u>604,477</u>	\$ <u>344,995</u>	\$ <u>771,046</u>	\$ <u>3,729,001</u>
Depreciation	\$ <u>12,479</u>	\$ <u>6,137</u>	\$ <u>5,603</u>	\$ <u>3,198</u>	\$ <u>7,146</u>	\$ <u>34,563</u>
Gross profit	\$ <u>57,742</u>	\$ <u>28,394</u>	\$ <u>25,924</u>	\$ <u>14,795</u>	\$ <u>33,067</u>	\$ <u>159,922</u>
Finance costs	\$ <u>(24,477)</u>	\$ <u>(12,036)</u>	\$ <u>(10,989)</u>	\$ <u>(6,272)</u>	\$ <u>(14,016)</u>	\$ <u>(67,790)</u>
Consolidated net income	\$ <u>18,350</u>	\$ <u>9,024</u>	\$ <u>8,238</u>	\$ <u>4,702</u>	\$ <u>10,509</u>	\$ <u>50,823</u>
Balance sheets:						
Total assets	\$ <u>900,928</u>	\$ <u>443,023</u>	\$ <u>404,478</u>	\$ <u>230,849</u>	\$ <u>515,936</u>	\$ <u>2,495,214</u>
Total liabilities	\$ <u>523,717</u>	\$ <u>257,533</u>	\$ <u>235,127</u>	\$ <u>134,195</u>	\$ <u>299,918</u>	\$ <u>1,450,490</u>
Statements of cash flows:						
Operation activities	\$ <u>195,063</u>	\$ <u>95,920</u>	\$ <u>87,575</u>	\$ <u>49,982</u>	\$ <u>111,706</u>	\$ <u>540,246</u>
Investment activities	\$ <u>(72,615)</u>	\$ <u>(35,708)</u>	\$ <u>(32,601)</u>	\$ <u>(18,607)</u>	\$ <u>(41,585)</u>	\$ <u>(201,116)</u>
Financing activities	\$ <u>(24,384)</u>	\$ <u>(11,991)</u>	\$ <u>(10,947)</u>	\$ <u>(6,248)</u>	\$ <u>(13,964)</u>	\$ <u>(67,534)</u>

	December 31, 2011					
	Coatings, solvents and mixtures	Paper	Chemicals and plastics	Food products	Lubricants	Total consolidated
Statement of income:						
Net sales	<u>\$ 1,072,028</u>	<u>\$ 707,327</u>	<u>\$ 764,496</u>	<u>\$ 369,363</u>	<u>\$ 757,959</u>	<u>\$ 3,671,173</u>
Depreciation	<u>\$ 11,521</u>	<u>\$ 7,601</u>	<u>\$ 8,216</u>	<u>\$ 3,969</u>	<u>\$ 8,146</u>	<u>\$ 39,453</u>
Gross profit	<u>\$ 41,738</u>	<u>\$ 27,539</u>	<u>\$ 29,765</u>	<u>\$ 14,381</u>	<u>\$ 29,511</u>	<u>\$ 142,934</u>
Finance costs	<u>\$ (29,048)</u>	<u>\$ (19,166)</u>	<u>\$ (20,715)</u>	<u>\$ (10,008)</u>	<u>\$ (20,537)</u>	<u>\$ (99,474)</u>
Consolidated net income	<u>\$ 43,328</u>	<u>\$ 28,588</u>	<u>\$ 30,898</u>	<u>\$ 14,928</u>	<u>\$ 30,634</u>	<u>\$ 148,376</u>
Balance sheets:						
Total assets	<u>\$ 646,816</u>	<u>\$ 426,771</u>	<u>\$ 461,264</u>	<u>\$ 222,858</u>	<u>\$ 457,321</u>	<u>\$ 2,215,030</u>
Total liabilities	<u>\$ 438,867</u>	<u>\$ 289,566</u>	<u>\$ 312,970</u>	<u>\$ 151,210</u>	<u>\$ 310,293</u>	<u>\$ 1,502,906</u>
Statements of cash flows:						
Operation activities	<u>\$ 24,632</u>	<u>\$ 16,252</u>	<u>\$ 17,566</u>	<u>\$ 8,487</u>	<u>\$ 17,416</u>	<u>\$ 84,353</u>
Investment activities	<u>\$ (4,901)</u>	<u>\$ (3,233)</u>	<u>\$ (3,495)</u>	<u>\$ (1,688)</u>	<u>\$ (3,465)</u>	<u>\$ (16,782)</u>
Financing activities	<u>\$ (7,752)</u>	<u>\$ (5,115)</u>	<u>\$ (5,528)</u>	<u>\$ (2,671)</u>	<u>\$ (5,481)</u>	<u>\$ (26,547)</u>

Foreign entities operations were discontinued on December 31, 2012. Segment information as mentioned above does not include any amounts for these discontinued operations, which are described in more detail in Note 6.

26. Explanation of the transition to IFRS

The Entity's consolidated financial statements for the year ended December 31, 2012 are its first annual financial statements in compliance with IFRS. The transition date is January 1, 2011. The last financial statements presented in accordance with MFRS are for the year ended December 31, 2011.

The accounting policies established in Note 4 have been applied in the preparation of the information as of December 31, 2012 and the comparative information of 2011 presented in these consolidated financial statements, including the financial information as of the transition date. In the preparation of these consolidated financial statements, the transition rules have been applied to the figures reported previously in accordance with MFRS. IFRS 1 generally requires the retrospective application of the standards and interpretations applicable as of the first reporting date. Nevertheless, IFRS 1 allows for certain exceptions and exemptions in the application of certain standards to previous periods, in order to assist the entities in the transition process.

The Entity has applied the following relevant mandatory exceptions to the retrospective application of the IFRS, as follows:

Calculation of estimates– The estimates as of the transition date are consistent with the estimates as of that same date under MFRS, unless there was evidence of misstatement in such estimates.

Hedge accounting– Hedge accounting was applied only if the hedge relationship complied with the criteria established in the IFRS as of the transition date.

The Entity has elected to exercise the following optional exemptions to the retrospective application of IFRS, as follows:

Business combinations– The exemption for business combinations was applied. Therefore, business combinations that took place before the transition date were not reformulated.

Transactions involving share-based payments– The exemption for share-based payments was applied. Therefore, the IFRS were not applied to those options (liquidated with equity instruments) that were granted before November 7, 2002 and/or after such date and which were awarded before the transition date.

Fair value or assumed cost– The exemption for fair value and assumed cost was applied. The Entity elected to present its buildings and land at fair value based on appraisals conducted by specialists, and the plant and equipment was valued at assumed cost restated for inflation as of the transition date.

Leases– The exemption for leases was applied. Consequently, it is determined whether a contract in effect as of the transition date contained a lease based on the facts and circumstances in effect as of that date.

Employee benefits–The exemption for employee benefits was applied. Consequently, all the actuarial gains and losses accumulated as of the transition date were recognized.

Accumulated differences due to the conversion effect - The exemption for accumulated differences due to the conversion effect was applied. Therefore, the conversion effect was adjusted to zero as of the transition date.

The following reconciliations provide the quantification of the effects of transition between MFRS and IFRS: a) in stockholders' equity as of the transition date and as of December 31, 2011; and in the comprehensive income for the year ended December 31, 2011. The effects on cash flow due to the transition are immaterial.

a. Stockholders' equity effects for the adoption.

	2011	Transition date
Stockholders' equity under MFRS	\$ 599,693	\$ 458,136
a) Valuation of investment properties	117,094	117,094
b) Component approach	4,370	-
c) Employee benefits	3,658	3,942
d) Investment in associated	(63)	-
e) Installation expense	(4,874)	(4,874)
f) Deferred income taxes	<u>(7,754)</u>	<u>(4,058)</u>
Stockholders' equity under IFRS	<u>\$ 712,124</u>	<u>\$ 570,240</u>

b. Reconciliations of income.

	2011
Comprehensive income under MFRS	\$ 148,049
b) Component effects	4,370
c) Employee benefits	3,774
d) Investment in associated	(63)
f) Deferred income taxes	<u>(7,754)</u>
Income under IFRS	<u>\$ 148,376</u>

c. Notes to the reconciliations

The transition to IFRS resulted in the following adjustments and reclassifications to the accounting records:

- a. **Valuation of real estate property**— The Entity's land and buildings are presented at fair value, determined through appraisals conducted by independent actuaries.
- b. **Effect of components**— The Entity analyzed and identified the significant components of its buildings and, consequently, readjusted their useful lives and the respective depreciation effect to the transition date.
- c. **Employee benefits**—The liability for termination benefits was canceled, because in accordance with IAS 19, *Employee Benefits*, termination benefits refer to an obligation that derives from the termination of the employment relationship, not a service rendered. Furthermore, the Entity elected to recognize the unamortized actuarial gains and losses as of the transition date

- d. **Investments in associated companies**– That Entity has no significant influence on the companies in which it has investments in shares, for which reason they are recorded at cost.
- e. **Installation expenses**–The Entity reclassified the balance of installation expenses because, in accordance with IAS 16, *Property, Plant and Equipment*, the minimum criteria to capitalize such expenses are not fulfilled; consequently, they are recorded directly in results.
- f. **Deferred taxes on income**– The Entity readjusted its deferred taxes on income in accordance with IAS 12, *Income Taxes*, using the book value of the assets and liabilities recognized under IFRS.
- g. **Effects of inflation**–Given that the Entity has been in a non-hyperinflationary environment since 1998, the effects of inflation recognized under MFRS until 2007 were canceled, except in property, plant and equipment, for which the exception was applied. With the effects of inflation on common stock, as of the transition date, due to the capital restructurings performed, the Company was unable to identify the restatement after such date. Therefore, common stock is shown at its value in the minutes of stockholders' meetings at the date of this financial statement. Any unrecognized restatement effect is reflected in accumulated results, so it has no effect on stockholders' equity.
- h. **Debt issue costs**– Reclassification of the debt issue costs recognized in other assets under MFRS to the balance of the debt in accordance with IAS 39, *Financial Instruments: Recognition and Measurement*
- i. **Current PTU and other expenses**–Reclassification of operating expense in comprehensive profit and loss, in accordance with IAS 1, *Presentation of Financial Statements*, of current PTU for the year and other expenses, to present them correctly within the line item of operating expenses.

27. New accounting principles

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

IFRS 9, *Financial instruments*³

IFRS 10, *Consolidated financial statements*¹

IFRS 11, *Joint arrangement*¹

IFRS 12, *Disclosure of interests in Other Entities*¹

IFRS 13, *Fair value measurement*¹

Amendments to IFRS 7, *Disclosures – Offsetting Financial Assets and Liabilities*¹

Amendments to IFRS 9 and IFRS 7, *Effective date IFRS 9 and Transition disclosures*³

Amendments to IFRS 10, IFRS 11 and IFRS 12, *Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guides*⁴

IAS 19 (revised in 2011), *Employee benefits*¹

IAS 27 (revised in 2011), *Consolidated and separated financial statements*¹

IAS 28 (revised in 2011), *Investments in associated and joint ventures*¹

Amendments to IAS 32, *Disclosures – Offsetting Financial Assets and Liabilities*²

Amendments to IFRS, *Annual improvements to IFRS, except for the amendments to IAS 1*¹

IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*¹

¹ Effective for annual periods beginning on or after January 1, 2013.

² Effective for annual periods beginning on or after January 1, 2014.

³ Effective for annual periods beginning on or after January 1, 2015.

28. Approval of the issuance of consolidated financial statements

On April 9, 2013, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz, Director of the Entity, and Armando Vallejo, Finance Director; 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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