

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

Consolidated Financial Statements for
the Years Ended December 31, 2014
and 2013, and Independent Auditors'
Report Dated April 14, 2015

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

Independent Auditors' Report and Consolidated Financial Statements for 2014 and 2013

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

Auditors' Report on the Consolidated Financial Statements

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, 2014 and 2013, and the consolidated statements of income and other comprehensive (loss) income, statements of changes in stockholders' equity and statements of cash flows for the years then ended, 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 as issued by the International Accounting Standards Board, 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.

Auditors' Responsibility

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 Entity'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.

Emphasis of Matter

As mentioned in Note 10 to the consolidated financial statements as of December 31, 2013, the Entity acquired shares of certain businesses, whose operations are reflected in the results for the year ended December 31, 2014, and therefore affect the comparability of the periods presented.

Opinion

In our opinion, the accompanying 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, 2014 and 2013, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

A large, stylized handwritten signature in black ink, which appears to read "Miguel Ángel del Barrio Burgos".

C. P. C. Miguel Ángel del Barrio Burgos

April 14, 2015

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

Consolidated Statements of Financial Position

As of December 31, 2014 and 2013

(In thousands of Mexican pesos)

Assets	Notes	2014	2013
Current assets:			
Cash and cash equivalents	5	\$ 324,458	\$ 181,371
Accounts receivable and recoverable taxes – Net	6	1,027,398	986,806
Due from related parties	20	5,132	3,137
Inventories – Net	7	910,317	889,876
Prepaid expenses		50,075	34,424
Investment property	8	<u>12,727</u>	<u>-</u>
Total current assets		2,330,107	2,095,614
Non-current assets:			
Property, plant and equipment – Net	9	860,514	921,840
Investments in shares of associate company		4,381	4,660
Other assets		83,849	74,481
Deferred income taxes – Net	24	27,404	26,035
Intangible assets -Net	12	51,903	52,233
Goodwill	13	<u>405,866</u>	<u>457,605</u>
Total		<u>\$ 3,764,024</u>	<u>\$ 3,632,468</u>

Liabilities and stockholders' equity	Notes	2014	2013
Current liabilities:			
Bank loans and current portion of long-term debt	15	\$ 61,525	\$ 186,306
Trade accounts payable		1,193,008	1,052,840
Other accounts payable and accrued expenses	14	184,525	258,882
Due to related parties	20	9,486	18,017
Income taxes and statutory employee profit sharing		<u>30,494</u>	<u>3,403</u>
Total current liabilities		1,479,038	1,519,448
Non-current liabilities:			
Other long-term accounts payable	14	226,871	294,474
Long-term debt	15	873,988	617,761
Employee benefits		<u>13,460</u>	<u>6,939</u>
Total long-term liabilities		<u>1,114,319</u>	<u>919,174</u>
Total liabilities		<u>2,593,357</u>	<u>2,438,622</u>
Stockholders' equity:			
Contributed capital-			
Capital stock	17	1,089,689	1,088,802
Premium on sale of repurchased stock		52,618	52,618
Earned capital-			
Retained earnings		44,900	40,376
Reserve for repurchase of shares		25,861	41,938
Translation effects of foreign operations		(41,364)	(29,888)
Remeasurement of defined benefit obligation		<u>(1,037)</u>	<u>-</u>
Total stockholders' equity		<u>1,170,667</u>	<u>1,193,846</u>
Total		<u>\$ 3,764,024</u>	<u>\$ 3,632,468</u>

The accompanying notes are part of the consolidated financial statements.

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

Consolidated Statements of Income and Other Comprehensive Income

For the years ended December 31, 2014 and 2013

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

	Notes	2014	2013
Continuing operations:			
Net sales	21	\$ 6,031,940	\$ 4,472,769
Cost of sales	22	<u>(4,980,497)</u>	<u>(3,723,480)</u>
Gross profit		1,051,443	749,289
Operating expenses	23	<u>(856,009)</u>	<u>(593,453)</u>
Consolidated income from operations		195,434	155,836
Financing costs:			
Interest income		12,262	3,601
Interest expense		(112,865)	(63,404)
Exchange loss		<u>(77,177)</u>	<u>(29,636)</u>
		(177,780)	(89,439)
Income before income taxes		17,654	66,397
Income tax	24	<u>13,130</u>	<u>26,844</u>
Consolidated net income		<u>\$ 4,524</u>	<u>\$ 39,553</u>
Other comprehensive (loss) income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Remeasurement of defined benefit obligation		(1,037)	-
Exchange differences on translating foreign operations		<u>(11,476)</u>	<u>(947)</u>
Total comprehensive (loss) income for the year		<u>\$ (7,989)</u>	<u>\$ 38,606</u>
Earnings per share:			
From continuing operations:			
Basic earnings per common share (in Mexican pesos)		<u>\$ 0.0347</u>	<u>\$ 0.3076</u>
Weighted average shares outstanding		<u>130,522,049</u>	<u>128,573,424</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, 2014 and 2013

(In thousands of Mexican pesos)

	Contributed capital				Earned capital					
	Common stock									
	Nominal	In trust	Premium on sale of repurchased stock	Total	Accumulated deficit	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	Total stockholders' equity	
Balances at the beginning of 2013	\$ 1,175,096	\$ (17,538)	\$ (5,437)	\$ 1,152,121	\$ (137,598)	\$ 59,142	\$ (28,941)	\$ -	\$ 1,044,724	
Capital increase	58,046	-	75,064	133,110	-	-	-	-	133,110	
Cancellation of reserve for repurchase of shares	-	-	-	-	60,000	(60,000)	-	-	-	
Reduction of share capital	(128,421)	-	-	(128,421)	128,421	-	-	-	-	
Creation of reserve for repurchase of shares	-	-	-	-	(50,000)	50,000	-	-	-	
Repurchase of shares	-	-	(17,009)	(17,009)	-	(7,204)	-	-	(24,213)	
Payment of capital	-	1,619	-	1,619	-	-	-	-	1,619	
Net comprehensive income for the year	-	-	-	-	39,553	-	(947)	-	38,606	
Balances as of December 31,2013	1,104,721	(15,919)	52,618	1,141,420	40,376	41,938	(29,888)	-	1,193,846	
Repurchase of shares	-	-	-	-	-	(16,077)	-	-	(16,077)	
Payment of capital	-	887	-	887	-	-	-	-	887	
Net comprehensive loss for the year	-	-	-	-	4,524	-	(11,476)	(1,037)	(7,989)	
Balances as of December 31,2014	\$ 1,104,721	\$ (15,032)	\$ 52,618	\$ 1,142,307	\$ 44,900	\$ 25,861	\$ (41,364)	\$ (1,037)	\$ 1,170,667	

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, 2014 and 2013

(In thousands of Mexican pesos)

(Indirect method)

	Notas	2014	2013
Operating activities:			
Consolidated net income		\$ 4,524	\$ 39,553
Adjustments for:			
Income tax expense	24	13,130	26,844
Depreciation	9	107,574	60,250
Gain on sale of fixed assets		(4,216)	-
Financing costs recognized in results		112,865	33,464
Investment income recognized in results		(12,262)	(3,601)
Unrealized exchange loss		33,817	1,808
		<u>255,432</u>	<u>158,318</u>
(Increase) decrease in:			
Accounts receivable and recoverable taxes	6	(53,319)	139,514
Inventories	7	(20,441)	17,112
Prepaid expenses		(15,651)	9,633
Other assets		(9,368)	(14,036)
Increase (decrease) in:			
Trade accounts payable		106,351	(298,644)
Other accounts payable and accrued expenses		104,348	(24,234)
Due to related parties	20	(10,526)	2,969
Income taxes paid and statutory employee profit sharing		<u>(35,855)</u>	<u>(14,795)</u>
Net cash (used in) provided by operating activities		<u>320,971</u>	<u>(24,163)</u>
Investing activities:			
Purchase of machinery and equipment		(99,029)	(245,810)
Sale of equipment		35,718	94,491
Acquisition of subsidiaries		(104,601)	(201,776)
Interest collected		12,262	3,601
Investments in shares of associate company		279	-
Net cash used in investing activities		<u>(155,371)</u>	<u>(349,494)</u>
Financing activities:			
Borrowings	15	948,464	169,384
Repayment of loans received	15	(804,555)	(50,000)
Payment on finance lease		(3,990)	(4,929)
Purchase of own common shares		(15,190)	(24,213)
Interest and commissions paid		(121,338)	(30,934)
Proceeds from issuance of common stock		-	134,729
Net cash provided by financing activities		<u>3,391</u>	<u>194,037</u>
Effects of changes in exchange rates on cash held in foreign currency		(25,904)	(947)
Net increase (decrease) in cash and cash equivalents		143,087	(180,567)
Cash and cash equivalents at beginning of year		<u>181,371</u>	<u>361,938</u>
Cash and cash equivalents at end of year		<u>\$ 324,458</u>	<u>\$ 181,371</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, 2014 and 2013

(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. **Refinancing of syndicated debt** - As mentioned in Note 15 a, on December 3, 2014 the Entity executed a refinancing contract for the unsecured loan (the Refinancing Contract), which had been contracted on June 14, 2012, for \$440,000 (syndicated debt with the following financial institutions: HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (HSBC) and Banco Inbursa, S. A. (Inbursa) for \$190,000 and \$250,000, respectively). The debt was contracted at the TIIE rate plus a spread of between 1.50% and 2.50%, depending on the leverage ratio obtained. As part of the Refinancing Contract, the following amendments are made: i) the date of maturity of the syndicated debt is now December 3, 2018, ii) Grupo Pochteca, S. A. B. de C. V. is eliminated as borrower, leaving as sole borrowers the subsidiaries Pochteca Materias Primas, S. A. de C. V. and Pochteca Papel, S. A. de C. V., iii) the refinancing is for the amount of \$610,000, of which Inbursa and HSBC, provide \$305,000 each, and iv) the percentage above the TIIE rate is a spread of between 1.50% and 3.00%.
- b. **Business acquisitions** – On December 31, 2013, the Entity terminated the association agreement between the companies Comercio e Representações Maia Ltda., Mecotrans Transportes e Logística Ltda. and Coremal Química Ltda.(collectively “Coremal”), by acquiring 100% of the shares (see Note 10).

2. Basis of presentation

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

In the current year, the Entity has applied a number of amendments to IFRSs and new interpretations issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods beginning on or after January 1, 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*

The Entity has applied the amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities* for the first time in the current year. The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definitions of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with investment management services.
- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

As the Entity is not an investment entity (assessed based on the criteria set out in IFRS 10 as of January 1, 2014), the application of the amendments has had no impact on the disclosure or the amounts recognized in the Entity consolidated financial statements.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The Entity has applied the amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realization and settlement’.

As the Entity does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognized in the Entity’s consolidated financial statements

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognize the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees’ periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees’ periods of service.

The Entity’s management determined that these amendments to IAS 19 did not have a significant impact on the Entity’s consolidated financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarized below.

The amendments to IFRS 2 (i) change the definitions of ‘vesting condition’ and ‘market condition’; and (ii) add definitions for ‘performance condition’ and ‘service condition’ which were previously included within the definition of ‘vesting condition’. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after July 1, 2014.

The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognized in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after July 1, 2014.

The amendments to IFRS 8 (i) require an entity to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have ‘ similar economic characteristics’; and (ii) clarify that a reconciliation of the total of the reportable segments’ assets to the entity’s assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.

The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortization when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortization is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The application of these amendments did not have a significant impact on the Entity’s consolidated financial statements.

Amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*

The Entity has applied the amendments to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Entity does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognized in the Entity’s consolidated financial statements.

b. New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments ³
IFRS 15	Revenue from Contracts with Customers ²
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations ¹
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ¹

¹ Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

² Effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

³ Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.

IFRS 9 *Financial Instruments*

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

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).
- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Entity's management anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Entity's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Entity undertakes a detailed review.

Amendments to IAS 16 IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Entity uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively. The Entity's management believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, does not anticipate that the application of these amendments to IAS 16 and IAS 38 will have a material impact on the Entity's consolidated financial statements.

3. Significant accounting policies

a. *Statement of compliance*

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

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 goods and services.

ii. Fair value

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

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

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

c. ***Basis of consolidation of financial statements***

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

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

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Entity's accounting policies:

Subsidiary	Main activity
Pochteca Materias Primas, S. A. de C. V. ⁽¹⁾	Trading of raw materials
Suplia, S. A. de C. V.	Trading of raw materials
Demser, S. A. de C. V. ⁽¹⁾	Professional services
Servicios Administrativos Argostal, S. A. de C. V.	Professional services
Pochteca de Guatemala, S. A.	Trading of raw materials
Pochteca Do Brasil Participações Ltd.	Trading of raw materials
Pochteca Papel, S. A. de C. V.	Trading of paper
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.	Trading of raw materials
Pochteca Servicios Corporativos, S.A. de C.V.	Professional services
Asesoría en Lubricantes Pochteca, S. A de C. V.	Professional services
Asesoría en Servicios Pochteca, S. A de C. V. ⁽¹⁾	Professional services
Plásticos Argostal, S. A. de C. V.	Without operations
Químicos Argostal, S. A. de C. V.	Without operations
Comercio e Representações Maia Ltda.	Trading of raw materials
Mecotrans Tansportes e Logistica Ltda.	Transportation of chemical products
Coremal Química Ltda.	Trading of raw materials

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

- (1) ***Merger of subsidiaries*** - On October 31, 2013, the subsidiaries Productos Químicos Mardupol, S. A. de C. V., Servicios Corporativos Mardupol, S. A. de C. V. and Servicios Corporativos Guibert, S. A. de C. V. were merged with the subsidiaries Pochteca Materias Primas, S. A. de C. V., Demser, S. A. de C. V. and Asesoría en Servicios Pochteca, S. A. de C. V., with the latter remaining in existence as the absorbing companies. Such mergers did not have any impact on the consolidated financial statement because they were considered transactions between subsidiaries.

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

Changes in the Entity's ownership interests in existing subsidiaries

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

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

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

The individual financial statements of each of the 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.

e. ***Financial instruments***

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

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

f. ***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.

g. ***Financial assets***

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

1. Effective interest method

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

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

2. Financial assets at FVTPL

Financial assets are classified as of FVTPL when the financial asset is either held for trading or it is designated as of FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Entity manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as of FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Entity's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract to be designated as of FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other income (expenses) - Net' line item. Fair value is determined in the manner described in note 3b.

3. Financial assets classified as available-for-sale (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Entity that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Entity also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the Entity's management consider that fair value can be reliably measured). Fair value is determined in the manner described in Note 3b. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of assets classified as held for sale are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when the Entity's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period.

4. 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 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.

h. ***Inventories and cost of sales***

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

i. ***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.

Land is not depreciated. 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 2014 and 2013 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.

j. ***Investment property***

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

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

k. ***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 other borrowing costs are recognized in profit or loss in the period in which they are incurred.

l. ***Investment in shares of associated company***

The investment in shares of associated company is initially recognized at cost. The participation in Unión de Crédito de la Industria Litográfica, S. A. de C. V. totals 5%; at the transition date, the investment in shares was valued at deemed cost.

m. ***Business combinations***

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

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss. When a business combination is achieved in stages, the Entity's previously held equity interest in the acquire is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquire prior to the acquisition date that have previously been recognized in other comprehensive

income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

n. ***Intangible assets***

Intangible assets acquired in a business combination

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

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

o. ***Goodwill***

The goodwill generated by a business acquisition is recognized as an asset at the date on which control is acquired (see Note 13); it refers to the amount by which the transferred payment exceeds fair value at the acquisition date of identifiable acquired assets and assumed liabilities.

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

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

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

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

At the end of each reporting period, 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 indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the 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 available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease

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

q. ***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

Financial liability at fair value through profit or loss is a financial liability that is categorized as held for trading or designated as at fair value through profit or loss.

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 'financing cost' 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.

r. ***Derivative financial instruments***

The Entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 19.

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

s. ***Provisions***

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

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

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

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

t. ***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.

u. ***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 Entity'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.

v. ***Statutory employee profit sharing (PTU)***

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

w. ***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's 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.

x. ***Income taxes***

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

Current tax

Current income tax (ISR) is recognized in the results of the year in which is incurred. Until December 31, 2013, current income tax was calculated as the higher of the ISR and the Business Flat Tax ("IETU").

Deferred income tax

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

As a consequence of the 2014 Tax Reform, as of December 31, 2013 deferred IETU is no longer recognized.

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

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

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

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

Current and deferred tax for the year

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

y. ***Derivative financial instruments***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 19.

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

z. ***Revenue recognition***

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

- Sale of goods

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

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Group.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

- Dividend and interest income

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

aa. ***Statement of income and other comprehensive (loss) income***

The Entity chose to present the statement of income and other comprehensive (loss) income in a single statement, considering a line of operating income in accordance with industry practices. Costs and expenses were classified according to their function. The Entity opted to present the statement of income and other comprehensive (loss) income in a single statement, which includes a line presenting operating income consistent with the industry practices. Costs and expenses were classified according to their function.

bb. ***Classification of costs and expenses***

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

cc. ***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.

dd. ***Reserve 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 doubtful accounts** - 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 reported in the consolidated statements of cash flows and the consolidated statements of financial position is comprised as follows:

	2014	2013
Cash and bank balances	\$ 300,769	\$ 123,213
Investments	<u>23,689</u>	<u>58,158</u>
	<u>\$ 324,458</u>	<u>\$ 181,371</u>

6. Accounts receivable and recoverable taxes

	2014	2013
Trade accounts receivable	\$ 969,144	\$ 1,061,077
Allowance for doubtful accounts	<u>(54,583)</u>	<u>(90,851)</u>
	914,561	970,226
Recoverable value-added tax ⁽¹⁾	81,945	13,477
Other	<u>30,892</u>	<u>3,103</u>
	<u>\$ 1,027,398</u>	<u>\$ 986,806</u>

(1) The balance as of December 31, 2014, includes recoverable taxes associated with operations in Brazil.

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 sales of goods 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. As of December 31, 2014, 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.

Accounts receivable from customers 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 past due but recoverable

	2014	2013
60-90 days	\$ 46,087	\$ 60,264
Greater than 90 days	<u>64,694</u>	<u>8,419</u>
Total	<u>\$ 110,781</u>	<u>\$ 68,683</u>

With regard to the balances above, \$17,471 in 2014 and \$16,600 in 2013, relates to sales to Química Apollo (chemistry industries), Univeler (consumer products), Petróleos Mexicanos (PEMEX) and other companies operating in the oil exploration and drilling sector which have slowed payments during 2014 and 2013. However, according to the Entity, such companies maintain high credit ratings.

b. Change in allowance for doubtful accounts

	2014	2013
Balance at beginning of the year	\$ 90,851	\$ 57,758
Provision for amounts deemed as bad during the year	13,244	68,505
Accounts recovered during the year	<u>(49,512)</u>	<u>(35,412)</u>
Balance at end of the year	<u>\$ 54,583</u>	<u>\$ 90,851</u>

Aging of accounts receivable impaired

	2014	2013
Over 120 days	<u>\$ 54,583</u>	<u>\$ 90,851</u>

7. Inventories

	2014	2013
Finished goods:		
Coatings, solvents and mixtures	\$ 255,544	\$ 223,846
Paper	172,668	199,699
Chemicals and plastics	106,903	231,449
Additives for food products	144,282	60,291
Lubricants	<u>225,252</u>	<u>165,419</u>
	904,649	880,704
Allowance for slow moving inventory	<u>(9,169)</u>	<u>(12,386)</u>
	895,480	868,318
Merchandise-in-transit	<u>14,837</u>	<u>21,558</u>
	<u>\$ 910,317</u>	<u>\$ 889,876</u>

Inventories recognized in cost of sales for inventory consumed during the period in connection with continuing operations was \$4,860,470 and \$3,553,733 in 2014 and 2013, respectively.

8. Investment properties

On March 22, 2014, the Entity received as payment in kind a real property for an account receivable due from Agropur Lacpur, S. A. de C. V. At the date of the payment in kind, the balance of the account receivable was \$12,727. As the Entity does not have any plans to make use of the property, management classifies it as an investment property, subject to applicable requirements.

	2014
Land	<u>\$ 12,727</u>

The fair value of the Entity's investment property as of December 31, 2014 has been determined in accordance with IFRS13.91 (a), 93 (d) on the basis of a valuation performed on the respective dates by an independent appraiser with the appropriate qualifications and sufficient recent experience in the valuation of investment properties similar in nature and physical location to those of the Entity. Fair value as of December 31, 2014 is \$21,825, of which \$11,700 refers to the land and \$10,125 to the construction. However, the Entity has decided to maintain the properties at the book value established at their initial recognition and recognize income only when it is being realized through the sale of the asset.

9. **Property, plant and equipment**

	Balance at beginning 2014	Additions	Disposals	Reclassifications	Balance as of December 31, 2014
<i>Investment:</i>					
Land	\$ 214,981	\$ 1,300	\$ (10,753)	\$ 52	\$ 205,580
Building and constructions	493,418	15,085	(5,908)	(18,601)	483,994
Industrial machinery and equipment	329,168	14,763	(1,508)	43,393	385,816
Office furniture and equipment	44,993	2,678	(172)	870	48,369
Vehicle	285,571	16,662	(24,788)	(34,144)	243,301
Computers	67,770	14,705	(127)	(25,213)	57,135
Equipment acquired under financial leases	93,472	33,836	-	-	127,308
Total investment	1,529,373	99,029	(43,256)	(33,643)	1,551,503
<i>Accumulated depreciation:</i>					
Building and constructions	(157,568)	(28,103)	1,084	5,107	(179,480)
Industrial machinery and equipment	(176,509)	(27,356)	105	(12,391)	(216,151)
Office furniture and equipment	(23,389)	(3,072)	-	332	(26,129)
Vehicle	(179,553)	(24,921)	8,072	18,309	(178,093)
Computers	(18,314)	(11,066)	-	678	(28,702)
Equipment acquired under financial leases	(52,199)	(12,725)	2,490	-	(62,434)
Total accumulated depreciation	(607,532)	(107,243)	11,751	12,035	(690,989)
Net investment	\$ 921,841	\$ (8,214)	\$ (31,505)	\$ (21,608)	\$ 860,514

	Balance at beginning 2013	Additions	Disposals	Assets held for sale	Reclassifications	Balance as of December 31, 2013
<i>Investment:</i>						
Land	\$ 190,004	\$ 1,587	23,385	\$ -	\$ 5	\$ 214,981
Building and constructions	323,470	32,750	146,301	(115)	(8,988)	493,418
Industrial machinery and equipment	226,125	49,473	55,444	-	(1,874)	329,168
Office furniture and equipment	13,342	49,346	24,529	(39,547)	(2,677)	44,993
Vehicle	134,715	19,851	143,386	(911)	(11,470)	285,571
Computers	19,949	25,739	42,361	(7,172)	(13,107)	67,770
Equipment acquired under financial leases	<u>51,677</u>	<u>41,795</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>93,472</u>
Total investment	<u>959,282</u>	<u>220,541</u>	<u>435,406</u>	<u>(47,745)</u>	<u>(38,111)</u>	<u>1,529,373</u>
Accumulated depreciation						
Building and constructions	(76,384)	(22,618)	(70,969)	-	12,403	(157,568)
Industrial machinery and equipment	(122,348)	(15,089)	(47,346)	-	8,274	(176,509)
Office furniture and equipment	(15,986)	(2,062)	(6,472)	-	1,131	(23,389)
Vehicle	(132,566)	(13,090)	(41,075)	-	7,178	(179,553)
Computers	(7,163)	(3,106)	(9,748)	-	1,703	(18,314)
Equipment acquired under financial leases	<u>(36,819)</u>	<u>(4,285)</u>	<u>(13,445)</u>	<u>-</u>	<u>2,349</u>	<u>(52,200)</u>
Total accumulated depreciation	<u>(391,266)</u>	<u>(60,250)</u>	<u>(189,055)</u>	<u>-</u>	<u>33,038</u>	<u>(607,533)</u>
Net investment	<u>\$ 568,016</u>	<u>\$ 160,291</u>	<u>\$ 246,351</u>	<u>\$ (47,745)</u>	<u>\$ (5,073)</u>	<u>\$ 921,840</u>

10. Acquisition of businesses

In 2013, the Entity acquired businesses that were recorded using the acquisition method. The results of the acquired businesses were included in the consolidated financial statements since the acquisition date. The acquired businesses are as follows:

a. *Subsidiaries acquired*

Subsidiaries acquired	Principal activities	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
Mardupol	Purchase and sale of raw materials	February 1, 2013	100%	\$ 155,227
Coremal	Purchase and sale of raw materials	December 31, 2013	100%	<u>492,457</u>
				<u>\$ 647,684</u>

- (1) On February 1, 2013, the Entity completed the acquisition of Productos Químicos Mardupol, S. A. de C. V. (Mardupol), a company engaged in the distribution of chemicals.
- (2) COREMAL is a distributor of chemical products located in Recife, Brazil, with operations in 27 states nationwide and headquarters in Sao Paulo, Brazil. The acquisition price is comprised of an initial payment of MX \$49 million, and contingent consideration that is paid through a formula based on attaining certain levels of EBITDA from the years 2014 to 2019 which will be paid over the next five years, because it is guaranteed by the Entity.

b. *Consideration transferred*

	Mardupol	Coremal
Cash	\$ 114,540	\$ 442,554
Shares	89,329	-
Effect selling Pochteca Brasil	-	49,903
Less: Claim under the contract	<u>(48,642)</u>	<u>-</u>
Total	<u>\$ 155,227</u>	<u>\$ 492,457</u>

c. *Adjustment to contingent consideration*

	Importe
Balance at December 31, 2013	\$ 442,554
Payments rendered	(104,600)
Adjustment for remeasurement of contingent liability	<u>(86,739)</u>
Balance at December 31, 2014	<u>\$ 251,215</u>

d. *Assets acquired and liabilities assumed at the acquisition date*

	Mardupol ⁽¹⁾	Coremal	Total
Current Assets			
Cash	\$ 3,360	\$ 28,479	\$ 31,839
Accounts receivables	205,407	231,098	436,505
Inventories	128,830	169,980	298,810
Non-current assets			
Plant and equipment	31,899	195,857	227,756
Other assets	12,271	27,183	39,454
Intangible assets	52,233	-	52,233
Current liabilities			
Trade and other accounts payables	360,299	343,798	704,097
Non-current liabilities			
Borrowings	<u>7,144</u>	<u>90,236</u>	<u>97,380</u>
	<u>\$ 66,557</u>	<u>\$ 218,563</u>	<u>\$ 285,120</u>

- (1) This refers to the assumed assets and liabilities of Productos Químicos Mardupol, S. A. de C. V., Servicios Corporativos Guibert, S. A. de C. V. and Servicios Corporativos Mardupol, S. A. de C. V.

As already mentioned, the measurement of the assets and liabilities assumed as a result of the acquisition of Coremal, was made using information available at the date of issuance of these consolidated financial statements. As of December 31, 2014, an adjustment was recorded for \$(86,739), related to the unpaid contingent consideration determined in conformity with the terms of the purchase-price agreement.

e. *Goodwill identified on acquisition*

	Mardupol	Coremal	Total
Acquisition consideration	\$ 155,227	\$ 492,457	\$ 647,684
Plus: Effects of purchase accounting transition	28,485	-	28,485
Less: Fair value of net assets acquired	<u>(66,557)</u>	<u>(218,563)</u>	<u>(285,120)</u>
Goodwill identified on acquisition	117,155	273,894	391,049
Adjustment for remeasurement of contingent liability	<u>-</u>	<u>(86,739)</u>	<u>(86,739)</u>
Goodwill	<u>\$ 117,155</u>	<u>\$ 187,155</u>	<u>\$ 304,310</u>

f. **Cash flows from acquisition of subsidiaries**

	Mardupol	Coremal
Consideration paid in cash	\$ 114,540	\$ 442,554
Less: cash balances acquired	<u>3,360</u>	<u>28,479</u>
	<u>\$ 111,180</u>	<u>\$ 414,075</u>

The acquisition of Mardupol gave Grupo Pochteca a physical presence in Ciudad Obregón and Ciudad Juárez, localities where it did not have operations, generating additional sales of \$53,449 and \$40,000 for 2014 and 2013, respectively. Likewise, Mardupol brought a portfolio of pigments and colorants and products for the agro-business, sectors which Pochteca had practically never entered, adding \$31,300 and \$23,000 in sales in the years 2014 and 2013, respectively. The water treatment sector, where Pochteca already had a presence, was further strengthened by the portfolio of Mardupol, increasing sales by \$40,000 and \$44,500 for 2014 and 2013, respectively. Furthermore, the portfolio of products brought by leading suppliers such as Du Pont, Jones Hamilton, Eastman and Solvay helped to increase sales by \$110,000 and \$150,000 for 2014 and 2013, respectively.

Generally speaking, sales in the chemicals and plastics segment, which includes the majority of Mardupol's products, increased from \$1,370,235 in 2013 to \$2,664,912, in 2014. A major part of this growth was due to the increased physical presence, the additional portfolio of products and suppliers, and the customers that were incorporated into the operation of Pochteca with the acquisition of Mardupol.

11. Sale of Subsidiary

On July 1, 2013, the Entity sold Pochteca Brasil, Ltda. The Entity did not receive cash consideration for the transaction because in December 2013, Pochteca Brasil, Ltd. acquired 100% of the shares of "Coremal" from the group to which it had sold Pochteca Brasil Ltda. As of December 31, 2013, the net assets disposed amounted to \$41,705.

12. Intangible asset

In accordance with the analysis of fair value of assets and liabilities at the date of acquisition of Mardupol, the following intangible assets were identified:

	2014	2013
Supplier relationship	\$ 51,425	\$ 51,425
PEMEX relationship	280	560
Noncompete contract	<u>198</u>	<u>248</u>
Balances at end of year	<u>\$ 51,903</u>	<u>\$ 52,233</u>

13. Goodwill

	2014	2013
Balances at beginning of year	\$ 457,605	\$ 101,556
Additional amounts recognized from business acquisitions that occurred during the year	<u>(51,739)</u>	<u>356,049</u>
Balances at end of year	<u>\$ 405,866</u>	<u>\$ 457,605</u>

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

The Entity has not identified impairment losses of goodwill balances recorded at December 31, 2014 and 2013. Management did not observe any changes in the principal indicators giving rise to a potential goodwill impairment.

14. Other accounts payable and accrued expenses

	2014	2013
Liability from Coremal purchase ⁽¹⁾	\$ 251,215	\$ 442,554
Accounts payable	82,021	70,480
Liabilities for purchase of fixed assets ⁽²⁾	24,283	26,104
Reserves	10,899	9,795
Other account payable	<u>42,978</u>	<u>4,423</u>
	<u>\$ 411,396</u>	<u>\$ 553,356</u>
Short-term	\$ 184,525	\$ 258,882
Long-term	<u>226,871</u>	<u>294,474</u>
	<u>\$ 411,396</u>	<u>\$ 553,356</u>

(1) Short-term \$24 millions and \$148 million, as of December 31, 2014 and 2013, respectively.

(2) On June 25, 2012, the Entity acquired the Shell lubricants plant in Mexico, located in the city of León, Guanajuato for U.S. \$2,539 thousand, plus IVA, of which U.S. \$250 thousand was paid on June 30, 2013 and U.S. \$507 thousand was paid in 2012. Of the remaining balance, U.S. \$350 thousand will be paid on July 31, 2014 and U.S. \$1,648 thousand on July 31, 2015, which balances are recorded under the heading other accounts payable and accumulated liabilities in the accompanying consolidated financial statements.

15. Bank loans and long-term debt

	2014	2013
Syndicated loan for \$610,000 with HSBC (HSBC and Inbursa syndicated debt for \$305,000 each one), at TIIE plus a margin of 1.50% to 3.00% depending on the leverage ratio, maturing in 2018.	\$ 610,000	\$ -
Syndicated loan for \$440,000 with HSBC (HSBC and Inbursa syndicated debt 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
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.	-	2,973
Unsecured loan dated October 23, 2013 for \$50,000 with Inbursa, bearing interest at 1.75% above the 28 day TIIE rate, and maturing in 2014.	-	50,000
Vehicle lease agreement with GE Capital México for \$69,183 at a fixed rate 3.5816% above the 28 day TIIE rate.	69,183	49,935

Unsecured loan with HSBC for \$60,000 (syndicated debt with HSBC and Inbursa for \$30,000 and \$30,000, respectively), bearing interest at THIE plus 3%, and maturing in 2015.	-	60,000
Loan with Banco Internacional for US \$350,000 bearing interest at 8.5% payable from January 2014 and over the following five months.	-	4,578
Loan with Banco do Brasil for 15,230,768 Brazilian Reales bearing interest at 10.17% maturing in 2017.	23,218	55,486
Financial Leasing with Banco do Brasil for 93,804 Brazilian Reales with 7% annual interest rate maturing in September 2014.	-	450
Financial Leasing with Banco Fidis for 2,264,296 Brazilian Reales with 7% annual interest rate maturing in June 2014.	7,202	8,865
Loan with Banco Itau for 20,097,194 Brazilian Reales bearing interest at 4.53% maturing in March 2015.	41,477	78,557
Financial Leasing with Banco Itau for 2,127,798 Brazilian Reales with 7% annual interest rate maturing in October 2014.	-	7,846
Financial Leasing with IBM 201,098 Brazilian Reales with 14.84% annual interest rate maturing in June 2016.	366	587
Loan with Itaucard for Real 14,061 bearing interest at 16.21% maturing in March 2017.	110	74
Financial Leasing with Mercedes Benz for 94,570 Brazilian Reales with 3.5% annual interest rate maturing in December 2017.	606	117
Financial Leasing with Mercedes Benz for 2,250,488 Brazilian Reales with 8.74% annual interest rate maturing in August 2014.	4,456	8,072
Loan with SAFRA for 1,400,000 Brazilian Reales bearing interest at 10.00% maturing in August 2015.	439	5,234
Financial Leasing with SAFRA for 165,624 Brazilian Reales with 13.92% annual interest rate maturing in August 2016.	-	554
Loan with Santander for 9,695,584 Brazilian Reales bearing interest at 10.25% that beginning in October 2013 and maturing in October 2014.	11,303	33,226
Financial Leasing with Volvo for 35,893 Brazilian Reales with 4.40% annual interest rate maturing in June 2018.	6,311	1,497
Loan with Finimp for 1,429,842 Brazilian Reales bearing interest at 2.38% plus CDI that began in May 2014 and maturing in January 2015.	8,635	-

	2014	2013
Loan with Banco Brasil, S. A. for 30,000 Brazilian Reales bearing interest at 5.50% that began in august 2013 and maturing in July 2017.	185	-
Loan with HSBC Banco Multiplo for 24,964,913 Brazilian Reales bearing interest at 3.70% plus CDI that began in October 2013 and maturing in August 2018.	162,150	-
Loan with Anymore for 36,782 Brazilian Reales bearing interest at 2.50% plus CDI that began in November 2013 and maturing in August 2015.	199	-
Loan with Banco City de Costa Rica, S. A. for 107,331,140 colones bearing interest at 6.84% that began in April 2014 and maturing in August 2015.	2,606	-
Revolving credit line with Interbanco for US \$107,465 bearing interest at 8.50% beginning in September 2014 and maturing in March 2015.	1,584	-
Financial Leasing. With Votorantim for 1,247,161 Brazilian Reales with 12.51% annual interest rate maturing August 2016.	<u>2,391</u>	<u>4,266</u>
Bank loans	952,236	812,317
Less – Commissions paid unamortized	<u>(16,723)</u>	<u>(8,250)</u>
	935,513	804,067
Less – Current portion	<u>61,525</u>	<u>186,306</u>
Long-term debt	<u>\$ 873,988</u>	<u>\$ 617,761</u>

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

	2014	2013
TIE	3.320%	3.790%

- a) **Refinancing of syndicated debt** - As mentioned in Note 15 a, on December 3, 2014, the Entity executed a refinancing contract for the unsecured loan (the Refinancing Contract), which had been contracted on June 14, 2012, for \$440,000 (syndicated debt with the following financial institutions: HSBC México, S.A., Institución de Banca Múltiple, Grupo Financiero HSBC (HSBC) and Banco Inbursa, S. A. (Inbursa) for \$190,000 and \$250,000, respectively). The debt was contracted at the TIE rate plus a spread of between 1.50% and 2.50%, depending on the leverage ratio obtained. As part of the Refinancing Contract, the following amendments are made: i) the date of maturity of the syndicated debt is now December 3, 2018, ii) Grupo Pochteca, S. A. B. de C. V. is eliminated as borrower, leaving as sole borrowers the subsidiaries Pochteca Materias Primas, S. A. de C. V. and Pochteca Papel, S. A. de C. V., iii) the refinancing is for the amount of \$610,000, of which Inbursa and HSBC, provide \$305,000 each, and iv) the percentage above the TIE rate is a spread of between 1.50% and 3.00%

On December 13, 2013, the borrowers and creditors entered into a first amendment agreement to the Original Credit Contract with the intention of de: i) increasing the amount of the original credit contract by an additional amount of \$170,000 to leave a total amount of the original credit contract available up to an amount not exceeding e \$610,000; ii) substituting the rights of Grupo Pochteca, S. A. B. de C. V., as guarantor under the Original Credit Contract; and amending certain terms and conditions contained in the Original Credit.

On December 3, 2014 the Entity executed a refinancing contract for the syndicated loan with HSBC and Inbursa (the “Lenders”), which contains the following principal changes: 1) reinstate the date of maturity of the loan to December 3, 2018; 2) eliminate Grupo Pochteca, S. A. B. de C. V. as borrower and leave only Pochteca Materias Primas, S. A. de C. V. and Pochteca Papel, S. A. de C. V., as borrowers and 3) refinance the loan for \$610,000, of which HSBC and Inbursa provide equal amounts of \$305,000 and iv) modify the affirmative and negative covenants. To give effect to the loan refinancing, HSBC and Inbursa required the payment of the accrued outstanding interest and principal as of that date so that the Lenders could again make the loan of \$610,000 to the borrowers.

- b) In accordance with the syndicated loan agreement with Banco Inbursa, S. A. and HSBC México, the Entity is subject to certain obligations, restrictions and covenants, of which the most significant of which are:
- The following financial ratios must be maintained at all times:
 - Interest Rate Hedge Ratio. An Interest Rate Hedge Ratio a) greater than 2.0 to 1.0 from the Close Date until and including June 30, 2015; and b) greater than 2.5 to 1.0 from and including December 31, 2015 and c) greater than 3.0 to 1.0 from and including January 1, 2016 from 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 March 31, 2015; (b) less than 2.75 to 1.0 from and including April 1, 2015 until and including December 31, 2015; and (c) less than 2.5 to 1.0 from and including January 1, 2016 until and including the maturity date.
 - Stockholders' Equity. Consolidated stockholders' equity of at least \$900,000.
 - 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 for initials in Spanish) of the immediately preceding year
- c) In accordance with the syndicated loan agreement with Banco Inbursa, S. A. and HSBC México as of December 31, 2013, 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.

As of December 31, 2014 and 2013, these restrictions have been complied with. Maturities of long term-debt at December 31, 2014, are:

Year ended as of December 31,	Amount
2016	\$ 105,081
2017	120,445
2018	<u>648,462</u>
	<u>\$ 873,988</u>

16. Employee benefits

Net period cost for obligations resulting from the pension plan, severance payments and seniority premiums was \$906 and \$1,208 in 2014 and 2013, respectively. Other disclosures required under IFRS are not considered material.

17. Stockholders' equity

- I. During the Stockholders' Ordinary and Extraordinary General Meeting of August 30, 2013, the following resolutions were adopted:
 - A reduction of the variable portion of common stock to absorb the Entity's accumulated losses and a recomposition of common stock to comply with article 112 of the General Companies Law, through the conversion of shares representing both parts of common stock, or vice versa, to equal the theoretical value of the shares representing both parts of common stock.

- The establishment of a Buyback Fund for Proprietary Shares, up to a maximum authorized amount of \$50,000, which did not require any cash flows, because the fund of \$60,000 had already been canceled at the request of the National Banking and Securities Commission (CNBV). If shares are sold from the Buyback Fund, the amount obtained above or below their historical cost is recognized as part of the re-placement premium of repurchased shares.
- II. During the Stockholders' Ordinary and Ordinary General Meeting of January 11, 2013, the following resolutions were adopted:

- Amendments to all of the resolutions adopted in dealing with Item 3 on the Agenda of the Stockholders' Ordinary General Meeting held on November 22, 2012, so that they read as follows:

We hereby approve an increase in the Entity's authorized variable common stock by up to the amount of \$66,134, and the subsequent issuance of up to 7,000,000 ordinary, nominative Series "B" shares, if the inverse split agreed had gone into effect; or 35,000,000 ordinary, nominative Series "B" shares, if such inverse split had not gone into effect. The capital increase was for \$58,046 through the issuance of 30,719,313 ordinary, nominative Series "B" shares, of which 22,332,217 shares were used for the purchase of Productos Químicos Mardupol.

- III. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives, as discussed in Note 3u. At December 31, 2014 and 2013, the outstanding portion payable by executives is \$15,032 and \$15,919, respectively, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.
- IV. Common stock without par value as of December 31, is as follows:

	Number of Shares	Amount 2014
Fixed capital Series "B"	9,487,842	\$ 80,304
Fixed capital Series "B"	<u>121,034,207</u>	<u>1,024,417</u>
Total	<u>130,522,049</u>	<u>\$ 1,104,721</u>

- V. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2014 and 2013, the Entity has not set aside any amount to create such reserve.
- VI. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

Dividends paid from profits generated as of January 1, 2014 in Mexico resident and resident individuals abroad, may be subject to additional income tax of up to 10%, which should be retained by the Entity

18. 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 ratios

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:

	2014	2013
Cash and cash equivalents	\$ 324,458	\$ 181,371
Debt	<u>952,236</u>	<u>812,317</u>
Net debt	627,778	630,946
Stockholders' equity	<u>1,170,667</u>	<u>1,193,846</u>
Index of net debt and equity	<u>53.63%</u>	<u>52.85%</u>

The debt includes long-term debt and current portion.

Categories of financial instruments

	2014	2013
<i>Financial assets:</i>		
Cash	\$ 324,458	\$ 181,371
Loans and account receivable	1,082,605	1,006,665
<i>Financial liabilities:</i>		
Liabilities at amortized cost	\$ 2,364,878	\$ 2,170,201

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 reals and Guatemalan quetzales).

Foreign currency sensitivity analysis

If the Mexican peso - US dollar exchange rate had increased by \$1 peso and all other variables had remained constant, the Entity's profit after tax at December 31, 2013 and 2012 would have been adversely affected by the amount of \$18,126 and \$20,282, 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 reals 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 TIIE and LIBOR rates, although the latter is no longer relevant) which, at December 31, 2013 and 2012, represent approximately 100% and 100%, 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:

	2014	2013
Total debt at variable rates	\$ 952,236	\$ 812,317
Variable interest expense	77,696	33,464
Financial cost of debt percentage	8.16%	4.12%
Sensitivity to + 100 base points	87,225	41,591
Sensitivity to -100 base points	68,180	25,344

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 recoveries of overdue debts based on their aging parameters, so as to timely identify doubtful accounts. Bad debts are sent to the attorneys for collection records.

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

Liquidity risk management

The liquidity risk is the situation whereby the 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, 2014 and 2013 is as follows:

	December 31, 2014			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 61,525	\$ 105,081	\$ 768,907	\$ 935,513
Suppliers	1,200,882	-	-	1,200,882
Other account payable	227,147	54,357	172,514	454,018
Related parties	<u>11,730</u>	<u>-</u>	<u>-</u>	<u>3,860</u>
	<u>\$ 1,501,284</u>	<u>\$ 159,438</u>	<u>\$ 941,421</u>	<u>\$ 2,594,273</u>
	December 31, 2013			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 186,306	\$ 611,523	\$ 14,488	\$ 812,317
Suppliers	1,052,840	-	-	1,052,840
Other account payable	258,882	139,010	155,464	553,356
Related parties	<u>18,820</u>	<u>-</u>	<u>-</u>	<u>18,820</u>
	<u>\$ 1,516,848</u>	<u>\$ 750,533</u>	<u>\$ 169,952</u>	<u>\$ 2,437,333</u>

19. Financial derivatives

The Entity uses financial derivatives in the form of cross currency swaps (CCS) and exchange rate options as hedges to protect itself from exposure to variations in the BRL/USD exchange rate generated by the payment of the coupons (interest) and the current principal of the credit executed with HSBC for an amount of up to US \$10,921,734.

As of December 31, 2014, the fair value of the aforementioned transactions is as follows:

<u>Instrument</u>	<u>Counterparty</u>	<u>Starting date</u>	<u>Maturity</u>	<u>Rate payable and exchange rate agreed</u>	<u>Notional amount in USD</u>	<u>Fair value</u>
Currency swaps	HSBC	August 28, 2014	August 28, 2018	CDI +.35%	25,000,000	\$(18,043)
Exchange rate option	HSBC	August 25, 2014	September 25, 2015	2.60 BRL/USD	10,921,799	\$16,536

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

As of December 31, 2014, the effectiveness of these hedges is high, because the changes in fair value and the cash flows from the primary position are offset in a range of between 80% and 125% for the changes in fair value or cash flows of the hedge contract (financial derivatives). The method used to measure effectiveness is the "ratio analysis" based on a hypothetical derivative; such method consists of comparing the changes in the fair value of the hedge instrument with the changes in the fair value of the hypothetical derivative which would result in a perfect hedge of the item covered. By the same token, there are no ineffective portions to be recorded in results of the period.

Finally, as of December 31, 2014, there are no amounts reclassified from equity to results of the period for maturities.

20. Balances and transactions with related parties

- a. Balance due from related parties are:

	2014	2013
Mexichem Flúor, S.A. de C.V.	\$ 4,996	\$ 2,186
Mexichem Resinas Vinílicas, S.A. de C.V.	136	947
Mexichem Soluciones Integrales, S.A. de C.V.	<u>-</u>	<u>4</u>
	<u>\$ 5,132</u>	<u>\$ 3,137</u>

- b. Balance due to related parties are:

	2014	2013
Quimir, S.A. de C.V.	\$ 7,799	\$ 8,438
Mexichem Derivados, S.A. de C.V.	109	828
Mexichem Servicios Administrativos, S.A. de C.V.	289	1,855
Mexichem Compuestos, S.A. de C.V.	<u>1,289</u>	<u>6,896</u>
	<u>\$ 9,486</u>	<u>\$ 18,017</u>

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

	2014	2013
Mexichem Derivados, S.A. de C.V.:		
Sales	\$ 481	\$ 144
Purchases	(927)	(10,207)
Quimir, S.A. de C.V.:		
Sales	1,608	1,075
Purchases	(39,430)	(166)
Mexichem Fluor, S.A. de C.V.:		
Sales	10,822	9,436
Purchases	(1,539)	(76)
Mexichem Resinas Vinílicas, S.A. de C.V.:		
Sales	995	4,965
Mexichem Soluciones Integrales, S.A. de C.V.:		
Sales	92	356
Mexichem Compuestos, S.A. de C.V.:		
Sales	2,704	2,890
Purchases	(7,415)	(12,323)
Mexichem Servicios Administrativos, S.A. de C.V.:		
Administrative services paid	(2,158)	(8,600)
Kaluz, S.A. de C.V.:		
Administrative services paid	<u>-</u>	<u>(963)</u>
	<u>\$ (34,767)</u>	<u>\$ (13,469)</u>

21. Net sales

	2014	2013
Coatings, solvents and mixtures	\$ 1,538,143	\$ 1,293,417
Paper	589,924	673,778
Chemicals and plastics	2,664,912	1,370,235
Additives for food products	514,525	402,794
Lubricants	<u>724,436</u>	<u>732,545</u>
	<u>\$ 6,031,940</u>	<u>\$ 4,472,769</u>

22. Cost of sales

	2014	2013
Inventories consumed	\$ 4,860,470	\$ 3,553,733
Freight	99,911	84,912
Other	<u>20,116</u>	<u>84,835</u>
	<u>\$ 4,980,497</u>	<u>\$ 3,723,480</u>

23. Operating expenses

	2014	2013
Payroll	\$ 452,779	\$ 359,704
Depreciation	107,574	60,250
Operations	78,989	47,274
Leasing	44,898	31,927
Telephone and systems	26,400	24,008
Maintenance	20,997	21,687
Fees	72,627	20,348
Other	<u>51,745</u>	<u>28,255</u>
	<u>\$ 856,009</u>	<u>\$ 593,453</u>

24. Income taxes

The Entity is subject to ISR and through December 31, 2013, to ISR and IETU. Therefore, the income tax payable was the higher between ISR and IETU through 2013

ISR -The rate was 30% in 2014 and 2013 and as a result of the new 2014 ISR law ("2014 Tax Law"), the rate will continue at 30% thereafter.

IETU - IETU was eliminated as of 2014; therefore, up to December 31, 2013, this tax was incurred both on revenues and deductions and certain tax credits based on cash flows from each year. The respective rate was 17.5%.

Based on its financial projections, the Entity determined that it will basically pay ISR. Therefore, it only recognizes deferred ISR.

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:

	2014	2013
ISR:		
Current	\$ 8,742	\$ 13,747
Deferred	<u>4,388</u>	<u>13,097</u>
	<u>\$ 13,130</u>	<u>\$ 26,844</u>

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

	2014	2013
Deferred ISR asset:		
Tax loss carryforwards	\$ 8,407	\$ 5,081
Accrued expenses	<u>31,545</u>	<u>35,684</u>
Deferred ISR asset	39,952	40,765
Deferred ISR liability:		
Property, plant and equipment	(6,455)	(10,203)
Other assets	(5,090)	(3,524)
Inventories, net	<u>(1,003)</u>	<u>(1,003)</u>
Deferred tax liability	<u>(12,548)</u>	<u>(14,730)</u>
Net Deferred ISR asset	<u>\$ 27,404</u>	<u>\$ 26,035</u>

- c. 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:

	2013	2012
Statutory rate	30%	30%
Add the effect of permanent differences mainly nondeductible expenses	39%	14%
Add (deduct) - effects of inflation	<u>5%</u>	<u>(4%)</u>
Effective rate	<u>74%</u>	<u>40%</u>

- d. The benefits from tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. The years of maturity and restated amounts to December 31, 2013, are:

Year of expiration	Tax loss carryforwards
2021	\$ 16,103
2024	<u>11,920</u>
	<u>\$ 28,023</u>

25. Operations that did not affect cash flows

On March 22, 2014, the Entity received a payment in kind of a real property with a value of \$21,825, of which \$11,700 refers to the land and the remaining \$10,125 to the constructions on the land (collectively the payment in kind). Such amounts refer to the collection of an account receivable due from Agropur Lacpur, S. A. de C. V. At the date of the payment in kind the balance of the account receivable was \$12,727. As the Entity has no plans to make use of this real property, the Entity's management has approved its classification as available for sale, for which reason it is recorded under the heading of short-term assets.

During the years ended December 31, 2014 and 2013, the Entity acquired equipment with a value of \$33,836 and \$41,795 through a capital lease. This acquisition is being reflected in the cash flow statements over the life of the leases through the payment of the rentals.

On December 31, 2013, the Entity concluded the acquisition agreement with COREMAL. The acquisition price is composed of an initial payment of MX \$49 million, and a contingent consideration that is realized through a formula based on attaining certain margins of EBITDA from the years 2014 to 2019 which will be paid over the this five year period, in the amount of \$251,215 each year.

On June 25, 2012, the Entity acquired the lubricants plant of Shell in Mexico, located in the city of León, Guanajuato for US\$2,539 thousands, plus IVA, of which, US\$350 thousands was paid on June 30, 2014, US\$250 thousands was paid in 2013, and US\$507 thousands in 2012. Of the remaining US\$1,648 thousands will be paid on July 31, 2015, which are recorded in the heading other accounts payable and accumulated liabilities in the accompanying consolidated financial statements.

26. Commitments

The Entity leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$44,898 for the year ended December 31, 2014 and \$31,927 for the year ended December 31, 2013. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2015	\$ 31,309
2016	26,780
2017	16,275
2018	14,317
2019	13,791
2020 and thereafter	<u>28,259</u>
	<u>\$ 130,731</u>

27. Business segment information

Business segment information of the Entity is as follows:

	December 31, 2014					
	Coatings, solvents and mixtures	Paper	Chemicals and plastics	Additives for Food products	Lubricants	Total consolidated
Statement of income:						
Net sales	\$ 1,538,143	\$ 589,924	\$ 2,664,912	\$ 514,525	\$ 724,436	\$ 6,031,940
Depreciation	\$ 27,431	\$ 10,521	\$ 47,526	\$ 9,176	\$ 12,920	\$ 107,574
Operating income	\$ 49,836	\$ 19,113	\$ 86,342	\$ 16,671	\$ 23,472	\$ 195,434
Finance costs	\$ 45,334	\$ 17,387	\$ 78,543	\$ 15,165	\$ 21,351	\$ 177,780
Consolidated net income	\$ 1,154	\$ 442	\$ 1,999	\$ 386	\$ 543	\$ 4,524
Balance sheet:						
Total assets	\$ 971,267	\$ 372,509	\$ 1,637,902	\$ 324,898	\$ 457,448	\$ 3,764,024
Total liabilities	\$ 672,747	\$ 258,018	\$ 1,120,701	\$ 225,040	\$ 316,851	\$ 2,593,357
Statement of cash flows:						
Operation activities	\$ 81,847	\$ 31,391	\$ 141,805	\$ 27,378	\$ 38,550	\$ 320,971
Investment activities	\$ (39,619)	\$ (15,195)	\$ (68,643)	\$ (13,253)	\$ (18,661)	\$ (155,371)
Financing activities	\$ 865	\$ 332	\$ 1,498	\$ 289	\$ 407	\$ 3,391

	December 31, 2013					
	Coatings, solvents and mixtures	Paper	Chemicals and plastics	Additives for Food products	Lubricants	Total consolidated
Statement of income:						
Net sales	\$ 1,293,417	\$ 673,778	\$ 1,370,235	\$ 402,794	\$ 732,545	\$ 4,472,769
Depreciation	\$ 18,396	\$ 8,568	\$ 17,904	\$ 5,618	\$ 9,764	\$ 60,250
Operating income	\$ 47,582	\$ 22,161	\$ 46,309	\$ 14,531	\$ 25,253	\$ 155,836
Finance costs	\$ (25,864)	\$ (13,473)	\$ (27,400)	\$ (8,054)	\$ (14,648)	\$ (89,439)
Consolidated net income	\$ 11,438	\$ 5,958	\$ 12,117	\$ 3,562	\$ 6,478	\$ 39,553
Balance sheet:						
Total assets	\$ 1,050,654	\$ 547,316	\$ 1,113,054	\$ 327,193	\$ 595,054	\$ 3,633,271
Total liabilities	\$ 723,771	\$ 351,220	\$ 733,918	\$ 230,286	\$ 400,230	\$ 2,439,425
Statement of cash flows:						
Operation activities	\$ (6,987)	\$ (3,640)	\$ (7,402)	\$ (2,176)	\$ (3,958)	\$ (24,163)
Investment activities	\$ (63,195)	\$ (32,920)	\$ (197,908)	\$ (19,680)	\$ (35,791)	\$ (349,494)
Financing activities	\$ 56,111	\$ 29,230	\$ 59,443	\$ 17,474	\$ 31,779	\$ 194,037

28. Approval of the issuance of consolidated financial statements

On April 14, 2015, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz, Chief Executive Officer; consequently they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Audit Committee and General Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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