

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

Consolidated Financial Statements  
for the Years Ended December 31,  
2019, 2018 and 2017, and  
Independent Auditors' Report Dated  
April 2, 2020



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

# **Independent Auditors' Report and Consolidated Financial Statements for 2019, 2018 and 2017**

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



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

### **Opinion**

We have audited the consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2019, 2018 and 2017, and the consolidated statements of income and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2019, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

### **Basis for Opinion**

We conducted our audits in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are further described in *Independent Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Others Matter**

As mentioned in Note 3b, the accompanying consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern.

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

### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit issues which should be communicated in our report.



## ***Impairment of long-lived assets***

The consolidated financial statements as of December 31, 2019 include balances of properties, plant and equipment, other assets, intangible assets and Goodwill, which come from acquisition business. Those long-lived assets have been identified as Cash-Generating units ("UGEs" for its acronym in Spanish). Management performs an impairment analysis on annual basis and these assets previously mentioned are included.

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

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

Our audit procedures included, among others:

- a) Involve the internal specialists to:
  - Critically evaluate whether the model used by management to determine the value in use of the individual cash-generating units complies with the requirements of IAS 36.
  - Evaluate the reasonableness of the assumptions used by the administration of Group to determine the proper discount rates in each case.
  - Review that the projected cash flows are consistent with the historical audited information financial, and that any the effects of any non-recurring items that are not consistent with our understanding of the operations of the Group are properly excluded.
  - Selectively, recalculate the projections to test the amounts.
- b) Perform tests on internal controls and substantive procedures related to the information used to build the financial model that determines the recoverable amount of the cash-generating units.

The results of our audit procedures were reasonable and we have not identified that adjustments for impairment in the value of goodwill from the acquisition of the UGEs are required as of December 31, 2019.

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

Management is responsible for the additional information. The additional information comprises the information included in the annual report that the Group is obligated to prepare in accordance with the Article 33, Section I, Subsection b) of the fourth title, First Chapter of the General Rules Applicable to Securities Issuers and Other Participants of the Mexican Stock Market and the accompanying Manual of those legal provisions (the Legal provisions). The annual report is expected to be available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.



In connection with our audit of the consolidated financial statements, our responsibility is to read the additional information identified above when it becomes available and, doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we do, we conclude that there is a material misstatement in the additional information; we would have to report this matter. When we read the annual report, we will issue the conclusion about its reading, as required by Article 33, Section I, paragraph b) numeral 1.2. of the Provisions.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

C. P. C. Marco Antonio Arellano Alfaro  
April 2, 2020



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

Consolidated Statements of Financial Position

As of December 31, 2019, 2018 and 2017  
(In thousands of Mexican pesos)

Assets	Notes	2019	2018	2017	Liabilities and stockholders' equity	Notes	2019	2018	2017
Current assets:					Current liabilities:				
Cash and cash equivalents	5	\$ 125,787	\$ 138,253	\$ 254,628	Bank loans and current portion of long-term debt	16	\$ 560,243	\$ 405,414	\$ 300,292
Accounts receivable and recoverable taxes - Net	6	963,103	996,398	1,130,964	Trade accounts payable		1,366,700	1,331,709	1,313,877
Due from related parties	21	5,033	7,234	7,785	Other accounts payable and accrued expenses	15	252,142	238,698	173,050
Inventories – Net	7	911,843	950,019	888,009	Due to related parties	21	6,834	8,561	8,120
Right-of-use assets	13	48,811	-	-	Short-term lease liability	14	44,947	-	-
Prepaid expenses		<u>43,555</u>	<u>45,650</u>	<u>34,576</u>	Income taxes and statutory employee profit sharing		<u>23,719</u>	<u>32,234</u>	<u>47,788</u>
Total current assets		2,098,132	2,137,554	2,315,962	Total current liabilities		2,254,585	2,016,616	1,843,127
Non-current assets					Long-term liabilities:				
Properties, plant and equipment - Net	9	716,824	690,737	743,232	Long-term other accounts payable and accrued expenses	15	2,044	2,003	210,019
Other investments		4,381	4,381	4,381	Long-term debt	16	102,619	375,993	666,250
Investment properties	8	15,060	15,060	15,060	Long-term lease liability	14	283,519	-	-
Other assets		68,129	79,696	110,264	Employee benefits	17	<u>10,898</u>	<u>8,019</u>	<u>7,457</u>
Deferred income taxes	25	54,926	52,464	59,026	Total long-term liabilities		<u>399,080</u>	<u>386,015</u>	<u>883,726</u>
Intangible assets – Net	11	195,315	203,903	212,490	Total liabilities		2,653,665	2,402,631	2,726,853
Right-of-use assets	13	275,214	-	-	Stockholders' equity:				
Goodwill	12	<u>294,217</u>	<u>349,570</u>	<u>419,596</u>	Contributed capital-				
Total non-current assets		<u>1,624,066</u>	<u>1,395,811</u>	<u>1,564,049</u>	Capital stock	18	1,096,837	1,096,837	1,096,837
Total		<u>\$ 3,722,198</u>	<u>\$ 3,533,365</u>	<u>\$ 3,880,011</u>	Premium on sale of repurchased stock		58,176	58,176	58,176
					(Loss) earned capital-		-	-	-
					Retained earnings		(1,264)	24,477	18,233
					Reserve for repurchase of shares		10,311	13,169	3,257
					Translation effects of foreign operations		(93,603)	(61,407)	(22,723)
					Remeasurement of defined benefit obligation		<u>(1,924)</u>	<u>(518)</u>	<u>(622)</u>
							<u>(86,480)</u>	<u>(24,279)</u>	<u>(1,855)</u>
					Total stockholders' equity		<u>1,068,533</u>	<u>1,130,734</u>	<u>1,153,158</u>
					Total		<u>\$ 3,722,198</u>	<u>\$ 3,533,365</u>	<u>\$ 3,880,011</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, 2019, 2018 and 2017

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

	Notes	2019	2018	2017
Net sales	22	\$ 6,345,505	\$ 6,463,342	\$ 6,332,988
Cost of sales	23	<u>(5,182,573)</u>	<u>(5,256,146)</u>	<u>(5,182,656)</u>
Gross profit		1,162,932	1,207,196	1,150,332
Profit in business acquisition	10	-	-	5,040
Operating expenses	24	<u>(1,008,060)</u>	<u>(940,110)</u>	<u>(921,455)</u>
Income from operations		154,872	267,086	233,917
Financing costs:				
Interest income		7,599	8,560	13,433
Interest expense		(157,363)	(146,883)	(147,471)
Exchange gain (loss)		<u>7,086</u>	<u>(12,498)</u>	<u>(54,343)</u>
		(142,678)	(150,821)	(188,381)
Income before income taxes		12,194	116,265	45,536
Income taxes expense	25	<u>27,104</u>	<u>52,027</u>	<u>99,341</u>
Consolidated net income (loss)		<u>\$ (14,910)</u>	<u>\$ 64,238</u>	<u>\$ (53,805)</u>
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		(1,406)	104	3,123
Exchange differences on translating foreign operations		<u>(32,196)</u>	<u>(38,684)</u>	<u>(10,553)</u>
Total comprehensive (loss) income for the year		<u>\$ (48,512)</u>	<u>\$ 25,658</u>	<u>\$ (61,235)</u>
Earnings per share:				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		<u>\$ (0.1142)</u>	<u>\$ 0.4922</u>	<u>\$ (0.4122)</u>
Weighted average shares outstanding		<u>130,522,049</u>	<u>130,522,049</u>	<u>130,522,049</u>

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Changes in Stockholders’ Equity

For the years ended December 31, 2019, 2018 and 2017  
(In thousands of Mexican pesos)

	Contributed capital			Total	(Loss) earned capital				Total stockholders' equity
	Nominal	In trust	Premium on sale of repurchased stock		Retained earnings	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	
Balance as of January 1, 2017	\$ 1,104,721	\$ (7,884)	\$ 58,176	\$ 1,155,013	\$ 69,550	\$ 22,488	\$ (12,170)	\$ (3,745)	\$ 1,231,136
Cancellation of reserve for repurchase of shares	-	-	-	-	22,488	(22,488)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(20,000)	20,000	-	-	-
Repurchase of shares	-	-	-	-	-	(16,743)	-	-	(16,743)
Net comprehensive result for the year	-	-	-	-	(53,805)	-	(10,553)	3,123	(61,235)
Balance as of December 31,2017	1,104,721	(7,884)	58,176	1,155,013	18,233	3,257	(22,723)	(622)	1,153,158
Cancellation of reserve for repurchase of shares	-	-	-	-	3,257	(3,257)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(61,251)	61,251	-	-	-
Repurchase of shares	-	-	-	-	-	(48,082)	-	-	(48,082)
Net comprehensive result for the year	-	-	-	-	64,238	-	(38,684)	104	25,658
Balance as of December 31,2018	1,104,721	(7,884)	58,176	1,155,013	24,477	13,169	(61,407)	(518)	1,130,734
Cancellation of reserve for repurchase of shares	-	-	-	-	13,169	(13,169)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(24,000)	24,000	-	-	-
Repurchase of shares	-	-	-	-	-	(13,689)	-	-	(13,689)
Net comprehensive result for the year	-	-	-	-	(14,910)	-	(32,196)	(1,406)	(48,512)
Balance as of December 31,2019	<u>\$ 1,104,721</u>	<u>\$ (7,884)</u>	<u>\$ 58,176</u>	<u>\$ 1,155,013</u>	<u>\$ (1,264)</u>	<u>\$ 10,311</u>	<u>\$ (93,603)</u>	<u>\$ (1,924)</u>	<u>\$ 1,068,533</u>

The accompanying notes are part of the consolidated financial statements.



**Grupo Pochteca, S. A. B. de C. V. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

**For the years ended December 31, 2019, 2018 and 2017**

(In thousands of Mexican pesos)

(Indirect method)

	Notes	2019	2018	2017
Cash flows from operating activities:				
Consolidated net income (loss)		\$ (14,910)	\$ 64,238	\$ (53,805)
Adjustments for:				
Income taxes expense	25	27,104	52,027	99,341
Depreciation and amortization	24	163,941	117,647	127,063
Gain on sale of property and equipment		(10,324)	(14,059)	(4,988)
Amortization of commissions paid		3,406	3,498	10,921
Interest paid		153,957	143,385	136,550
Interest income		(7,598)	(8,560)	(13,433)
Unrealized exchange (gain) loss		4,447	(13,178)	(11,836)
		<u>320,023</u>	<u>344,998</u>	<u>289,813</u>
Changes in working capital:				
Accounts receivable and recoverable taxes	6	35,496	135,117	(17,707)
Inventories	7	38,176	(62,010)	(26,627)
Prepaid expenses		2,095	(11,074)	7,760
Other assets		(5,009)	10,358	(17,420)
(Decrease) increase in:				
Trade accounts payable		34,991	17,832	213,236
Other accounts payable and accrued expenses	15	(27,139)	(45,369)	(53,100)
Due to related parties	21	(1,727)	441	1,249
Income taxes paid		<u>(63,006)</u>	<u>(62,911)</u>	<u>(38,362)</u>
Net cash provided by operating activities		<u>333,900</u>	<u>327,382</u>	<u>358,842</u>
Cash flows from investing activities:				
Purchase of machinery and equipment		(86,102)	(121,507)	(41,379)
Sale of machinery and equipment		9,395	101,009	14,501
Acquisition of subsidiaries		-	-	(176,577)
Interest collected		<u>7,598</u>	<u>8,560</u>	<u>13,433</u>
Net cash used in investing activities		<u>(69,109)</u>	<u>(11,938)</u>	<u>(190,022)</u>
Cash flows from financing activities:				
Borrowings	16	1,649,029	160,000	1,096,105
Repayment of loans received	16	(1,791,129)	(344,122)	(964,436)
Payment of leasing		(75,072)	(15,114)	(33,099)
Purchase of own common shares		(13,689)	(48,082)	(16,743)
Interest and commissions paid		<u>(120,357)</u>	<u>(128,589)</u>	<u>(128,908)</u>
Net cash used in financing activities		<u>(351,218)</u>	<u>(375,907)</u>	<u>(47,081)</u>



	Notes	2019	2018	2017
Effects of changes in exchange rates on cash held in foreign currency		<u>73,961</u>	<u>(55,912)</u>	<u>(11,910)</u>
Net (decrease) increase in cash and cash equivalents		(12,466)	(116,375)	109,829
Cash and cash equivalents at beginning of year		<u>138,253</u>	<u>254,628</u>	<u>144,799</u>
Cash and cash equivalents at end of year		<u>\$ 125,787</u>	<u>\$ 138,253</u>	<u>\$ 254,628</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, 2019, 2018 and 2017

(In thousands of Mexican pesos)

### 1. Activity

Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the “Group”) operates in México, Central America and Brazil and its main activities are comprised trading raw materials for the chemical, coating, plastics and food industries, as well as the processing and marketing of paper, cardboard, products for graphic arts and personal and homecare products. The offices are located at Manuel Reyes Veramendi #6, Colonia San Miguel Chapultepec, Delegación Miguel Hidalgo, 11850, Ciudad de México.

### 2. Adoption of new and revised International Financial Reporting Standards

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

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2019.

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

In the current year, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance lease and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in Note 3. The impact of the adoption of IFRS 16 on the Group consolidated financial statements is described below.

The date of initial application of IFRS 16 for the Group is 1 January 2019.

The Group has applied IFRS 16 using the modified retrospective adoption method, without restatement the comparative information.

#### *(a) Impact of the new definition of a lease*

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

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. This is in contrast to the focus on 'risks and rewards' in IAS 17 and IFRIC 4.



The Group applies the definition of a lease and related guidance set out in IFRS 16 to all contracts entered into or changed on or after 1 January 2019. In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not significantly change the scope of contracts that meet the definition of a lease for the Group.

(b) *Impact on Lessee Accounting*

(i) Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off balance sheet.

Applying IFRS 16, for all leases (except as noted below), the Group:

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

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as computers, small items of office furniture and telephones), the Group has opted to recognize a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within 'other expenses' in profit or loss.

(ii) Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to contracts formerly classified as finance leases is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

(c) *Financial impact of the initial application of IFRS 16*

The table below show the amount of adjustment for each consolidated financial statement line item affected by the application of IFRS 16 for the current and prior years.

	2019
<b>Impact on Consolidated Statement of Income</b>	
<u><i>Impact on loss for the year:</i></u>	
Increase in depreciation of right-of-use asset (1)	\$ 49,314
Increase in interest expense (1)	12,012
Decrease in operating expenses (1)	<u>(60,132)</u>
Decrease in loss for the year	<u>\$ 1,194</u>



The Group as a lessee:

- (1) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets of \$324,025 and lease liabilities of \$328,466. It also resulted in a decrease in operating expenses of \$60,132 and an increase in depreciation of \$49,314 and interest expense of \$12,012.

The application of IFRS 16 has an impact on the consolidated statement of cash flows of the Group. Under IFRS 16, lessees must present:

- Short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability as part of operating activities;
- Cash paid for the interest portion of a lease liability as either operating activities or financing activities, as permitted by IAS 7 (the Group has opted to include interest paid as part of financing activities); and
- Cash payments for the principal portion for a lease liability, as part of financing activities.

Under IAS 17, all lease payments on operating leases were presented as part of cash flows from operating activities. Consequently, the net cash generated by operating activities has increased by \$60,132 in 2019, being the lease payments, and net cash used in financing activities has increased by the same amount.

The adoption of IFRS 16 did not have an impact on net cash flows.

b. ***Impact of application of Other amendments to IFRS Standards and Interpretations***

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IFRS 9  
*Prepayment Features with  
Negative Compensation*

The Group has adopted the amendments to IFRS 9 for the first time in the current year. The amendments to IFRS 9 clarify that for the purpose of assessing whether a prepayment feature meets the 'solely payments of principal and interest' (SPPI) condition, the party exercising the option may pay or receive reasonable compensation for the prepayment irrespective of the reason for prepayment. In other words, financial assets with prepayment features with negative compensation do not automatically fail SPPI.

Amendments to IAS 28  
*Long-term Interests in  
Associates and Joint  
Ventures*

The Group has adopted the amendments to IAS 28 for the first time in the current year. The amendment clarifies that IFRS 9, including its impairment requirements, applies to other financial instruments in an associate or joint venture to which the equity method is not applied.

These include long-term interests that, in substance, form part of the 's net investment in an associate or joint venture. The Group applies IFRS 9 to such long-term interests before it applies IAS 28. In applying IFRS 9, the Group does not take account of any adjustments to the carrying amount of long-term interests required by IAS 28 (i.e., adjustments to the carrying amount of long-term interests arising from the allocation of losses of the investee or assessment of impairment in accordance with IAS 28).



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

The Group has adopted the amendments included in the *Annual Improvements to IFRS Standards 2015–2017 Cycle* for the first time in the current year. The *Annual Improvements* include amendments to four Standards.

#### IAS 12 *Income Taxes*

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

#### IAS 23 *Borrowing Costs*

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

#### IFRS 3 *Business Combinations*

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

#### IFRS 11 *Joint Arrangements*

The amendments clarify that when a party that participates in, but does not have joint control of, a joint operation that is a business obtains joint control of such a joint operation, the **Group** does not remeasure its PHI in the joint operation.

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

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

The paragraphs that relate to measuring the current service cost and the net interest on the net defined benefit liability (asset) have also been amended. The **Group** will now be required to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. In the case of the net interest, the amendments make it clear that for the period post plan amendment, the net interest is calculated by multiplying the net defined benefit liability (asset) as remeasured under IAS 19:99 with the discount rate used in the remeasurement (also taking into account the effect of contributions and benefit payments on the net defined benefit liability (asset)).



*IFRIC 23 Uncertainty  
over Income Tax  
Treatments*

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

- Determine whether uncertain tax positions are assessed separately or as a group; and
- Assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an Group in its income tax filings:
  - If yes, should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings.
  - If no, should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

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

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

IFRS 17	<i>Insurance Contracts</i>
IFRS 10 and IAS 28 (amendments)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>
Amendments to IFRS 3	<i>Definition of a business</i>
Amendments to IAS 1 and IAS 8	<i>Definition of material</i>
<i>Conceptual Framework</i>	<i>Conceptual Framework in IFRS Standards</i>

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

***IFRS 17 Insurance Contracts***

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes IFRS 4 Insurance Contracts.

IFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

The Standard is effective for annual reporting periods beginning on or after 1 January 2021, with early application permitted. It is applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied. An exposure draft Amendments to IFRS 17 addresses concerns and implementation challenges that were identified after IFRS 17 was published. One of the main changes proposed is the deferral of the date of initial application of IFRS 17 by one year to annual periods beginning on or after 1 January 2022.



For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the Group first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

### ***IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

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

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

### ***Amendments to IFRS 3 Definition of a business***

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

Additional guidance is provided that helps to determine whether a substantive process has been acquired.

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

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

### ***Amendments to IAS 1 and IAS 8 Definition of material***

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency.



The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

### ***Conceptual Framework in IFRS Standards***

Together with the revised Conceptual Framework, which became effective upon publication on 29 March 2018, the IASB has also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Not all amendments, however, update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASB Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The amendments, where they actually are updates, are effective for annual periods beginning on or after 1 January 2020, with early application permitted.

## **3. Significant accounting policies**

### **a. *Statement of compliance***

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

### **b. *Entity going concern***

The accompanying consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern. As of December 31, 2019, the consolidated statement of financial position shows a deficiency in working capital of \$ 156,453.

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

### **c. *Basis of preparation***

The consolidated financial statements the Group have been prepared on the historical cost basis except for (certain properties and financial instruments, Properties, plant and equipment, Investment properties) that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies below.

#### **a. Historical cost**

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



ii. Fair value

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

d. ***Basis of consolidation***

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

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

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

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

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

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



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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group accounting policies.

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

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

#### Changes in the Group ownership interests in existing subsidiaries

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

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

Subsidiary	Main activity	Functional currency
Pochteca Materias Primas, S. A. de C. V.	Trading of raw materials	Mexican pesos
Demser, S. A. de C. V.	Professional services	Mexican pesos
Servicios Administrativos Argostal, S. A. de C. V.	Professional services	Mexican pesos
Pochteca de Guatemala, S. A.	Trading of raw materials	Guatemalan quetzals
Pochteca Do Brasil Participações Ltd.	Trading of raw materials	Brazilian reals
Pochteca Papel, S. A. de C. V.	Trading of paper	Mexican pesos
Pochteca de El Salvador, S. A.	Trading of raw materials	US Dollars
Pochteca de Costa Rica, S. A.	Trading of raw materials	Costa Rican colon
Pochteca Servicios Administrativos, S. A. de C. V.	Professional services	Mexican pesos
Pochteca Servicios Corporativos, S.A. de C.V.	Professional services	Mexican pesos



Subsidiary	Main activity	Functional currency
Asesoría en Lubricantes Pochteca, S. A de C. V.	Professional services	Mexican pesos
Asesoría en Servicios Pochteca, S. A de C. V.	Professional services	Mexican pesos
Plásticos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Químicos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Coremal, S. A. (Coremal)	Trading of raw materials	Brazilian reals
	Transportation of chemical products	Brazilian reals
Mecotrans Transportes e Logística Ltda.	Trading of raw materials	Brazilian reals
Coremal Química Ltda.	Trading of raw materials	US Dollars
Latam Chemicals, LLC	Trading of raw materials	US Dollars
Conjunto LAR de México, S. A. de C. V.	Trading of raw materials	Mexican pesos

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

The individual financial statements of each of the Group's subsidiaries are prepared in the currency of the primary economic environment in which the Group operates (its functional currency). For the purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, the Group's functional currency, as well as the presentation currency of the consolidated financial statements.

For consolidation purposes, the recording currency used for the financial statements of foreign subsidiaries is modified to enable their presentation according to IFRS. The financial statements are converted to Mexican pesos by using the following methodology:

Foreign entities that use the same recording and functional currency convert their financial statements by utilizing the following exchange rates: 1) the close exchange rate for assets and liabilities; 2) the historical exchange rate for stockholders' equity, and 3) the average exchange rates in effect during the period unless fluctuating significantly, in which case the exchange rates in effect on transaction dates are used for income, costs and expenses. If applicable, exchange rate differences are recognized in other comprehensive income and accrued to stockholders' equity.

f. ***Financial instruments***

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

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

g. ***Financial assets***

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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



### Classification of financial assets

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Group may irrevocably designate a debt investment that meets the amortized cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) *Amortized cost and effective interest method*

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortized cost of the debt instrument on initial recognition.

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



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

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

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

(ii) *Financial assets at FVTPL*

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

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

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

*Foreign exchange gains and losses*

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

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



### Impairment of financial assets

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

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

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

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

#### (i) *Definition of default*

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

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

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

#### (ii) *Credit-impaired financial assets*

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

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



(iii) *Write-off policy*

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

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

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

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

(v) *Significant increase in credit risk*

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

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

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



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

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

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

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

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

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

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

#### *Derecognition of financial assets*

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



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

### ***Financial liabilities and equity***

#### **Classification as debt or equity**

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

#### **Equity instruments**

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

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

#### **Financial liabilities**

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

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

#### **Financial liabilities at FVTPL**

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

A financial liability is classified as held for trading if:

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

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



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

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

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

#### Financial liabilities measured subsequently at amortized cost

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

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

#### Foreign exchange gains and losses

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



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

#### *Derecognition of financial liabilities*

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

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

#### **h. *Cash and cash equivalents***

Cash includes bank deposits and checking accounts and cash equivalents in short-term investments, highly liquid and easily convertible into cash, which are subject to insignificant value change risks. Cash is stated at nominal value and cash equivalents are presented at fair value. Fluctuations in value are recognized in income as they accrue.

#### **i. *Inventories and cost of sales***

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

#### **j. *Properties, plant and equipment***

Land and buildings held for use in the production or supply of goods or services, for rental to others (excluding investment properties), or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting date.

Any revaluation increase arising on the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation of such land and buildings is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.



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

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

Freehold land is not depreciated.

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

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

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

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

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

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

k. ***Investment properties***

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs.

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



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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

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

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

m. ***Other investments***

Are recognized at cost. Corresponds to the share in Unión de Crédito de la Industria Litográfica, S. A. de C. V. and Club de Industriales, A. C.

n. ***Other assets***

They are valued at cost and are primarily represented by security deposits for leases on truck tractors.

o. ***Business combinations***

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

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

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



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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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



p. ***Intangible assets***

Intangible assets acquired in a business combination

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

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

The Group has intangible assets with definite useful lives which are disclosed in the Note 11.

q. ***Goodwill***

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

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

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

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

r. ***Leases***

The Group as lessee

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

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

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

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;



- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

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

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

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

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

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

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

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

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

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



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

s. ***Foreign currencies***

In preparing the financial statements of each individual group, transactions in currencies other than the Group's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.
- Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

For the purposes of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Currency Units using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity (and attributed to non-controlling interests as appropriate).

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

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

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



t. ***Financial liabilities and equity instruments***

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

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

– Classification as debt or equity

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

– Equity instruments

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

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments.

– Financial liabilities

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

– Other financial liabilities

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

– Derecognition of financial liabilities

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

u. ***Derivative financial instruments***

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange *forward* contracts, interest rate *swaps* and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 20.

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



v. ***Employee benefits***

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

w. ***Retirement benefit costs***

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Actuarial gains and losses that exceed 10% of the greater of the present value of the Group's defined benefit obligation and the fair value of plan assets as at the end of the prior year are amortized over the expected average remaining working lives of the participating employees.

Past service cost is recognized in profit or loss in the period of a plan amendment or curtailment occurs, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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

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

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

y. ***Stock option plan for key executives***

Since 2008, the Group has two investment and management trusts. In the trust denominated F/147, \$33,085 was contributed, with which 22,056,811 shares of Grupo Pochteca, S. A. B. of C.V. Were acquired at a rate of one peso with fifty cents per share. In the same year, the Board of Directors approved this increase in share capital, remaining in Group treasury 7,943,189. The shares were irrevocably assigned to certain officers and employees of the Group, who became trustees of the described trust. Likewise, the executives of the Group undertake to pay the value of the assigned shares within a period of three years.

Capital Increase - At the Ordinary General Shareholders' Meeting held on August 4, 2010, a capital increase was approved in its variable portion up to \$198,000, through the issuance of 110,000,000 common shares, with no par value, Series "B", at a subscription value of one peso with eighty cents per share, of which 103,167,663 were actually subscribed, with 6,832,337 being canceled.

In accordance with the agreements taken at the meeting of the technical committee dated August 23, 2010 and in relation to the capital increase mentioned in the previous paragraph, it was resolved that the trust exercise its right to subscribe and pay under the first right of preference up to 3,477,595 and in the second right of preference up to 6,000,000 of ordinary shares, registered, without expression of nominal value, Series "B", at a rate of one peso with eight cents per share. The actions to subscribe will be offered to key management executives.



During 2015, the Group established a Trust called F / 34. The assets of the trust correspond to the shares to be subscribed by the investment and management trust number F / 34, up to an amount of \$ 20,805 for the purchase option plan for key executives. Various subsidiaries participate in said Trust, acting as Trustors, Banco Ve por Más, Sociedad Anónima, Multiple Banking Institution, Grupo Financiero Ver por Más as a Trustee and several Group management executives as Trustees. As of December 31, 2019, no shares have been assigned to executives in this trust. The shares to be acquired are those representing the capital stock of Grupo Pochteca, S. A. B. de C. V.

***z. Income taxes***

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

**Current tax**

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

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

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

**Deferred income tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit.

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

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

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

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



For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The management of the Group reviewed investment property portfolios and concluded that none of the Group investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, management has determined that the 'sale' presumption set out in the amendments to IAS 12 is not rebutted. As a result, the Group has not recognized any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

#### Current and deferred tax for the year

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

#### aa. ***Provisions***

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

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

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

##### 1. Onerous contracts

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

##### 2. Restructurings

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



3. Warranties

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

4. Contingent liabilities acquired in a business combination

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

bb. ***Revenue recognition***

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

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

- Sale of goods

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

- Variable consideration

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

- 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.

cc. ***Classification of costs and expenses*** - Costs and expenses presented in the consolidated statements of income and other comprehensive income were classified according to their function separating the cost of sales from other costs and expenses.

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



ee. ***Reserve for repurchase of shares***

The acquisition of the Group's own shares is shown as a decrease in the reserve for repurchase of shares included in the consolidated statements of financial position under the item, reserve for repurchase of shares and are valued at acquisition cost. The sales of shares made after the approval of the shareholders, results in an increase in the balance of the unused repurchase reserve, which relate to investments made in prior periods of amounts authorized by the Assembly.

**4. Critical accounting judgments and key sources of estimation uncertainty**

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

a. ***Critical judgments in applying accounting policies***

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

**Significant increase in credit risk**

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

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

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

b. ***Key sources of estimation uncertainty***

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

**Calculation of loss allowance**

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



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

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

If the ECL rates on trade receivables between 61 and 90 days past due had been 1% higher (lower) as of December 2019, the loss allowance on trade receivables would have been \$100 higher (lower).

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

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

#### Realizable value of inventories

The Group reviews the realizable value of its inventories at the end of each period. The factors considered by the Group to estimate its inventories are the sales prices of its products derived from changes in market demand.

#### Useful life of properties, plant and equipment

The Group reviews the estimated useful life of its properties, plant and equipment at the end of each annual period. At the IFRS transition date, the Group management performed a detailed analysis to modify the estimated useful life and components of properties, plant and equipment. The level of uncertainty associated with the estimation of these useful lives is related to market changes and asset utilization by production volumes and technological development.

#### Provisions and contingencies

At the end of 2019, there are many judgements in process related to labor matters promoted in various subsidiaries which were originated in development of operations. The legal advisors of the company and its directors consider that, given its nature and even as a whole, the outcome of litigation and claims will not represent a significant economic impact and will not produce a significant effect on the consolidated financial statements for the years in which they are settled.

#### Fair value measurements and valuation processes

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

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



### Impairment

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

## **5. Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents include cash and banks and investments. Cash equivalents are presented mainly by investments in risk-free instruments. Cash and cash equivalents at end of period as shown in the consolidated cash flow statement can be reconciled to the related items in the consolidated statement of financial position as follows:

	2019	2018	2017
Cash	\$ 71,799	\$ 75,278	\$ 175,228
Investments	<u>53,988</u>	<u>62,975</u>	<u>79,400</u>
	<u>\$ 125,787</u>	<u>\$ 138,253</u>	<u>\$ 254,628</u>

## **6. Accounts receivable and recoverable taxes**

	2019	2018	2017
Trade accounts receivable	\$ 803,228	\$ 878,270	\$ 1,024,521
Allowance for doubtful accounts	<u>(49,478)</u>	<u>(44,870)</u>	<u>(45,387)</u>
	753,750	833,400	979,134
Recoverable taxes in Mexico	95,689	31,081	46,575
Recoverable taxes in Brazil	19,200	27,991	40,254
Recoverable taxes in Central America	25,247	12,371	16,998
Other	<u>69,217</u>	<u>91,555</u>	<u>48,003</u>
	<u>\$ 963,103</u>	<u>\$ 996,398</u>	<u>\$ 1,130,964</u>

During 2019, 2018 and 2017, the average credit term on the sale of materials was 44, 44 and 46 days, respectively. Does not charge interest on accounts receivable from customers. The Group has recognized an allowance for doubtful accounts for 83% of all accounts receivable with 120 days or more, due to experience that accounts receivable over 120 days are not recovered. For accounts receivable that are between 60 and 120 days old, an allowance is recognized for doubtful accounts based on irrecoverable amounts determined by experiences of default of the counterparty and an analysis of its current financial position.

Before accepting a new client, the Group consults reference information databases as part of the credit analysis of the new potential client and defines the credit limits per client. The limits and ratings attributed to customers are reviewed annually. During 2019, 91% of the accounts receivable from customers are not due or impaired, and they are no more than 30 days age, according to the Group's classification and controls.



The accounts receivable from customers disclosed in the preceding paragraphs include amounts which are overdue at the end of the reporting period, but for which the Group has not recognized an allowance for doubtful accounts because there has been no significant change in customer credit ratings and the amounts in question are still deemed to be recoverable.

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

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

Change in allowance for doubtful accounts

	2019	2018	2017
Balance at beginning of the year	\$ 44,870	\$ 45,387	\$ 78,921
Provision for accounts deemed uncollectible during the year	22,213	6,970	54,636
Translation effects and accounts recovered during the year	<u>(17,605)</u>	<u>(7,487)</u>	<u>(88,170)</u>
Balance at end of the year	<u>\$ 49,478</u>	<u>\$ 44,870</u>	<u>\$ 45,387</u>

## 7. Inventories

	2019	2018	2017
Finished goods:			
Coatings, solvents and blends	\$ 35,265	\$ 10,192	\$ 18,504
Paper	158,518	143,546	89,032
Chemicals and plastics	469,946	506,504	437,127
Food products	163,590	179,071	197,414
Lubricants	<u>67,833</u>	<u>79,781</u>	<u>105,822</u>
	895,152	919,094	847,899
Merchandise-in-transit	<u>16,691</u>	<u>30,925</u>	<u>40,110</u>
	<u>\$ 911,843</u>	<u>\$ 950,019</u>	<u>\$ 888,009</u>

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to \$4,975,599, \$5,085,126 and \$4,962,315, in 2019, 2018 and 2017, respectively.



## 8. Investment properties

As of December 30th 2016 and March 22th 2014, the Group received as payments in kind of real estate for the collection of accounts maintained with Solquimia, S. A. de C. V. and Agropur Lacpur, S. A. de C. V., respectively, to the date of payment in kind the account amounted to \$2,333 and \$12,727, respectively. Because of the Group has no plans to use the properties, the administration classifies it as investment property, meeting the requirements for it.

The fair value of the investment properties of the Group, as of December 31, 2019, 2018 and 2017, has been determined in accordance with IFRS13.91 (a), 93 (d) on the basis of an evaluation carried out in the respective dates by an independent appraiser, with the appropriate qualifications, as well as sufficient recent experience in the valuation of investment properties similar in nature and physical location of those of the Group. The fair value of the investment property is \$ 25,325 for 2019, 2018 and 2017, corresponding to the land of \$ 15,200 for 2019 and 2018 and \$ 11,700 for 2017 and \$ 10,125 for construction, however, the Group has decided to maintain the book value of the right to collect and recognize a potential profit until such time as it is realized through the disposal of the asset. As of December 31, 2019, 2018 and 2017, the Group has not identified any signs of impairment and has not recognized declines in investment properties.

## 9. Properties, plant and equipment

	Balances as at the beginning of 2019	Additions	Disposals	Translation effects	Balances as of December 31, 2019
<b>Investment:</b>					
Land	\$ 201,582	\$ -	\$ -	\$ (1,587)	\$ 199,995
Building and constructions	602,100	26,271	-	(11,502)	616,869
Industrial machinery and equipment	461,317	39,710	(339)	(5,583)	495,105
Office furniture and equipment	57,925	3,219	-	(656)	60,488
Vehicle	209,576	9,764	(23,209)	3,198	199,329
Computers	80,297	7,138	-	(2,050)	85,385
Equipment acquired under financial leases	108,527	37,048	(146)	(6,644)	138,785
Total investments	1,721,324	123,150	(23,694)	(24,824)	1,795,956
<b>Accumulated depreciation:</b>					
Building and constructions	(279,238)	(22,426)	-	6,446	(295,218)
Industrial machinery and equipment	(327,972)	(27,831)	242	1,481	(354,080)
Office furniture and equipment	(37,650)	(2,775)	-	544	(39,881)
Vehicle	(208,996)	(11,078)	23,210	6,840	(190,024)
Computers	(80,033)	(3,504)	-	1,101	(82,436)
Equipment acquired under financial leases	(96,698)	(21,849)	117	937	(117,493)
Total accumulated depreciation	(1,030,587)	(89,463)	23,569	17,349	(1,079,132)
Net investment	\$ 690,737	\$ 33,687	\$ (125)	\$ (7,475)	\$ 716,824
	Balances at the begining of 2018	Additions	Disposals	Translation effects	Balances as of December 31, 2018
<b>Investment:</b>					
Land	\$ 207,151	\$ -	\$ (1,852)	\$ (3,717)	\$ 201,582
Building and constructions	619,932	14,936	(6,047)	(26,721)	602,100
Industrial machinery and equipment	428,925	39,318	(17,186)	10,260	461,317
Office furniture and equipment	57,749	1,559	(4)	(1,379)	57,925
Vehicles	232,017	60,337	(87,107)	4,329	209,576
Computers	78,643	5,357	30	(3,733)	80,297
Equipment acquired under financial leases	121,090	23,751	(405)	(35,909)	108,527
Total investments	1,745,507	145,258	(112,571)	(56,870)	1,721,324



	Balances at the beginning of 2018	Additions	Disposals	Translation effects	Balances as of December 31, 2018
<b>Accumulated depreciation:</b>					
Building and constructions	(270,791)	(24,431)	2,860	13,124	(279,238)
Industrial machinery and equipment	(287,268)	(36,110)	2,251	(6,845)	(327,972)
Office furniture and equipment	(36,007)	(2,770)	1	1,126	(37,650)
Vehicles	(230,683)	(11,804)	20,316	13,175	(208,996)
Computers	(77,620)	(4,000)	(172)	1,759	(80,033)
Equipment acquired under financial leases	(99,906)	(9,735)	365	12,578	(96,698)
Total accumulated depreciation	(1,002,275)	(88,850)	25,621	34,917	(1,030,587)
Net investment	\$ 743,232	\$ 56,408	\$ (86,950)	\$ (21,953)	\$ 690,737

	Balances at the beginig of 2017	Additions	Disposals	Translation effects	Additions because of business combinations	Balances as of December 31, 2017
<b>Investment:</b>						
Land	\$ 206,995	\$ -	\$ (1,577)	\$ (1,696)	\$ 3,429	\$ 207,151
Building and constructions	611,941	15,449	(8,072)	(10,055)	10,669	619,932
Industrial machinery and equipment	409,380	14,389	(713)	3,905	1,964	428,925
Office furniture and equipment	54,848	711	(108)	(706)	3,004	57,749
Vehicles	249,401	7,376	(15,846)	(12,993)	4,079	232,017
Computers	70,076	3,454	(159)	3,375	1,897	78,643
Equipment acquired under financial leases	125,745	9,408	(472)	(13,591)	-	121,090
Total investments	1,728,386	50,787	(26,947)	(31,761)	25,042	1,745,507
<b>Accumulated depreciation:</b>						
Building and constructions	(248,827)	(24,978)	1,611	5,189	(3,786)	(270,791)
Industrial machinery and equipment	(263,397)	(25,728)	280	2,378	(801)	(287,268)
Office furniture and equipment	(32,657)	(2,945)	74	513	(992)	(36,007)
Vehicles	(229,163)	(19,135)	15,035	5,704	(3,124)	(230,683)
Computers	(67,180)	(10,194)	104	924	(1,274)	(77,620)
Equipment acquired under financial leases	(86,279)	(19,661)	330	5,704	-	(99,906)
Total accumulated depreciation	(927,503)	(102,641)	17,434	20,412	(9,977)	(1,002,275)
Net investment	\$ 800,883	\$ (51,854)	\$ (9,513)	\$ (11,349)	\$ 15,065	\$ 743,232

## 10. Business combinations

On June, 2017, the Group completed the acquisition of Conjunto LAR de México, S. A. de C. V. (LAR), LAR is engaged to the distribution of chemical products in Mexico, this acquisition was accounted by the purchase method. The results of the acquired business were included on the consolidated financial statements since the date of acquisition.

### a. Subsidiaries acquired and consideration transferred

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

<sup>(2)</sup> LAR was acquired to continue with expansion activities of the Group. LAR is an entity with more than 30 years of history specializing in sales of home and personal care.



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

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

	Conjunto LAR
<b>Current assets</b>	
Cash and & cash equivalents	\$ 455
Trade and other receivables	21,225
Inventories	22,051
<b>Non-current assets</b>	
Plant and equipment	\$ 14,712
Other assets	349
Intangible assets	164,497
<b>Current liabilities</b>	
Trade and other payables	<u>41,217</u>
	<u>\$ 182,072</u>

c. *Goodwill arising on acquisition*

	LAR <sup>(1)</sup>
Consideration transferred	\$ 177,032
Less: fair value of identifiable net assets acquired	<u>182,072</u>
Profit in business acquisition	<u>\$ 5,040</u>

(1) This effect was reflected in the income statement as a gain on LAR's business combination.

d. *Net cash outflow on acquisition of subsidiaries*

	LAR
Consideration paid in cash	\$ 177,032
Less: cash and cash equivalent balances acquired	<u>(455)</u>
Amount paid in cash	<u>\$ 176,577</u>

## 11. Intangible assets

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

	2019	2018	2017
Supplier relationship	\$ 156,126	\$ 158,747	\$ 167,284
LAR brand	39,189	45,156	45,156
Non-compete contract	<u>-</u>	<u>-</u>	<u>50</u>
Balances at end of year	<u>\$ 195,315</u>	<u>\$ 203,903</u>	<u>\$ 212,490</u>



***Accumulated amortization and cost***

	2019	2018	2017
Balances at beginning of year	\$ 203,903	\$ 212,490	\$ 51,524
Additional amounts recognized from business acquisitions	-	-	164,497
Amortization expense	<u>(8,588)</u>	<u>(8,587)</u>	<u>(3,531)</u>
Balances at end of year	<u>\$ 195,315</u>	<u>\$ 203,903</u>	<u>\$ 212,490</u>

The useful life of intangible assets with a defined life is 20 years.

**12. Goodwill**

	2019	2018	2017
Balances at beginning of year	\$ 349,570	\$ 419,596	\$ 433,067
Impairment Coremal purchase	(45,774)	(40,513)	-
Translation effect	<u>(9,579)</u>	<u>(29,513)</u>	<u>(13,471)</u>
Balances at end of year	<u>\$ 294,217</u>	<u>\$ 349,570</u>	<u>\$ 419,596</u>

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

The Group has recognized impairment of goodwill balances recorded as of December 31, 2019 and 2018 in the amount of \$ 45,774 and \$ 40,513, respectively. No impairment has been recognized for the balances as of December 31, 2017.

**13. The Group as lessee**

The Group leases several assets including buildings, plant and IT equipment. The average lease term is 4 years for 2019 and 2018.

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

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

**Right-of-use assets****Buildings****Cost**

As of 31 December 2018	\$ -
Initial recognition	371,715
Additions	<u>1,624</u>
As of 31 December 2019	<u>\$ 373,339</u>



<b>Accumulated depreciation</b>	
As of 31 December 2018	\$ -
Charge for the year	<u>(49,314)</u>
As of 31 December 2019	<u>\$ (49,314)</u>
<b>Book value</b>	
As of 31 December 2019	<u>\$ 324,025</u>
Current balance	<u>\$ 48,811</u>
Long-term	<u>\$ 275,214</u>
<b>Amounts recognized in Consolidated Statement of Income</b>	<b>2019</b>
Depreciation expense on right-of-use assets	\$ 49,314
Interest expense on lease liabilities	\$ 12,012
Expense relating to short-term leases	\$ 1,714
Expense relating to leases of low value assets	\$ 2,855

The total cash outflow for leases amount to \$60,132 for 2019.

#### 14. Lease liabilities

	<b>2019</b>
Maturity analysis:	
Year 1	\$ 61,688
Year 2	52,212
Year 3	42,512
Year 4	40,928
Year 5	38,823
Onwards	<u>240,522</u>
	476,685
Less: unearned interest	<u>(148,219)</u>
Analyzed as:	<u>\$ 328,466</u>
Non-current	\$ 283,519
Current	<u>44,947</u>
	<u>\$ 328,466</u>

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

##### a) Reconciliation of obligations derived from lease liabilities

	Balance at 1 January 2018	Additions	Inflation adjustments	Interest accruals	Payments	Balance at 31 December 2019
Lease liabilities	<u>\$ -</u>	<u>\$ 371,715</u>	<u>\$ 4,871</u>	<u>\$ 12,012</u>	<u>\$ (60,132)</u>	<u>\$ 328,466</u>



**15. Other accounts payable and accrued expenses**

	2019	2018	2017
Liability from Coremal purchase	\$ 45,774	\$ 98,778	\$ 207,661
Accrued expenses	129,660	78,657	88,875
Accounts payable	76,708	61,010	63,126
Other accounts payable	<u>2,044</u>	<u>2,256</u>	<u>23,407</u>
	<u>\$ 254,186</u>	<u>\$ 240,701</u>	<u>\$ 383,069</u>

a. *Reconciliation of liability from Coremal purchase*

	2019	2018	2017
Balance at the beginning of the year	\$ 98,778	\$ 207,661	\$ 218,609
Cancellation	(45,774)	(40,513)	-
Translation effect	<u>(7,230)</u>	<u>(68,370)</u>	<u>(10,948)</u>
Balance at the end of the year	<u>\$ 45,774</u>	<u>\$ 98,778</u>	<u>\$ 207,661</u>

b. *Reconciliation of accrued expenses*

	2019	2018	2017
Balance at the beginning of the year	\$ 78,657	\$ 88,875	\$ 95,345
Additions	309,572	249,798	270,939
Application against paid invoices	<u>(258,569)</u>	<u>(260,016)</u>	<u>(277,409)</u>
Balance at the end of the year	<u>\$ 129,660</u>	<u>\$ 78,657</u>	<u>\$ 88,875</u>

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

	2019	2018	2017
Current	\$ 252,142	\$ 238,698	\$ 173,050
Long term	<u>2,044</u>	<u>2,003</u>	<u>210,019</u>
	<u>\$ 254,186</u>	<u>\$ 240,701</u>	<u>\$ 383,069</u>

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

	2019	2018	2017
Unsecured by \$875,000 (syndicated with HSBC México, S.A. (HSBC), BBVA Bancomer, S.A. (Bancomer), Scotiabank Inverlat, S.A. (Scotiabank) y Banco Inbursa, S.A. (Inbursa) por \$315,000, \$175,000, \$192,500 y \$192,500, respectively), at Equilibrium Interbank Interest Rate (TIIE) 91 plus spread of between 1.50% to 3.00% depending on the leverage ratio, for quarterly maturities of up to \$72,917 beginning June 2018 and until March 2021.	\$ 364,583	\$ 656,250	\$ 875,000



	2019	2018	2017
Loan with HSBC Bank for R\$24,964,913 with an annual real rate of 3.70% plus CDI entered into October 2013 and maturing in August 2018.	-	-	43,590
Unsecured loan with HSBC, at TIEE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing April 2020.	200,000	-	-
Unsecured loan with Scotiabank, at TIEE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing April 2020.	50,000	-	-
Unsecured loan with HSBC, at TIEE 91 days plus spread of around 1.50% to 3.00% depending on the leverage ratio of the Group, maturing March 2019.	-	80,000	-
Bank loan with Banco Brasil, S.A. for R\$3,000,000 at an annual rate of 11% entered into August 2013 y and maturing June 2018	-	-	14,343
Bank loan with Banco Brasil S.A. for R\$1,000,000.00 at an annual rate of 11% entered into August 2013 and Maturing July, 2018.	-	-	4,031
Bank loan with Banco GMAC for R\$58,402 at an annual rate of 18.72% entered into December, 2017 and maturing December 2020	107	214	348
Bank loan with Banco GMAC for R\$49,697 at an annual rate of 18.72% starting December, 2017 and maturing December, 2020.	97	187	293
Bank loan with Banco de America Central for \$65,000 USD at an annual rate of 7.00% entered into June 2017 and maturing May 2020.	287	1,000	1,283
Financial collection in advance with Delmonte FIDIC investment fund for R\$108,535 at an monthly rate of 1.6%	-	16,700	644
Bank loan with Finame BNDES with Banco Itau for R\$ 703,794 at an annual rate of 5.58% entered into May 2016 and maturing January 2019.	-	279	4,108



	2019	2018	2017
Leasing with IBM for R\$208,645 at an annual rate of 1.61% entered into November 2016 and maturing November 2019.	-	354	792
Leasing with Banco do Brasil for R\$1,265,440 at an annual rate of 20.271% plus 100% of CDI variation entered into January 2016 and maturing November 2019.	-	2,371	5,129
Lease with GE Capital Mexico of transport equipment and computers, at TIIE 28 days plus 3.5816% fixed rate, entered into February 2015 and maturing in November 2023	45,131	28,164	20,582
Leasing with Volvo for R\$35,893 at an annual rate of 4.40% entered into in May 2013 and maturing in December 2020.	1,034	3,107	6,628
Leasing with Banco Fidis with different annual interest rates and different maturity dates.	-	-	39
Leasing with Mercedes Benz for R\$69,606 at an annual rate of 3.50% entered into in December 2015 and maturing in November 2018.	-	-	449
Leasing with Santander Bank for R\$171,622 with an annual real rate of 10.96% entered into in February 2019 and maturing in February 2022.	608	-	-
Leasing with HP for an amount of R\$138,000 at an annual rate of 1.0777% entered into in May 2019 and maturing in April 2023.	595	-	-
Leasing with Rodobens for R\$1,111,500 at an annual rate of 1.45% entered into in February 2019 and maturing in February 2022.	4,289	-	-
Bank loans	666,731	788,626	977,259
Less - Unamortized commissions paid	(3,869)	(7,219)	(10,717)
	662,862	781,407	966,542
Less - Current portion of long-term debt	560,243	405,414	300,292
Long-term debt	<u>\$ 102,619</u>	<u>\$ 375,993</u>	<u>666,250</u>



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

	2019	2018	2017
TIIE	7.9355%	8.1725%	7.870%

- b. The loans contracted include certain restrictive clauses that mainly limit the Group to grant guarantees outside the Group's ordinary course of business. For the years ended at December 31, 2019, 2018 and 2017, these have been fulfilled.

- c. The maturities of the portion of the long-term debt as of December 31, 2019 are:

Year ending at December 31 of	Amount
2021	\$ 84,708
2022	10,772
2023	<u>7,139</u>
	<u>\$ 102,619</u>

- d. Reconciliation of liabilities arising from financing activities

	January 1, 2019	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2019
Bank loans and long-term debt	<u>\$ 781,407</u>	<u>\$ 1,649,029</u>	<u>\$ (1,791,129)</u>	<u>\$ (120,357)</u>	<u>\$ 110,902</u>	<u>\$ 33,010</u>	<u>\$ 662,862</u>
	January 1, 2018	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2018
Bank loans and long-term debt	<u>\$ 966,542</u>	<u>\$ 160,000</u>	<u>\$ (344,122)</u>	<u>\$ (128,589)</u>	<u>\$ 121,696</u>	<u>\$ 5,880</u>	<u>\$ 781,407</u>
	January 1, 2017	Bank financing received	Bank financing paid	Paid of interests	Accrued interests	Other effects	December 31, 2017
Bank loans and long-term debt	<u>\$ 872,886</u>	<u>\$ 1,096,105</u>	<u>\$ (964,436)</u>	<u>\$ (128,908)</u>	<u>\$ 136,550</u>	<u>\$ (45,655)</u>	<u>\$ 966,542</u>

## 17. Employee benefits

The net cost of the period for the derivative obligations on pension's plan, were to \$918, \$1,297 and \$1,288 in 2019, 2018 and 2017, respectively. Other revelations required are considered less important.

The Group executive's remunerations for years ended as of December 31, 2019, 2018 and 2017 were at \$69,164, \$53,497 and \$51,880, respectively.

Statutory profit sharing expense amounted were \$4,818, \$2,158 and \$1,738 in 2019, 2018 y 2017, respectively.



## 18. Stockholders' equity

On an annual basis, the shareholders of the Group determine the maximum amount to be earmarked for repurchase of shares, without exceeding the amount of the retained earnings at that date, refunding to retained earnings any previously authorized amount that has not been exercised. As of December 31, 2019, 2018 and 2017 the Group maintained 11,402,524, 9,478,407 and 4,215,393 shares in treasury, respectively. Sales of shares made after the approval of the shareholders, increase the balance of the unused reserve, which relate to investments made in prior periods of amounts authorized by the Assembly.

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

- A maximum amount of \$24,000 that the Group may allocate to the purchase of its own shares or securities representing such shares, on the understanding that the acquisition and placement of shares will be made through the Bolsa Mexicana de Valores, S. A. B. de C. V. at market price.

During the period from May to December 2019, \$ 4,706 of the \$ 24,000 were used, leaving a remaining balance as of December 31, 2019 of \$ 19,294.

During the period from January to April 2019, the balance of \$ 8,984 of the prior year and the amount of \$13,169 were used for the reserve of repurchase of shares that were not used in the fiscal year 2018, leaving a remaining of \$4,185 of the amount authorized of \$ 18,000, as described in the following paragraph.

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

- A maximum amount of \$18,000 that the Group may allocate to the purchase of its own shares or securities representing such shares, on the understanding that the acquisition and placement of shares will be made through the Bolsa Mexicana de Valores, S. A. B. de C. V. at market price.

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

During the period from January to April 2018, the balance of \$43,251 of the prior year and the amount of \$43,256 were used for the reserve of repurchase of shares that were not used in the fiscal year 2017, leaving a remaining of \$5 of the amount authorized of \$60,000.

### III. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives. At December 31, 2019, 2018 and 2017, the outstanding portion payable by executives is \$7,884, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.

### IV. Common stock without par value as of December 31, 2019, 2018 and 2017, is as follows:

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



- 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 Group is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2019, 2018 and 2017, their par value amounts to \$ 9,325, \$ 8,484 and \$ 7,572 respectively.
- VI. Stockholders' equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Group at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

Dividends paid from profits generated as of January 1, 2015 in Mexico resident and resident individuals abroad, may be subject to additional income tax of up to 10%, which should be retained by the Group.

## 19. Financial instruments

### *Capital risk management*

The Group manages its capital to ensure that will continue as a going concern, while also maximizing the return to its stockholders through optimization of its debt amounts and capital structure. The Group is not under any type of restrictions imposed externally on respect of its capital administration.

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

### *Debt ratios*

The Board of Directors regularly reviews the Group's capital structure. As part of this review, it considers the cost of capital and the risks associated with each capital type.

The leverage ratio at the end of each of the periods is the following:

	2019	2018	2017
Cash and cash equivalents	\$ 125,787	\$ 138,253	\$ 254,628
Debt	<u>662,862</u>	<u>781,407</u>	<u>966,542</u>
Net debt	537,075	643,154	711,914
Stockholders' equity	<u>\$ 1,068,533</u>	<u>\$ 1,130,734</u>	<u>1,153,158</u>
Index of net debt and equity	<u>50.26%</u>	<u>56.88%</u>	<u>61.74%</u>

The debt includes long-term debt and current portion.

### *Categories of financial instruments*

	2019	2018	2017
<b>Financial assets:</b>			
Cash	\$ 125,787	\$ 138,253	\$ 254,628
Accounts receivable	\$ 822,967	\$ 924,955	\$ 1,027,137
Due from related parties	\$ 5,033	\$ 7,234	\$ 7,785
<b>Financial liabilities:</b>			
Banking loans	\$ 662,862	\$ 781,407	\$ 966,542
Trade accounts payable	\$ 1,366,700	\$ 1,331,709	\$ 1,313,877
Due to related parties	\$ 6,834	\$ 8,561	\$ 8,120
Other long-term accounts payable	\$ 2,044	\$ 2,003	\$ 210,019



### ***Fair value of financial instruments***

The fair value of financial assets and short-term liabilities is similar to its carrying amount.

The fair value of syndicate loan with HSBC, Inbursa, Scotiabank and Bancomer is as follows:

<b>2019</b>		<b>2018</b>		<b>2017</b>	
<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<u>\$ 360,714</u>	<u>\$ 310,010</u>	<u>\$ 656,250</u>	<u>\$ 607,774</u>	<u>\$ 875,000</u>	<u>\$ 875,000</u>

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

<b>2019</b>		<b>2018</b>		<b>2017</b>	
<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>	<b>Carrying value</b>	<b>Fair value</b>
<u>\$ 302,148</u>	<u>\$ 302,148</u>	<u>\$ 132,376</u>	<u>\$ 132,376</u>	<u>\$ 68,679</u>	<u>\$ 68,679</u>

### ***Financial risk management objectives***

The Group's Treasury function is administrate the financial resources, control the financial risks relating to the operations of the Group through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. Both financial risk management and the use of derivative financial instruments and non-derivative are governed by the policies of the Group.

The Group minimize the negative effects of these risks by using different strategies. Internal auditors periodically review compliance with policies and exposure limits. The Group does not subscribe or trade financial instruments for speculative or hedging purposes.

### ***Market risk***

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

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

### ***Exchange rate risk***

The Group is exposed to exchange rate risks based on the balances of monetary assets and liabilities recognized in the consolidated statements of changes in financial position denominated in foreign currency (US dollars, Brazilian reals, Costa Rican colons and Guatemalan quetzals).

### ***Foreign currency sensitivity analysis***

If the Mexican peso - US dollar exchange rate had increased by \$1 peso and all other variables had remained constant, the Group's profit after tax at December 31, 2019, 2018 and 2017 would have been adversely affected by the amount of \$7,462, \$13,133 and \$57,107, respectively. However, a decrease of \$1 under the same circumstances would have positively affected the Group's comprehensive income by the same amount.



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

	2019	2018	2017
US Dollars:			
Monetary assets	24,795	29,883	29,457
Monetary liabilities	<u>43,214</u>	<u>42,791</u>	<u>42,063</u>
Short position	<u>(18,419)</u>	<u>(12,908)</u>	<u>(12,606)</u>
Amount in Mexican pesos	<u>\$ (347,110)</u>	<u>\$ (253,727)</u>	<u>\$ (247,871)</u>

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

	April 2, 2020	2019	December 31, 2018	2017
US Dollars	\$ 23.4847	\$ 18.8452	\$ 19.6566	\$ 19.6629

### ***Interest rate risk***

The Group is exposed to an interest rate risk based on loan interest rates because its subsidiaries obtain loans at variable interest rates (primarily the TIIE and LIBOR rates, although the latter is no longer relevant) which, represent approximately 92% at 2019 and 2018 and 86% for 2017, of the total debt contracted by the Group. The Group minimizes this risk by providing follow-up on rate behavior, seeking variable rates when the rate is stable and following a downward trend and fixed rates when an upward trend is present.

### ***Sensitivity analysis***

The following sensitivity analyses are determined by considering the exposure of the interest rates contracted for derivative and non-derivative instruments at the end of the reporting period. In the case of variable-rate liabilities, the Group prepares an analysis based on the assumption that the liability in effect at the end of the reporting period was also in effect throughout the year.

At the time the key management personnel are informed internally on the interest rates risk, an increase or decrease of 100 basis points is used, which represents management's assessment of the possible reasonable change in interest rates. If the interest rates had been 100 basis points above/below and all the other variables remain constant:

	2019	2018	2017
Total debt	\$ 662,862	\$ 781,407	\$ 966,542
Variable interest expense	\$ 110,902	\$ 121,696	\$ 121,728
Financial cost of debt percentage	16.73%	15.57%	12.59%
Sensitivity to + 100 base points	\$ 117,531	\$ 129,510	\$ 131,353
Sensitivity to -100 base points	\$ 104,273	\$ 113,882	\$ 112,022

### ***Credit risk management***

The credit risk is that which arises when one of the parties defaults on its contractual obligations, resulting in a financial loss for the Group. The Group has adopted a policy of only becoming involved with solvent parties and obtaining sufficient guarantees, when appropriate, as a form of mitigating the risk of the financial loss caused by defaults.



In order to administer the credit risk, the Group's policy focuses on the investigation and subsequent selection of customers based on their reputation and economic solvency, assignment of credit limits and obtaining guarantees through the subscription of credit instruments, assets to debt ratio, pledges and mortgage guarantees duly supported by the legal representative and personal collateral.

Furthermore, follow-up is provided on the collection and recoveries of overdue debts based on their aging parameters, so as to timely identify doubtful accounts. Bad debts are sent to the attorneys for collection records.

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

### ***Liquidity risk management***

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

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

The maturity of long-term debt and the current portion thereof and accrued liabilities at December 31, 2019, 2018 and 2017 as the transition date is as follows:

<b>December 31, 2019</b>				
	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>3-5 years</b>	<b>Total</b>
Bank loans	\$ 560,243	\$ 84,708	\$ 17,911	\$ 662,862
Trade accounts payable	1,366,700	-	-	1,366,700
Other accounts payable and accrued expenses	252,142	2,044	-	254,186
Due to related parties	<u>6,834</u>	<u>-</u>	<u>-</u>	<u>6,834</u>
	<u><b>\$ 2,185,919</b></u>	<u><b>\$ 86,752</b></u>	<u><b>\$ 17,911</b></u>	<u><b>\$ 2,290,582</b></u>
<b>December 31, 2018</b>				
	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>3-5 years</b>	<b>Total</b>
Bank loans	\$ 405,414	\$ 300,556	\$ 75,437	\$ 781,407
Trade accounts payable	1,331,709	-	-	1,331,709
Other accounts payable and accrued expenses	238,698	2,003	-	240,701
Due to related parties	<u>8,561</u>	<u>-</u>	<u>-</u>	<u>8,561</u>
	<u><b>\$ 1,984,382</b></u>	<u><b>\$ 302,559</b></u>	<u><b>\$ 75,437</b></u>	<u><b>\$ 2,362,378</b></u>
<b>December 31, 2017</b>				
	<b>Less than 1 year</b>	<b>1-2 years</b>	<b>3-5 years</b>	<b>Total</b>
Bank loans	\$ 300,292	\$ 604,052	\$ 62,198	\$ 966,542
Trade accounts payable	1,313,877	-	-	1,313,877
Other accounts payable and accrued expenses	173,050	210,019	-	383,069
Due to related parties	<u>8,120</u>	<u>-</u>	<u>-</u>	<u>8,120</u>
	<u><b>\$ 1,795,339</b></u>	<u><b>\$ 814,071</b></u>	<u><b>\$ 62,198</b></u>	<u><b>\$ 2,671,608</b></u>



## 20. Financial derivatives

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

In 2014, Coremal, S.A. de C.V., subsidiary of the Group, acquires a loan with HSBC which has a current notional of US \$ 2,427,064 where it pays monthly a fixed rate of 4.54%. In order to hedge against the variability in the BRL / USD exchange rate that originates from the payment of the coupons (interest) and the current principal, a currency swap was contracted where monthly payments are received at 4.5399% and paid Real to CDI + 2.00%.

As of December 31, 2017, the fair value of the aforementioned transactions is as follows:

Instrument	Counterparty	Starting date	Maturity	Rate payable and exchange rate agreed	Notional amount in USD	Fair value
Currency swap	HSBC	September 30, 2016	August 27, 2018	CDI + 2.00%	2,427,064	(10,088)

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

As of December 31, 2017, the effectiveness of these hedges is high, because the changes in fair value and the cash flows from the primary position are offset in a range of between 80% and 125%. The results of the prospective and retrospective tests at the end of the year was of 98% and 90%, respectively. The method used to measure effectiveness is the "ratio analysis" based on a hypothetical derivative; such method consists of comparing the changes in the fair value of the hedge instrument with the changes in the fair value of the hypothetical derivative which would result in a perfect hedge of the item covered. The fair value of the currency swaps is \$10,088 Mexican pesos, recorded as a liability with a change in the financial statement of income and the fair value of the covered transactions amount \$10,051 Mexican pesos which was recorded as a charge to the debt against a credit to the income statement. Because there are small differences between the hedging instrument and the hedged item, there is an ineffective portion of \$37 Mexican pesos that is recorded as income in the statement of income (the difference between the fair value of hedging instruments and the covered ones).

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

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

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



## 21. Balances and transactions with related parties

a. Balance net due from related parties are:

	2019	2018	2017
Mexichem Flúor, S.A. de C.V.	\$ 3,200	\$ 3,340	\$ 4,633
Mexichem Resinas Vinílicas, S.A. de C.V.	1,697	3,428	1,216
Mexichem Soluciones Integrales, S.A. de C.V.	-	177	600
Mexichem Derivados, S.A. de C.V.	-	50	1,208
Mexichem Compuestos, S.A. de C.V.	<u>136</u>	<u>239</u>	<u>128</u>
	<u>\$ 5,033</u>	<u>\$ 7,234</u>	<u>\$ 7,785</u>

b. Balance net due to related parties are:

	2019	2018	2017
Quimir, S.A. de C.V.	\$ 6,623	\$ 8,561	\$ 7,709
Mexichem Servicios Administrativos, S.A. de C.V.	-	-	411
Mexichem Compuestos, S.A. de C.V.	<u>211</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,834</u>	<u>\$ 8,561</u>	<u>\$ 8,120</u>

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

	2019	2018	2017
Mexichem Derivados, S.A. de C.V.:			
Sales	\$ 3,745	\$ 4,069	\$ 8,552
Purchases	\$ (1,513)	\$ (2,122)	\$ (1,892)
Quimir, S.A. de C.V.:			
Sales	\$ -	\$ 196	\$ 26
Purchases	\$ (33,548)	\$ (31,873)	\$ (37,416)
Mexichem Flúor, S.A. de C.V.			
Sales	\$ 24,478	\$ 21,397	\$ 23,335
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	\$ 4,584	\$ 6,445	\$ 6,230



	2019	2018	2017
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	\$ 114	\$ 657	\$ 1,204
Mexichem Compuestos, S.A. de C.V.:			
Sales	\$ 545	\$ 787	\$ 622
Purchases	\$ -	\$ -	\$ (2,368)
Mexichem de Costa Rica, S. A. de C.V.			
Sales	\$ -	\$ -	\$ 3,892
Mexichem Servicios Administrativos, S.A. de C.V.			
Administrative services paid	\$ -	\$ -	\$ (1,673)

## 22. Net sales

	2019	2018	2017
Chemicals and lubricants	\$ 5,830,814	\$ 5,889,003	\$ 5,809,380
Paper	<u>514,691</u>	<u>574,339</u>	<u>523,608</u>
	<u>\$ 6,345,505</u>	<u>\$ 6,463,342</u>	<u>\$ 6,332,988</u>

## 23. Cost of sales

	2019	2018	2017
Inventories consumed	\$ 4,975,599	\$ 5,085,126	\$ 4,962,315
Freight	229,377	175,561	154,935
Other	<u>(22,403)</u>	<u>(4,541)</u>	<u>65,406</u>
	<u>\$ 5,182,573</u>	<u>\$ 5,256,146</u>	<u>\$ 5,182,656</u>

## 24. Operating expenses

	2019	2018	2017
Payroll	\$ 556,632	\$ 507,314	\$ 508,774
Depreciation and amortization	163,941	117,647	127,063
Operations	109,334	93,799	54,342



	2019	2018	2017
Fees	50,203	45,591	48,112
Maintenance	40,296	41,013	49,892
Telephone and systems	33,303	30,680	30,296
Leasing	5,032	58,570	67,117
Other	<u>49,319</u>	<u>45,496</u>	<u>35,859</u>
	<u>\$ 1,008,060</u>	<u>\$ 940,110</u>	<u>\$ 921,455</u>

## 25. Income taxes

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

*ISR* – Under the new Income Tax Act 2015 (Act 2015) the rate was 30% for 2019, 2018 and 2017 and will continue at 30% for the following years.

***Tax regime in other countries*** – The ISR of foreign subsidiaries is caused by the rules of the law of income tax of those countries. In Brazil, the statutory tax rate for corporations is 34%

- a. Income taxes expense recognized are as follows:

	2019	2018	2017
ISR:			
Current tax	\$ 29,566	\$ 45,465	\$ 76,525
Deferred tax	<u>(2,462)</u>	<u>6,562</u>	<u>22,816</u>
	<u>\$ 27,104</u>	<u>\$ 52,027</u>	<u>\$ 99,341</u>

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

	2019	2018	2017
Deferred ISR asset:			
Tax loss carryforwards	\$ 17,690	\$ 24,392	\$ 35,124
Properties, plant and equipment	15,467	18,922	8,683
Provisions	<u>33,585</u>	<u>14,209</u>	<u>19,687</u>
Deferred ISR asset	66,742	57,523	63,494
Deferred ISR liability:			
Other assets	<u>(11,816)</u>	<u>(5,059)</u>	<u>(4,468)</u>
Deferred tax liability	<u>(11,816)</u>	<u>(5,059)</u>	<u>(4,468)</u>
Total assets	<u>\$ 54,926</u>	<u>\$ 52,464</u>	<u>\$ 59,026</u>

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



	2019	2018	2017
Statutory rate	30%	30%	30%
Plus the effect of permanent differences mainly non-deductible expenses	38%	1%	1%
Plus effects of inflation	61%	6%	40%
Plus additional ISR determined for SAT (see Note 30)	-	-	62%
Plus effect of unused fiscal losses and tax compensations not recognized as deferred tax assets and other	<u>93%</u>	<u>8%</u>	<u>85%</u>
Effective rate	<u>222%</u>	<u>45%</u>	<u>218%</u>

- d. The benefits from tax loss carryforwards for which the deferred ISR asset has been recognized, can be recovered subject to certain conditions. Expiration dates and restated amounts to December 31, 2019, are:

Year of Expiration	Tax loss carryforwards
2023	\$ 5,135
2024	4,358
2025	4,294
2026	7,851
2027	341
2028	<u>32,663</u>
	<u>\$ 54,642</u>

- e. Deferred income tax balances

2019	Beginning balance	Recognized in profit or loss	Ending balance
Deferred tax asset:			
Provisions	\$ 14,209	\$ 19,376	\$ 33,585
Tax loss carryforwards	24,392	(6,702)	17,690
Deferred tax liability:			
Properties plan and equipment	18,922	(3,455)	15,467
Other assets	<u>(5,059)</u>	<u>(6,757)</u>	<u>(11,816)</u>
Total asset, net	<u>\$ 52,464</u>	<u>\$ 2,462</u>	<u>\$ 54,926</u>



2018	Beginning balance	Recognized in profit or loss	Ending balance
Deferred tax asset:			
Provisions	\$ 19,687	\$ (5,478)	\$ 14,209
Tax loss carryforwards	35,124	(10,732)	24,392
Deferred tax liability:			
Properties plan and equipment	8,683	10,239	18,922
Other assets	<u>(4,468)</u>	<u>(591)</u>	<u>(5,059)</u>
Total asset, net	<u>\$ 59,026</u>	<u>\$ (6,562)</u>	<u>\$ 52,464</u>

  

2017	Beginning balance	Recognized in profit or loss	Ending balance
Deferred tax asset:			
Provisions	\$ 37,159	\$ (17,472)	\$ 19,687
Tax loss carryforwards	37,012	(1,888)	35,124
Deferred tax liability:			
Properties plan and equipment	7,718	965	8,683
Other assets	<u>(47)</u>	<u>(4,421)</u>	<u>(4,468)</u>
Total asset, net	<u>\$ 81,842</u>	<u>\$ (22,816)</u>	<u>\$ 59,026</u>

## 26. Non-cash transactions

On April 2019, 2018 and 2017, at the Ordinary Annual General Shareholders' Meeting, fraction VI, it was approved to establish the amount of \$24,000, \$18,000 and \$60,000, respectively, as the maximum amount of the resources that the Group may allocate for the purchase of own shares or of credit instruments that represent said shares, with the understanding that the acquisition and placement of the own shares in question, were carried out by the Company through the Bolsa Mexicana de Valores, S. A. B. of C. V. affecting the accumulated results of the Group in 2019, 2018, and 2017 for an amount of \$(10,831) , \$(57,994) and \$2,488, respectively, to cancel the remainder of the reserve.

During the years ended December 31, 2019, 2018 and 2017, the Group acquired equipment for a value of \$29,169, \$23,782 and \$9,408, respectively, through a financing lease. This acquisition is being reflected in the cash flow statements over the life of the leases through the payment of the rentals.

## 27. Commitments

The Group leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$58,570, \$67,117 and \$55,605 as of December 31, 2019, 2018 and 2017, respectively. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2020	\$ 63,446
2021	52,212
2022	42,512
2023	40,928
2024 and onwards	<u>279,345</u>
	<u>\$ 478,443</u>



28. Business segments information

Business segments information of the Group is as follows:

	2019			2018			2017		
	Chemical products	Paper	Total	Chemical products	Paper	Total	Chemical products	Paper	Total
<b>Statement of income:</b>									
Net sales	\$ 5,830,814	\$ 514,691	\$ 6,345,505	\$ 5,889,003	\$ 574,339	\$ 6,463,342	\$ 5,809,380	\$ 523,608	\$ 6,332,988
Depreciation	\$ 150,643	\$ 13,298	\$ 163,941	\$ 107,193	\$ 10,454	\$ 117,647	\$ 116,566	\$ 10,497	\$ 127,063
Operating income	\$ 142,310	\$ 12,592	\$ 154,872	\$ 243,352	\$ 23,734	\$ 267,086	\$ 214,592	\$ 19,325	\$ 233,917
Finance costs	\$ (131,105)	\$ (11,573)	\$ (142,678)	\$ (137,419)	\$ (13,402)	\$ (150,821)	\$ (172,818)	\$ (15,563)	\$ (188,381)
Consolidated net income	\$ (13,701)	\$ (1,209)	\$ (14,910)	\$ 58,535	\$ 5,703	\$ 64,238	\$ (49,360)	\$ (4,445)	\$ (53,805)
	2019			2018			2017		
	Chemical products	Paper	Total	Chemical products	Paper	Total	Chemical products	Paper	Total
<b>Statements of financial position:</b>									
Total assets	\$ 3,420,286	\$ 301,912	\$ 3,722,198	\$ 3,219,387	\$ 313,978	\$ 3,533,365	\$ 3,559,522	\$ 320,489	\$ 3,880,011
Total liabilities	\$ 2,438,423	\$ 215,242	\$ 2,653,665	\$ 2,189,131	\$ 213,500	\$ 2,402,631	\$ 2,501,615	\$ 225,238	\$ 2,726,853
<b>Statements of cash flows:</b>									
Operation activities	\$ 306,817	\$ 27,083	\$ 333,900	\$ 298,291	\$ 29,091	\$ 327,382	\$ 329,197	\$ 29,645	\$ 358,842
Investment activities	\$ (63,503)	\$ (5,606)	\$ (69,109)	\$ (10,877)	\$ (1,061)	\$ (11,938)	\$ (174,324)	\$ (15,698)	\$ (190,022)
Financing activities	\$ (322,730)	\$ (28,488)	\$ (351,218)	\$ (342,503)	\$ (33,404)	\$ (375,907)	\$ (43,191)	\$ (3,890)	\$ (47,081)

a) Products and services from which reportable segments derive their revenues

Information reported to the chief operating decision maker (“CODM”) for the purposes of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided, and in respect of the ‘electronic equipment’ and ‘leisure goods’ operations, the information is further analyzed based on the different classes of products.

The Group’s reportable segments under IFRS 8 are as follows:

Chemical products – Distributing and marketing of raw materials for chemical industries, coatings, plastics, and food.

Paper – Distributing of all kinds of importation and exportation goods, especially paper, paperboard, high specialty paper and Pochteca line which is commercialized on Office Depot.

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

- Those operative segments have similar long-term gross profit margins
- The nature of the products and productive processes are similar; and
- The utilized methods to distribute the products to the costumers are the same

b) Geographical information

The Group operates in three principal geographical areas:

- México
- United States and Central America
- Brazil

For analysis purposes and based on the significance of the operations, the Group’s management has decided to segment the information by 2 geographical areas.

- México and Central America – Includes information of México, Guatemala, El Salvador, Costa Rica and the United States of America
- Brazil



Information on geographical area of the Group is presented below:

	2019			2018			2017		
	Mexico and Central America	Brazil	Total	Mexico and Central America	Brazil	Total	Mexico and Central America	Brazil	Total
Net sales	\$ 4,893,759	\$ 1,451,746	\$ 6,345,505	\$ 4,971,429	\$ 1,491,913	\$ 6,463,342	\$ 4,772,129	\$ 1,560,859	\$ 6,332,988
Total assets	\$ 3,083,581	\$ 638,617	\$ 3,722,198	\$ 2,897,898	\$ 635,467	\$ 3,533,365	\$ 3,006,278	\$ 873,733	\$ 3,880,011
Total liabilities	\$ 1,779,349	\$ 874,316	\$ 2,653,665	\$ 1,681,761	\$ 720,870	\$ 2,402,631	\$ 1,852,643	\$ 874,210	\$ 2,726,853

29. Operating lease arrangements

a. The Group as lessee

1. Leases

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

2. Non-cancellable operating lease commitments

	2019
Less than one year	\$ 1,758

3. Recognized liabilities related to non-cancellable leases

	2019
Onerous lease contracts (Note 14)	
Current	\$ 44,947
Long-term	283,519
	\$ 328,466

30. Contingencies

For the operations with related parties, the Group is carrying out the studies that support compliance with the provisions of article 86, sections XII, XIII and XV of the LISR, with respect to similar operations carried out with other independent parties.

During 2018, the amparo lawsuit filed by its subsidiary Suplia, S.A de C.V. against the Tax Ministry, related to a tax credit based on the purchase-sale of one of its properties (operation carried out in 2007 with a related party), in the amount of \$42 million pesos. The Group recorded a provision for \$ 28 million to cover the principal and partially the inflation updates and surcharges. As at December 31, 2019, this legal proceeding has been closed and settled with the SAT.



Coremal, S.A. and its subsidiaries (Coremal, a Group subsidiary) are involved in other legal proceedings related to labor and tax cases. With regard to unrecorded cases, based on the recommendation of its external legal advisors, Group management expects to receive a favorable verdict and, accordingly, did not include a provision in the financial statements. At December 31, 2019, the amount derived from the legal proceedings reported by the legal advisors of Coremal as regards the holding company is R\$32,013 thousands of Brazilian reals, while the consolidated amount is R\$43,611 thousands of Brazilian reals.

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

Coremal is engaged in a tax proceeding, which its legal advisors consider will probably result in a loss of R\$28,509 thousands of Brazilian reals related to the collection of differences involving the ICMS rates applicable to industrialization remittance transactions, the substitute ICMS applicable to the acquisition of solvents from other states and the non-authorization of ICMS credits for transactions involving the acquisition of solvents, according to the tax assessment notice issued by the Regional Tax Office of Osasco (DRT).

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

Coremal will provide legal and administrative follow-up on the future rulings issued by the competent authority in Brazil regarding the PIS and COFINS federal taxes due to incorrect inclusion of ICMS in the calculation basis used for these taxes. On August 26, 2019, Coremal received notification from the Brazilian authority regarding the status of tax processes involving the determination whereby ICMS does not form part of the calculation basis utilized for PIS and COFINS. Considering the legal period established for this claim, Coremal could obtain a potential tax advantage as of 2002, albeit subject to a ruling issued by the authorities, which implies a degree of uncertainty at the date of issuance of these financial statements regarding the amount and time needed to obtain the potential tax advantage. Accordingly, Group management and its legal advisors consider that the issued ruling is of a generic and illiquid nature for Coremal and has therefore not established an amount that could be effectively recovered in the future.

Group management understands that significant doubts remain as to the exact amount of the potential tax advantage obtained by Coremal and, accordingly, did not recognize a credit amount at December 31, 2019.

### **31. Subsequent events**

Following the outbreak of the Covid-19 coronavirus in China at the end of 2019, which rapidly expanded to other countries during the early weeks of 2020, in March 2020, the World Health Organization (WHO) declared a pandemic, while warning of the consequences that this illness could generate and requesting that governments implement the measures needed to limit contagion.

Considering the mechanism used by this virus to infect humans, governments opted to recommend that, as far as possible, their populations avoid personal contact so as to reduce the number of infections, a situation that could adversely affect the economy.

On March 12, the government of China announced the containment of new cases of Covid-19 in Hubei province and, on March 25, announced the end of the quarantine in that province, where the city of Wuhan is located and which was the initial source of Covid-19 infection at the end of 2019.

In order to flatten the Covid-19 contagion curve in Mexico, on March 30, the federal government declared a sanitary emergency which, among other aspects, involves reinforcing social distancing measures and preventing the performance of economic activities which, due to their nature, are not classified as essential, until April 30, 2020. Given the nature of the majority of the materials and services it markets, the Group forms part of customer supply chains within the essential economic activities.



Following the WHO Covid-19 coronavirus declaration and the increased number of cases in Mexico, the Group is taking all precautions and measures needed to protect its employees, customers and suppliers, while maintaining safety and international best practices as its main priority, together with the assignment of resources, including its Covid-19 action plan. The measures implemented by the Group to guarantee the supply chain of the materials and services it markets include the following:

- The establishment of access protocols that involve taking the temperature and applying questionnaires to employees and visitors to rule out symptoms and medical histories at branches in Mexico, Central America and Brazil.
- The utilization of the installed capacity of technology and information systems to increase remote work, conferences and videoconferences and considerably reduce the amount of employees at its facilities, while fully maintaining its marketing and services level to operate normally.
- The restriction of external visitors to the Group's facilities and follow-up on the special requirements of customers and suppliers.
- Working in conjunction with its suppliers to develop a contingency plan for each.
- The implementation of the measures needed to maintain the safety and health of workers at its facilities.
- The provision of training for all employees to implement recommendations involving the protection of personal health at the workplace, with emphasis on hand hygiene, the use of antibacterial gel and disinfectants, facemasks, gloves and the use of tools to prevent the virus from spreading.

The Group is in constant communication with its customers and suppliers, and is closely monitoring the developing situation in the other countries where it operates to maintain the continuity of the supply chain of the goods it markets and produces. The Group has informed its customers, suppliers and employees of the measures implemented to continue marketing its materials and services on an ongoing basis.

Although the declaration of the sanitary emergency by the federal government of Mexico could negatively affect that country's economic development, it is important to note that, among the Group's business sectors, the Organic Chemicals, Chemicals for Food Products, Paper and Cardboard sectors are classified as essential activities, meaning that it will continue to market its materials and services and operate consistently.

Nonetheless, Covid-19 could eventually affect domestic and global financial and economic markets, as well as the Group's commercial, operating and financial performance. With this in mind, the Group defined an action plan to guarantee the health of its personnel and interest groups, assign resources and allow management to provide the follow-up needed to ensure the continuity of the Group as a going concern, while also obtaining revolving credit lines with financial institutions, as discussed in Note 3b.

## **32. Approval of the issuance of consolidated financial statements**

On April 2, 2020, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz González, Chief Executive Officer; consequently, they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Audit Committee and General Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

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