Competitive solutions in industrial raw materials

pochteca

2017 INTEGRATED ANNUAL REPORT

CONTENT

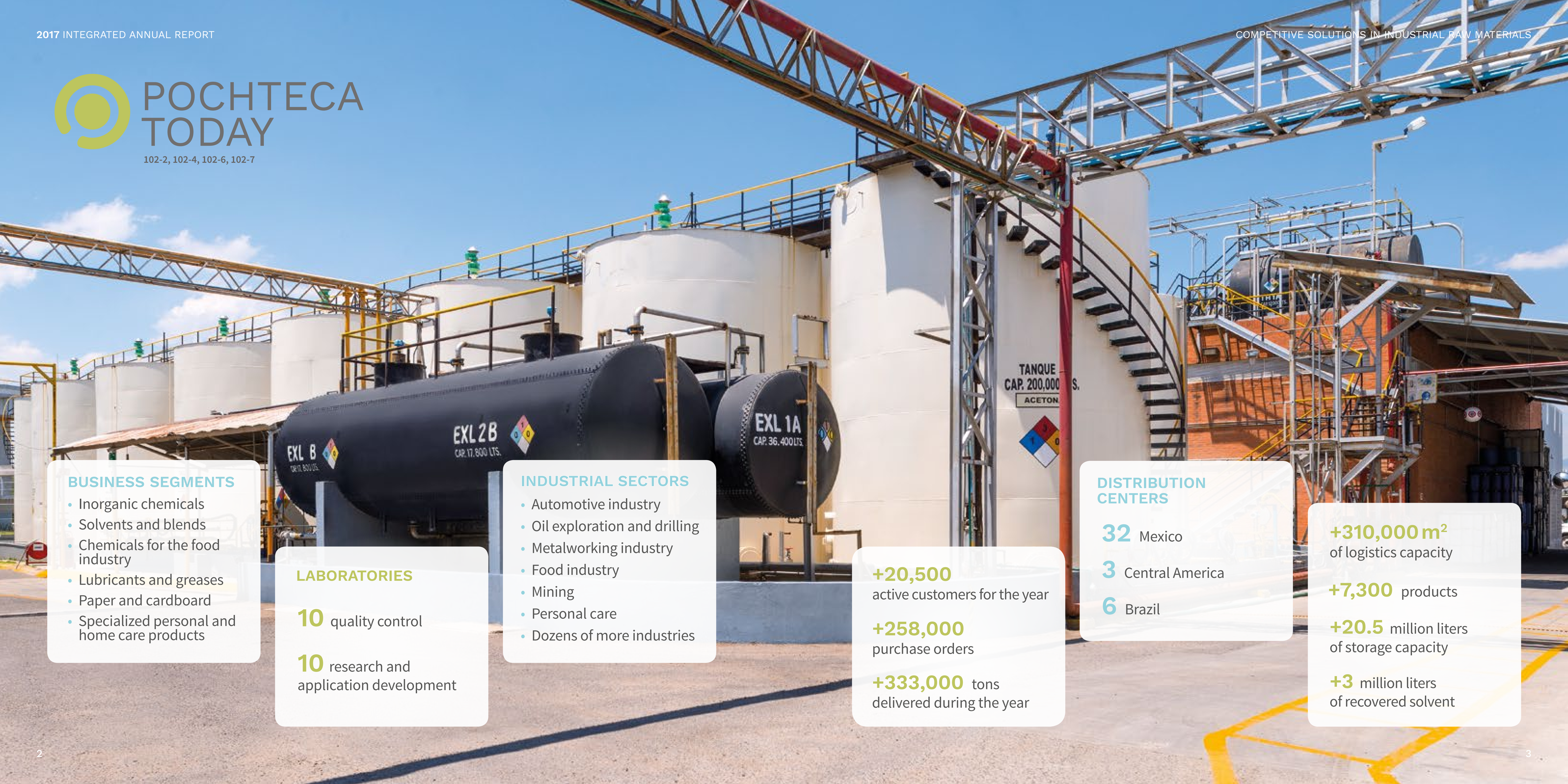
COMPETITIVE SOLUTIONS IN INDUSTRIAL RAW MATERIALS

102-1, 102-2, 102-6

Pochteca is a Mexico-based company with an international footprint focused on the sale and distribution of industrial raw materials. We serve a wide array of sectors including water treatment, mining, food and automotive industries, oil exploration and drilling, personal care, cleaning and sanitization products, metalworking and tens more industries in Mexico, Central and South America. Our stock trades on the Mexico Stock Exchange (BMV) under the ticker symbol POCHTEC.

POCHTECA TODAY

102-2, 102-4, 102-6, 102-7



BUSINESS SEGMENTS

- Inorganic chemicals
- Solvents and blends
- Chemicals for the food industry
- Lubricants and greases
- Paper and cardboard
- Specialized personal and home care products

LABORATORIES

10 quality control

10 research and application development

INDUSTRIAL SECTORS

- Automotive industry
- Oil exploration and drilling
- Metalworking industry
- Food industry
- Mining
- Personal care
- Dozens of more industries

+20,500 active customers for the year

+258,000 purchase orders

+333,000 tons delivered during the year

DISTRIBUTION CENTERS

32 Mexico

3 Central America

6 Brazil

+310,000 m² of logistics capacity

+7,300 products

+20.5 million liters of storage capacity

+3 million liters of recovered solvent

2017 RESULTS

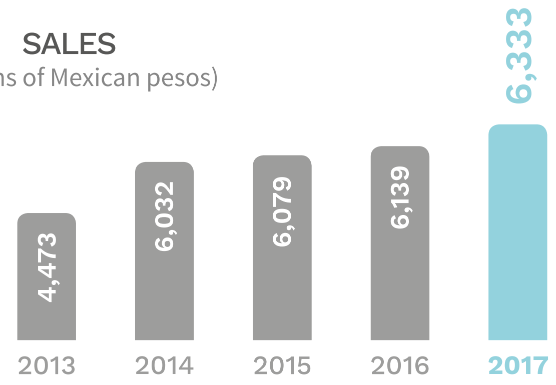
102-7, 201-1

	2017	2016	% Change
Sales	6,333	6,139	3.2%
Gross Profit	1,150	1,075	7.0%
Gross Margin (%)	18.2%	17.5%	70bp
Operating Profit	234	116	101.4%
Operating Margin (%)	3.7%	1.9%	180bp
Depreciation	127	132	-3.7%
EBITDA	361	248	45.5%
EBITDA Margin (%)	5.7%	4.0%	170bp
Financial Expense	(134)	(81)	64.7%
Forex Gain (Loss)	(54)	(50)	9.7%
Pre-tax Income	46	(15)	NC
Net Income (Loss)	(54)	(6)	848.4%
Net Debt/ EBITDA 12M	1.97x	2.93x	
EBITDA/ Interest 12M	2.69x	3.05x	

EBITDA = operating earnings before interests, taxes, depreciation and amortization; NC = non comparable
Ps = Mexican pesos

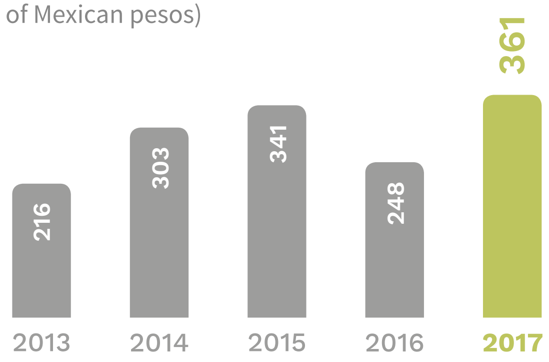
SALES
(millions of Mexican pesos)

6,333
MILLION OF MEXICAN PESOS
3.2% increase over 2016

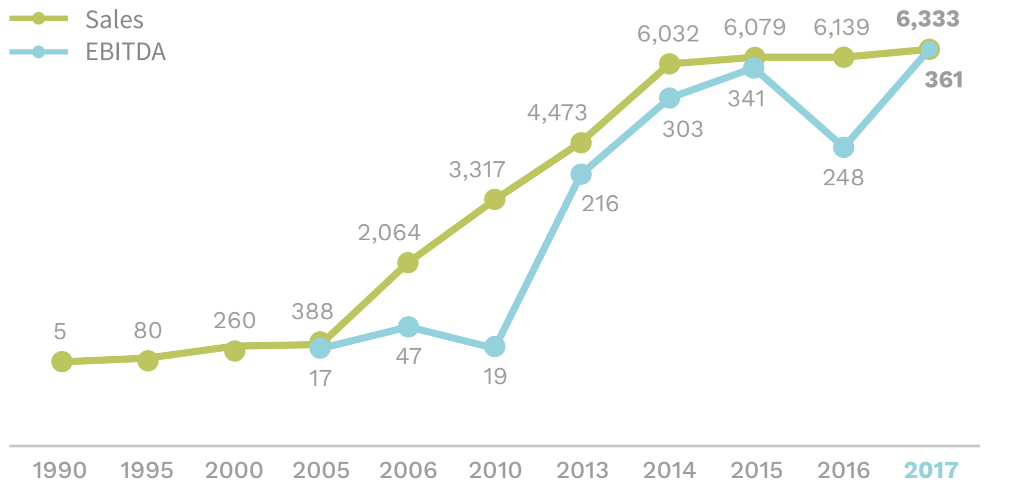


EBITDA
(millions of Mexican pesos)

361
MILLION OF MEXICAN PESOS
46% growth vs. 2016



SALES AND EBITDA
(millions of Mexican pesos)



MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

102-7, 102-11, 102-14

Dear shareholders,

During 2017 we achieved satisfactory operating profit and EBITDA results acording with our projections. We turned in an excellent performance in Mexico and during the second half of the year the negative trend in the Brazilian economy gave way to a gradual recovery tandem with a firming of industrial activity that was reflected in a favorable trend change at Coremal.

Oil prices recovered 12% as they rised from USD $53.72 in 2016 to USD $60.42 per barrel in 2017. However, in Mexico we have not seen signs of recovery in mining activity including oil exploration and drilling. We are confident that the success of Mexico's energy reform and tender rounds will result in a reactivation of the oil and gas exploration and drilling sector.

The diversification of our customer and product portfolios constitutes key drivers part of our commercial strategy that has allowed us to increase sales and margins despite the loss of a relevant size of the business that we previously achieved in the sectors above mentioned.

Brazilian economy experienced a slight recovery during the second half of 2017 with GDP increasing +1.0% compared to 2016. The figures from our operations in Brazil also underwent a trend change including a slight recovery during the second half of 2017.

Our results remarks company's strengthening and profitability growth. Sales grew 3.2% to Ps 6,333 million. Gross margin increased 70 basis points to 18.2% against 17.5% for the previous year; operating profit totaled Ps 234 million, a 101% increase compared to 2016. EBITDA expanded to Ps 361 million, 46% higher than Ps 248 million of the previous year.

Net consolidated debt at the end of 2017 totaled Ps 712 million, 2% less Ps 16 million vs. 2016. The reduction in net debt at the end of 2017 was largely based on our Ps 110 million cash generation.

One of the most relevant events last year was our acquisition of Conjunto LAR de México, S.A. de C.V. ("LAR"), a company with more than 30 years of experience specialized in the distribution of high value-added personal and home care chemical products. LAR achieved Ps 221 million in sales in 2016, attending more than 2,500 customers through its 3 stores and 2 warehouses in Mexico City. LAR acquisition allowed Pochteca to strengthen our specialty products portfolio, as well as, to strengthen LAR through its use of Pochteca infrastructure and expanding its footprint beyond Mexico City.

In order to propel growth and expand our earnings margins, which support our competitiveness and growth our cash position, Pochteca continues to execute the following strategies:

- Customer stratification as part of our commercial strategy to expand the gross margin.
- Strengthen our highly specialized product portfolio by incorporating Conjunto LAR.
- Greater diversification into higher value-added and more profitable blends and products.
- Continue to reduce our days of working capital to achieve growth while using fewer financial resources and increase cash balance.
- Control operating expenses and CapEx.

These results could not have been achieved without the support and commitment of human talent, customers, suppliers, shareholders and financial institutions to whom we express our deepest thanks.

Armando Santacruz González
Chairman of the Board of Directors

MESSAGE FROM THE EXECUTIVE DIRECTOR

102-7, 102-11, 102-14

Dear shareholders,

It is my pleasure to present you the 2017 Pochteca's achievements in matters of sustainability, accomplishments that would not have been possible if not for the commitment of our human talent, customers and suppliers, who share our mission "to be the distributor of raw materials and integrated comprehensive solutions preferred by customers and suppliers".

We stand out as a company commited about the efficient use of natural, economic and social resources. We assure our products are of the best quality and adhere to the highest sustainability standards.

Pochteca invest in our associates' training and development. Last year we provided more than 12,204 hours of training through our Pochteca Virtual University (UVP in Spanish) and strategic alliances with specialized institutions. We also offer youth development programs both for those who have completed bachelor's level studies and those who remain in the classroom, including 33 in 2017.

We are an inclusive company and hire people regardless their sexual preferences, gender, place of origin or age, and give preference to local talent. I would like to remarks that the percentage of women in the company grew by 4% in the past year.

We seek the wellbeing of neighboring communities wherever we are located, actively participating in mutual support groups in various states in Mexico, as well as, working with civil society in Mexico City through a number of NGOs.

Our response following the earthquakes of last September included providing drums for salvage operations, as well as donations, financial aid and in kind, from both the company and our personnel.

In 2017, our environmental record includes lowering our CO_2 emissions 9.2% and obtaining 3,428,000 liters of clean solvent using our own recovery processes, thereby avoiding their confinement and the use of virgin resources. We began using biodiesel for the first time, which covered 6% of our conveyor consumption needs.

Our Integrated Management System (IMS) assures we meet our financial and sustainability objectives while all of our operations comply with the entirety of national and international standards we have voluntarily adopted, the most significant of which include RDP (Responsible Distribution Process) certification from the NACD (National Association of Chemical Distributors), ISO 9001- 2008, FSC, TFS, SEDEX and the Integrated Responsible Management System program of the National Association of Chemical Industries, A.C. (ANIQ). Moreover, we maintain a responsible value chain, making sure our suppliers implement best practices.

It is very important to Pochteca maintain a dialogue with our stakeholders in order to be fully aware of their needs and concerns, as well as, what they think about how their lives are impacted by our operations. For that reason we started in 2017 a dialogue with our employees, customers, shareholders and suppliers that helped us to define the economic, environmental and social indicators on which we as a company need to work in order to add value to our sustainability strategy, overcome challenges in the industry and fulfill our mission and vision.

Sustainability forms an integral part of Pochteca's values and operations.

Eugenio Gerardo Manzano Alba
Executive Director

OUR COMPANY

102-16

MISSION

Be the distributor of raw materials and integrated comprehensive solutions preferred by customers and suppliers

VISION

Sell more than one billion dollars in the Americas

COMMITMENTS

- **TO OUR CUSTOMERS**
  Offer the best value proposal
- **TO OUR SUPPLIERS**
  Develop a long-term relationship
- **TO OUR COMPETITORS**
  Professionalism and honest competition
- **TO OUR SHAREHOLDERS**
  Transparency and a competitive return on investment
- **TO OUR ASSOCIATES**
  Promote personal and professional development
- **TO SOCIETY**
  Provide benefits and risk avoidance

Operating efficiency and secure custody chain

Financial strength

Commercial excellence

Talent excellence

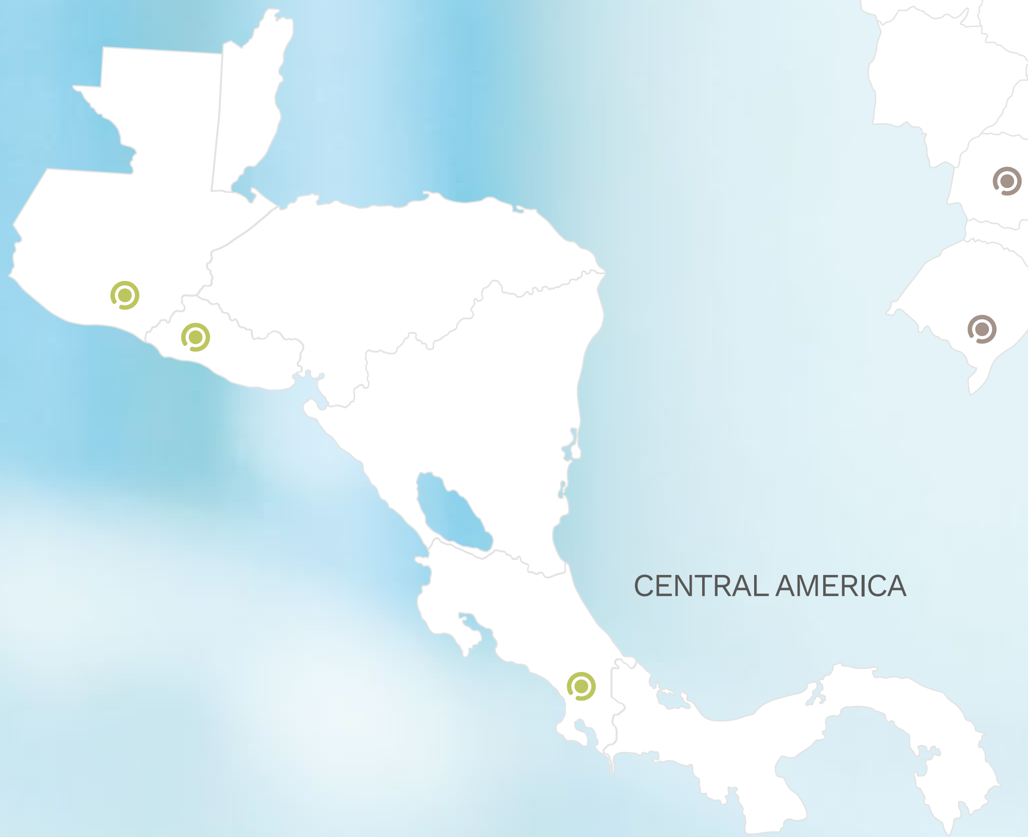
SUSTAINABILITY AND SAFETY
Integrated Management System

VALUES

- Safety and regulatory compliance
- Austerity and frugality
- Open and dynamic communication
- Honesty and best practices
- Focus on results and continuous improvement
- Passion for growth
- Vocation of service
- Sustainability

MARKET FOOTPRINT

102-4



MAKING A DIFFERENCE

Pochteca stands out for having the most diverse supply of quality products, and its excellent value proposal. As a **one-stop-shop** we are an excellent customer option

Our 5 main customers account for less than 6% of sales, the 5 main products accounts less than 8%, and **no product or client represents more than 3%**

VALUE PROPOSAL

102-11

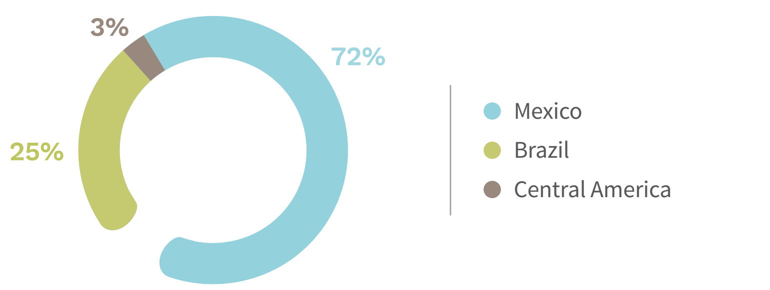
- Timely product availability.
- One-stop-shop: the market's most extensive product portfolio.
- Pre and post sales technical support.
- In-house laboratories producing applications responsive to customer needs.
- Inventory programs tailored to the demands of each client.
- Credit for assisting customers to manage working-capital cycles.
- Nationwide and worldwide delivery.
- International-standard professional and personalized service.
- Business intelligence for risk minimization and design procurement strategies.
- An efficient system with easy order processing.
- Consistent quality from world-class suppliers with standardized production processes.
- Supply safety.

DIVERSIFICATION

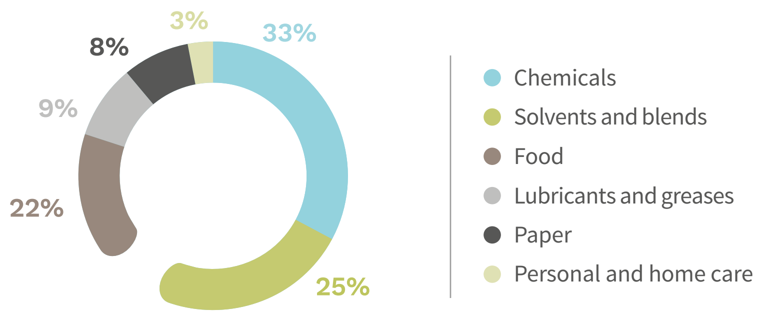
102-6, 102-11

Our **diversification of customers**, products, industries, regions, channels and suppliers is key to our commercial strategy. Our avoidance of becoming dependent on particular customers and products has served as a major risk mitigation factor, allowing us to protect sales and margins while differentiating ourselves from the competition. By the same token, each of our business segments attends to dozens of industries.

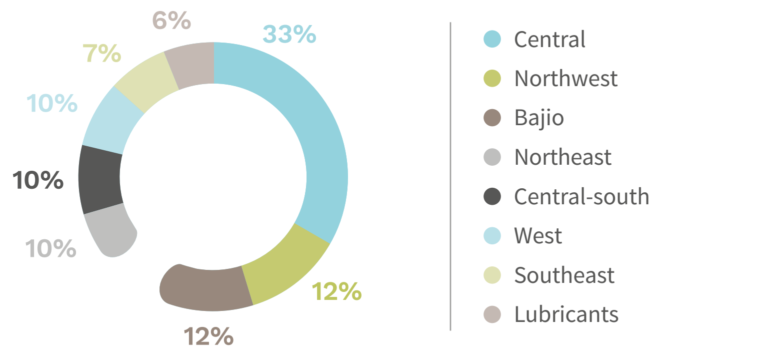
PERCENTAGE OF SALES BY GEOGRAPHY
(Americas)



PORTFOLIO BY SEGMENT
(% of consolidated sales)



PERCENTAGE OF SALES BY REGION
(Mexico)



	% participation 2017	% participation 2016
Customer 1	1.6%	1.6%
Customer 2	1.2%	1.2%
Customer 3	1.2%	1.1%
Customer 4	1.0%	0.9%
Customer 5	1.0%	0.8%
Total	6.0%	5.6%

	% participation 2017	% participation 2016
Product 1	2.7%	2.5%
Product 2	1.5%	1.3%
Product 3	1.3%	1.3%
Product 4	1.2%	1.2%
Product 5	1.1%	1.2%
Total	7.8%	7.5%

SUSTAINABILITY STRATEGY

INTEGRATED MANAGEMENT SYSTEM POLICY

As a company with a sustainable vision, we seek to meet our financial and growth objectives without detriment to our 4 sustainability pillars:

- Our people: We work to assure their well being, health and safety, offering them fair treatment in keeping with existing laws.
- Environment: We set concrete goals for reducing our environmental footprint, and preserving resources for future generations.
- Supply Chain: We strive to steadily reduce our operating expenses, minimize risks throughout our supply chain, and share our principles and values with our business partners.
- Community: We act in accordance with our values while supporting communities and helping them build a culture of responsibility, cooperation and respect for rules.

102-11

We work to satisfy our customers' needs and meet their expectations with a preventive and continuous improvement approach while assuring we comply with all applicable rules and regulations, and that our products live up to the highest quality standards.

We have established guidelines for reaffirming our **commitment to sustainability** as well as rules, policies, manuals and procedures for assuring their fulfillment

The **Integrated Management System** (IMS) is the basis of Pochteca's strategy

INTEGRATED MANAGEMENT SYSTEM

102-11, 102-12, 102-13

Pochteca's Integrated Management System (IMS) underpins our business strategy as a tool for implementing every aspect of our culture. It allows us to direct, control and evaluate our performance in order to assure a continuous improvement process.

The demonstrated congruence between our business strategy and operational activities is reflected in our range of certifications.

ISO 9001:2008

Our facilities have been certified since 2004 and in the case of Dermet since 2009. The certification is valid until 2018, when we transition to compliance with the 2015 version of this norm.

NACD National Association of Chemical Distributors

Our five plants (San Jose, San Juan, Puebla, Pachuca and Toluca) were the subjects of our fifth certification audit, which confirmed our compliance and renewed our certification through to 2020.

FSC® Forest Stewardship Council ®

Our certification with license code FSC®-C011956 covers our Vallejo and Cancun warehouses. As a result of the audit, this certification was renewed until 2023. We were the first company in Mexico to receive FSC® certification, which we have maintained since 2007.

We have also complied with the following protocols applicable to our entire organization:

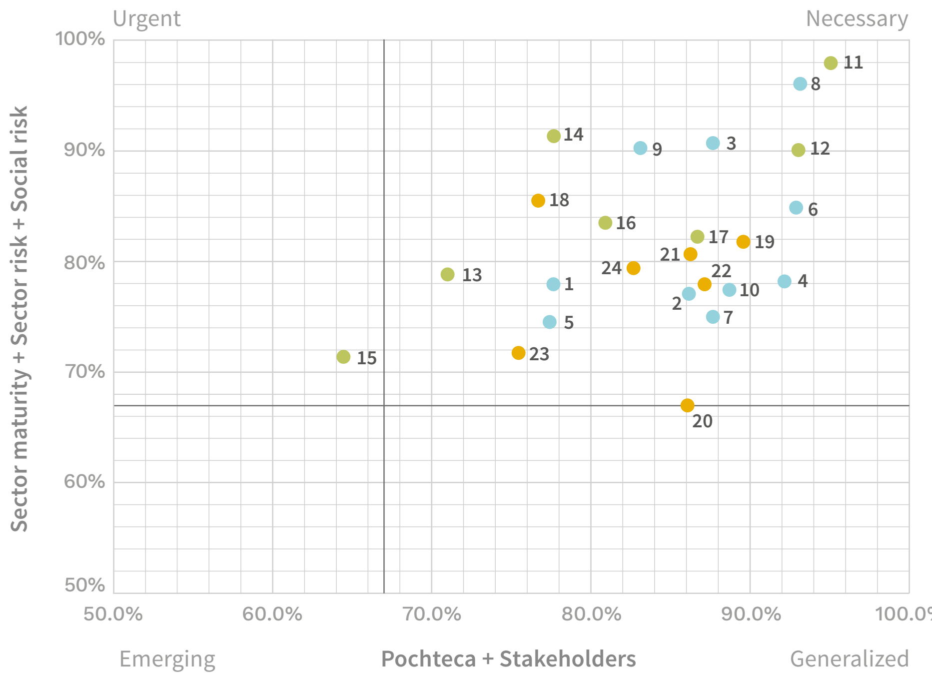
- SARI (System of Integral Responsibility Management)
- SEDEX (Supplier Ethical Data Exchange)
- TFS (Together for Sustainability)

MATERIALITY

102-29, 102-31, 102-44, 102-46, 102-47

Cognizant of the importance of including in our sustainability study matters of greatest importance to our stakeholders, we had an external consultant undertake a Materiality Study. Its results allow us to identify the ways our operations most affect our stakeholders and, thus, are of the greatest importance to our sustainability report.

The materiality analysis' methodology referenced a benchmark between the maturity of major companies in the specialized consumer chemical products distribution sector, and the risk characterized by sectorial and social prescriptors –whether legally binding or voluntary– in economic, social and environmental matters. The study included a review of public information from four major companies in the sector dedicated to the distribution of specialized consumer chemical products as well as four sectorial and four social prescriptors.



Considering risk factors, the most important issues for Pochteca are:

1. CSR Management
2. Corporate governance
3. Risk management
4. Ethics and integrity
5. Corruption, bribery and transparency
6. Brand management
7. Financial matters
8. Operations
9. Product and services development/ product responsibility
10. Customer relations management
11. Environmental policies
12. Materials
13. Energy ecoefficiency
14. Water resources management
15. Biodiversity
16. Climate change
17. Waste management
18. Talent attraction and retention
19. Human capital development
20. Diversity and equal opportunities
21. Occupational health and safety
22. Human Rights
23. Social impact
24. Supplier standards

We work to maintain **constant communication** to quickly detect each group's needs

OUR STAKEHOLDERS

102-21, 102-40, 102-42, 102-43, 102-44

Part of our materiality study is the identification of our stakeholders with whom we can establish action strategies and plans through which we can improve our performance and respond to each one's concerns and expectations.

We work to assure we are in constant communication in order to quickly detect the needs of each group. To that end we use diverse dialogue channels such as questionnaires and broader surveys. The issues of greatest importance to our stakeholders are taken into account in the company's Annual Reports.

Our customers

We work to establish mutually beneficial relationships, providing services in addition to product sales, such as:

- Exchange of better operating practices.
- Training in safety requirements and product handling norms, including waste management and emergency response.
- Safety evaluations and recommendations on installations and infrastructure.
- Advisory services on product usage and functionality that we provide at our applications labs.
- Post-sales services.
- We review, purge and complement our product portfolios to provide alternatives that enhance quality, sustainability and efficiency in our customers' processes.

Our associates

We trust our associates' talent and try to assure they stay with the company. To that end we guarantee them:

- Strict adherence to labor laws and regulations.
- Agreements with suppliers of goods and services that set preferential conditions and prices.
- Possibility of flextime and working from home.
- *Orienta* line providing financial, dietary, legal, psychological and medical advice.
- Participation of our associates and their families in joint activities related to safety, environmental care, and legality.

Our community

Without compromising the wellbeing of the communities adjacent to our operations, we generate job and development opportunities through:

- Participation in mutual-aid groups for the review and passage of legislation and creation of emergency protocols, including *México Unido Contra La Delincuencia* (Mexico United Against Crime).
- Donations, advisory services and training for educational centers, associations and foundations.
- Respect for applicable laws.

Our suppliers

- Strategic supply relationship.
- Share industry best practices.
- Evaluate their performance.
- Identify and collaborate on areas of opportunity in the supply chain.

Our competition

- Professionalism and honest competition .
- We share best practices through the associations and groups we belong to: ANIQ, CANACAR, AMEDIR, ANAFAPYT, AIVAC, CANACINTRA and *Club de Editores* (Editors' Club).

Our shareholders

- Growth, profitability and a competitive return on investment.

OPERATING PERFORMANCE

GRI 201: 103-1, 103-2, 103-3
102-4, 102-7, 102-11, 102-15, 201-1

In 2016 presented several challenges, which was the most complicated year we have had at Pochteca in a long time. The drop in oil prices, the shutdown of most existing oil rigs in Mexico and Brazil, and a weakening of both demand and prices in the mining sector significantly affected portfolio demand and prices during 2016. Weakness in industrial activity in Brazil in recent years further magnified such negative performance.

Despite the difficult scenario of the previous year, during 2017 we achieved excellent results in Mexico and we snapped the negative trend in Brazil. During 2017, sales increased 3.2% compared to 2016. Gross income (Ps 75 million) and no capital gross margin (+70bp) improved, as well as, Operating Income and EBITDA (Ps 113 million; +46%).

During the second half of 2017, the Brazilian economy experienced a slight recovery allowing GDP to grow 1.0% for the full year. GDP expansion extended to the industrial sector and Pochteca's Brazilian business experienced a positive trend change.

Moreover, oil prices recovered 12% from USD 53.72 per barrel from 2016 to USD 60.42 in 2017. We are confident that this trend, combined with the success of the oil and gas tenders of Mexico's energy reform, will lead to a reactivation of exploration and drilling activity.

2017 results reaffirm the company's **strengthening** and profitability **growth**

WEST TEXAS INTERMEDIATE (WTI) CRUDE PRICES (USD)
(September 2013 = 100)

The 2018 **economic growth** outlook is positive for both Mexico and Brazil

We have not yet to see signs of a recovery in mining or oil exploration and drilling in Mexico. However, diversification into other sectors has compensated for the contraction in these segments, which until recently were Pochteca's mainstays.

Industrial production recovered slightly in Brazil during the second half of 2017, allowing our operation in that country to stem its downtrend and embark on a gradual recovery.

The consensus among analysts for Mexico and Brazil to experience economic growth in 2018.

In Pochteca, we are focused on strategies to growth our profit margins, execution impulse our competitiveness and strengthening our cash position, through:

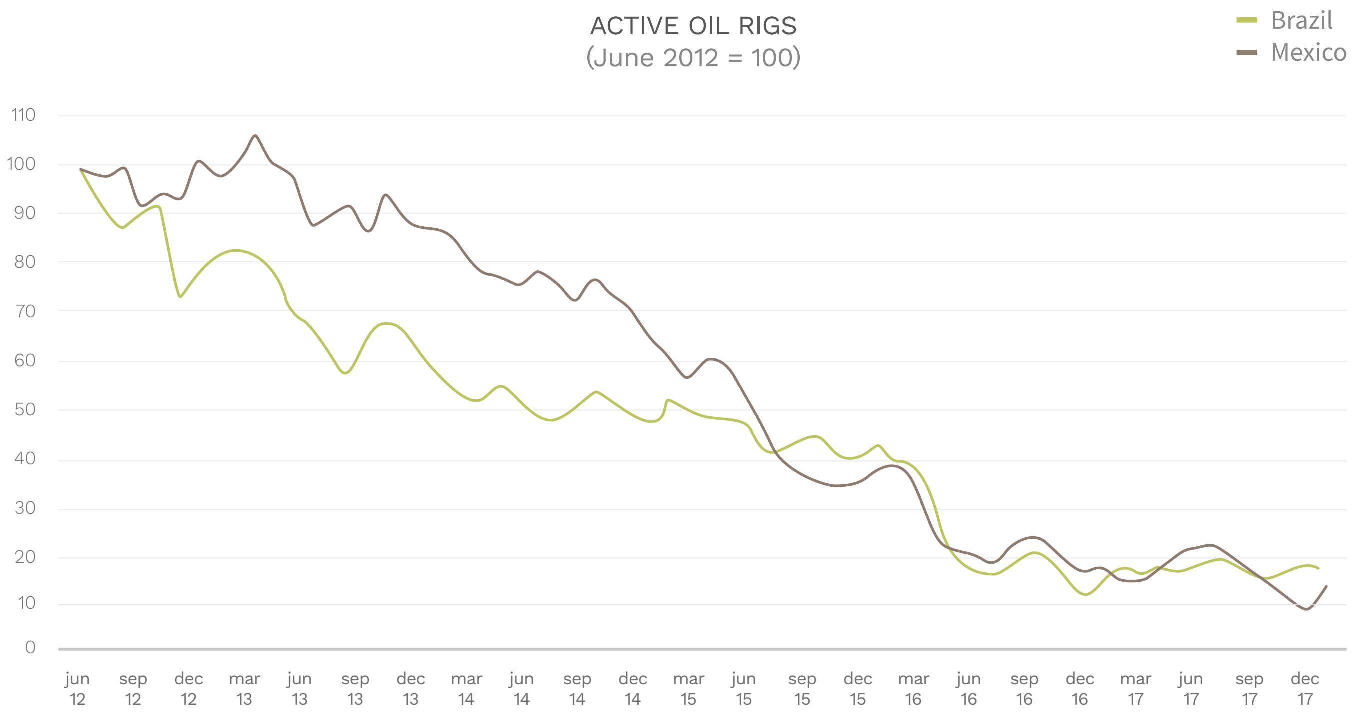
- Customer stratification as part of the commercial strategy to increase gross margin.
- Strengthen our high-specialization product portfolio by incorporating Conjunto LAR.
- Increase diversification into higher value added and more profitable blends and products.
- Reduce our working capital days to achieve growth with fewer resources, and increase liquidity.

During 2017, we did not see evidence of a recovery in the number of active rigs in Mexico or Brazil persisting the oil industry's slowdown.

The number of oil rigs in Mexico and Brazil at the end of 2017 remained considerably reduced, according to data published online by Baker Hughes. Compared to the end of 2016, there were 21% fewer active rigs in Mexico. Brazil experience saw a trend change with an almost 8% rise, but in comparison to severely depressed levels. The number of rigs in both countries remains well below their peak of early 2013.

There has been an almost 88% contraction in the number of active rigs in Mexico since a 120 rig peak at the start of 2013; only 15 were reported at the close of 2017. During that same period there was an 88% drop in Brazil's rig balance. Exploration and drilling is a key sector for Pochteca. As Mexico's oil and gas Exploration and Production (E&P) bid rounds unlock investment flows we look for a significant rise in the number of active rigs, thereby allowing Pochteca to recover part of the sales it once maintained in this sector.

Despite all of these conditions, in 2017 Pochteca achieved growth in sales and profitability.



Source: Baker Hughes (www.bakerhughes.com/rig-count)

In June 2017, Pochteca acquired Conjunto LAR de México S.A. de C.V. ("LAR"), specializing in the distribution of personal and home care products.

With that acquisition we seek to:

- Complement Pochteca's specialty products portfolio.
- Bolster LAR through its use of Pochteca infrastructure and an expansion of its footprint beyond Mexico City to regions where it lacked any presence.
- Complement LAR's portfolio with Pochteca's ones, and expand LAR portfolio products' market penetration.

WORKING RESPONSIBLY

WE VALUE OUR TALENT

GRI 202, 401, 402, 405: 103-1, 103-2, 103-3
102-7, 102-8, 102-17, 102-22, 102-35, 102-36, 102-41, 202-1, 401-1, 401-2, 401-3, 402-1, 405-1, 405-2

We continuously assess our **compensation plans** in order to remain competitive

Given that much of our success depends on our associates' commitment, talent and integrity, we invest in programs and tools that favor a safe, healthy and equitable working environment, and promote their professional development.

In every region we pay wages above the official minimum set by the National Minimum Wage Commission for the corresponding region and classification.

The range of wages and salaries depends on the type of position and each person's qualifications. In no cases are they determined based on gender, age, ethnic origin or social condition.

Pochteca's compensation strategy is designed to offer our personnel remunerations based on individual competition, and we make sure that gender is never a factor in wage and salary decisions.

AVERAGE MONTHLY SALARY BY GENDER AND REGION

Region	Women	Men
Bajio	14,633	16,319
Central	17,244	21,982
Central-south	13,390	13,480
Northeast	17,941	15,954
Northwest	14,132	16,680
West	14,426	18,008
Southeast	13,436	12,188
Total	**15,029**	**16,373**

1,412

employees throughout the Americas*

4% of woman associates took maternity leave in 2017, **93% were reinstated**

For more information visit our Code of Ethics

Based on our compensation review we narrowed the pay gap between management, administrative and sales positions. Our Code of Ethics backs our firm dedication to promoting equal opportunities, and any breach of that commitment is dealt with through the various channels we provide our associates.

As an inclusive company, we support diversity and conduct our hiring without regard for gender, age, religious beliefs or sexual preferences. During 2017 the percentage of women in our workforce was 4% greater than in 2016, and two more women joined our Indicators Committee, the highest executive level at Pochteca. Moreover, 78% of the people we hire are from local communities.

We make sure all our associates can take maternity and paternity leave in compliance with both local regulations and Mexico's Federal Labor Law. We also provide facilities for them to extend such leaves through a combination of flextime and time spent working from home as they resume their duties. To that end, we have made substantial investments in infrastructure and equipment while assuring associates have job-related connectivity at all times. The breakdown in equipment availability is as follows:

80% portable computers

60% smart phones

Furthermore, we have upgraded voice and data connections.

- VOIP telephone service with call forwarding between the associates' office extension and portable computer.
- Being able to securely access their information from anywhere by means of a VPN.
- Cloud-based information access and making it possible to access our internal company network "pochtecaNET", for example.

Our decision to begin using the **Join Me** video conferencing tool has improved communication with branch offices and helped reduce the number of trips for business meetings as we can now conduct distance meetings and training sessions.

These conditions make it easier to extend maternity/paternity leave to our personnel and facilitate their return to work.

All of our associates receive a life insurance policy and are enrolled in social security.

*Data corresponds to the total number of employees in Mexico, Central America and Brazil.

TOTAL WOMEN 2017

353 women

14 work absence for maternity 4%

13 reinstated 93%

Given the importance of keeping our associates apprised of any significant change that could affect them directly and substantially, workers and their representatives are routinely provided four weeks' notice before such actions are taken.

Our collective bargaining contract specifies negotiations take place in December of each year.

1,102 associates hired

- Asesoría en Servicios Pochteca 370
- Demser 149
- Pochteca Serv. Administrativos 218
- Pochteca Serv. Corporativos 17
- Servicios Administrativos Argostal 209
- Transportadora de Líquidos y Derivados 82
- Conjunto LAR 57

NUMBER OF ASSOCIATES BY EMPLOYMENT CONTRACT

PERMANENT CONTRACT

Company	Women	Men	Total
Asesoría en Servicios Pochteca	25	46	71
Demser	8	8	16
Pochteca Servicios Administrativos	20	25	45
Pochteca Servicios Corporativos		1	1
Servicios Administrativos Argostal	4	33	37
Transportadora de Líquidos y Derivados		17	17
Conjunto LAR	7	16	23
Total	64	146	210

TEMPORARY CONTRACT

Company	Women	Men	Total
Asesoría en Servicios Pochteca	128	171	299
Demser	47	86	133
Pochteca Servicios Administrativos	76	97	173
Pochteca Servicios Corporativos	4	12	16
Servicios Administrativos Argostal	14	158	172
Transportadora de Líquidos y Derivados		65	65
Conjunto LAR	20	14	34
Total	289	603	892

NUMBER OF ASSOCIATES BY REGION AND GENDER

Region	Women	Men	Total
Bajio	32	86	118
Central	204	432	636
Central-south	28	58	86
Northeast	26	51	77
Northwest	33	43	76
West	19	28	47
Southeast	11	51	62
Total	**353**	**749**	**1,102**

NUMBER OF ASSOCIATES

1,102

353 women

749 men

NUMBER OF ASSOCIATES BY AGE AND GENDER

Under 30

136 12%

247 22%

383 35%

Between 31 and 50

182 17%

394 36%

576 52%

Over 51

35 3%

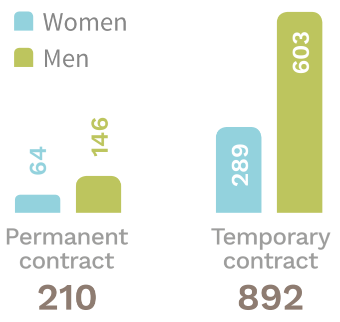
108 10%

143 13%

NUMBER OF PERMANENT ASSOCIATES BY COMPANY AND GENDER

Company	Women	Men	Total
Asesoría en Servicios Pochteca	153	217	370
Demser	55	94	149
Pochteca Servicios Administrativos	96	122	218
Pochteca Servicios Corporativos	4	13	17
Servicios Administrativos Argostal	18	191	209
Transportadora de Líquidos y Derivados		82	82
Conjunto LAR	27	30	57
Total	**353**	**749**	**1,102**

NUMBER OF PERMANENT ASSOCIATES BY TYPE OF CONTRACT AND GENDER



NUMBER OF ASSOCIATES BY TYPE OF CONTRACT AND REGION

Region	Permanent contract	Temporary contract	Total
Bajio	22	96	118
Central	118	518	636
Central-south	17	69	86
Northeast	15	62	77
Northwest	18	58	76
West	11	36	47
Southeast	9	53	62
Total	210	892	1,102

NUMBER OF PERMANENT ASSOCIATES BY TYPE OF CONTRACT AND GENDER

	Permanent contract		Temporary contract		
Company	Women	Men	Women	Men	Total
Asesoría en Servicios Pochteca	25	46	128	171	370
Demser	8	8	47	86	149
Pochteca Servicios Administrativos	20	25	76	97	218
Pochteca Servicios Corporativos		1	4	12	17
Servicios Administrativos Argostal	4	33	14	158	209
Transportadora de Líquidos y Derivados		17		65	82
Conjunto LAR	7	16	20	14	57
Total	64	146	289	603	1,102

135 people (**12%** of associates) are covered by collective bargaining agreements

NUMBER OF ASSOCIATES COVERED BY COLLECTIVE BARGAINING AGREEMENTS

Company	Women	Men	Total
Asesoría en Servicios Pochteca	2	81	83
Transportadora de Líquidos y Derivados		52	52
Total	2	133	135

HIRING BREAKDOWN BY AGE, GENDER AND REGION

Region	Age	Women	Men	Total
Bajio	<35	8	32	40
	35-50	5	18	23
	>50			0
Central	<35	58	124	182
	35-50	19	42	61
	>50	4	16	20
Central-south	<35	10	21	31
	35-50	4	9	13
	>50	0	2	2
Northeast	<35	11	31	42
	35-50	2	11	13
	>50	1	1	2
Northwest	<35	6	27	33
	35-50	4	9	13
	>50		1	1
West	<35	10	11	21
	35-50	3	5	8
	>50			0
Southeast	<35	3	14	17
	35-50		4	4
	>50			0

Total number of hirings*
401-1

148 | 526 | 378

* At the end of December 2017 we had 526 new hires and 475 departures resulting in a total staff of 1,102 active associates.

OCCUPATIONAL HEALTH AND SAFETY

GRI 403: 103-1, 103-2, 103-3
102-8, 403-2, 403-3

One of Pochteca's priorities is to provide a safe working environment at all times. To that end, we conduct risk assessments for every job position and establish health and safety training programs for the proper realization of tasks. Moreover, we provide the Personal Protective Equipment (PPE) needed for each activity.

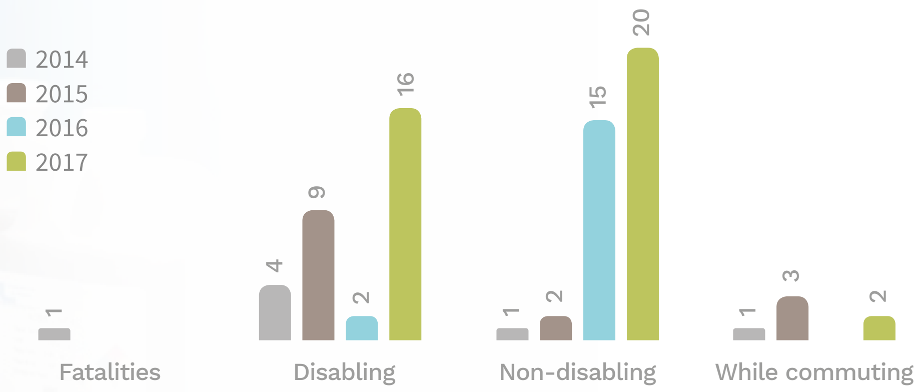
Due to the nature of our operations, many of the materials we manage have been catalogued as hazardous chemicals, so we make assessments before any new materials are delivered as well as risk assessments and development of accident prevention programs requested by SEMARNAT.

Our Safe Environment strategy has focused on minimizing unsafe conditions in our installations. During 2017, only minor accidents were reported, most of which consisted of minor injuries such as impacts and bruising resulting from carelessness on the job.

Our 2018 health and safety plan places special attention on the induction seminars and constant training of our associates to contribute to behavioral change and raise risk awareness to minimize accidents and incidents at all levels of the organization.

The following graph charts the accident and injury trends of recent years.

NUMBER OF ACCIDENTS AND INJURIES



Our incidence rate per 100 full-time warehouse workers remains well below the US Occupational Health and Safety Administration (OSHA) maximum level of 3.0

Year	Incidence rate
2013	1.381
2014	0.418
2015	0.650
2016	1.166
2017	1.182

DISABILITY DAYS

47	2014
49	2015
101	2016
123	2017

Our 2017 Health and Safety Plan results show no heightened work-related health risks to our associates.

Our investment in PPE appropriate for each activity, and training in the proper use of loading and unloading equipment and techniques is helping to avert job related sickness and injuries. We invested Ps 1.3 million in 2017 on PPE for all our associates who need it in keeping with the risk each type of activity entails.

Conscious of the psychosocial risks our associates face and in order to improve their quality of life, we provide them with an *"Orienta"* support line, which allows us to improve our associates' quality of life. During 2017 we provided attention to the following issues:

GENERAL REPORT

General data

TYPE OF USER

11% relative | 89% employee

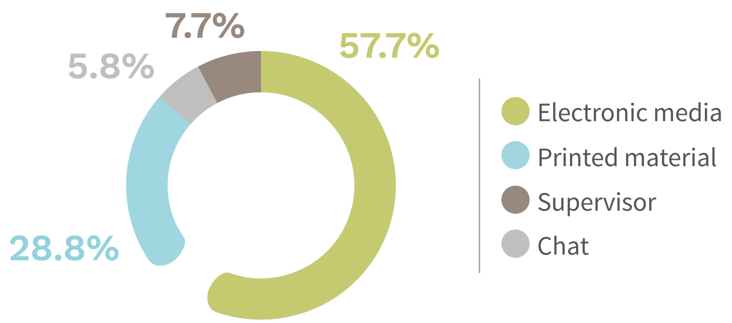
GENDER

72% men | 28% women

TYPE OF SESSION

84% first time | 16% follow-up

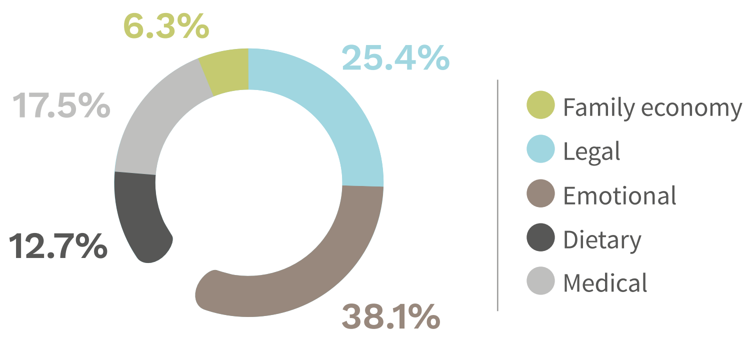
REFERRAL



AFFECTS PRODUCTIVITY

89.7% yes | 10.3% no

TYPE OF DEMAND



27.4%* rate of use for the period

321 people who used the service

107 online visits to *Orienta*

General nature

EMOTIONAL	
Emotional conflicts	16.7%
Sexuality	8.3%
Community	16.7%
Family	4.2%
Interpersonal relations	8.3%
Couple	25.0%
Courtship	20.8%

LEGAL	
Social security	6.3%
Labor	12.5%
Mercantile	6.2%
Family	50.0%
Civil	18.8%
Administrative	6.2%

MEDICAL	
Orthopedic trauma	9.1%
Otolaryngology	18.2%
Dentistry	9.1%
Internal medicine	45.5%
GYOBN	9.1%
Surgical	9.0%

FAMILY ECONOMY	
Economic situation	25.0%
Investment	50.0%
Credit	25.0%

NUTRITION	
Calorie reduction program	25.0%
Diet plan	75.0%

* According to the EAPA (Employee Assistance Professionals Association), an international organization for employee assistance professionals that helps regulate employee assistance programs, a healthy rate of employee usage of EAP (Employee Assistance Programs) is between 8% and 10%. Our 30% rate last year is far superior to that range.

We placed 29 Nitro-Strike fire suppression systems in 14 strategic locations capable of extinguishing any kind of chemical fire in less than 5 minutes **without leaving any trace of hazardous waste** while preventing fires from reigniting

EMERGENCY BRIGADES

GRI 403: 103-1, 103-2, 103-3
403-1

We have health and safety commissions in each workplace in compliance with Mexico's Federal Labor Law. Approximately 10% of our personnel are engaged in these commissions and receive training each year in:

- Firefighting
- First aid
- Evacuations

Excersises are conducted to promote brigade formation and assess their response and action capabilities as well as the resources at their disposal. During this process responsibilities are assigned, and emergency drills are conducted, all of which are duly documented.

We had a clear demonstration of their effectiveness in their response to the September 2017 earthquakes, during which there were no mishaps thanks to the extent of brigade coordination and the willing response of our associates. Once the procedure was completed a visual inspection was conducted to detect any damage to installations.

Where possible damages were detected, professional inspections were conducted to determine the extent of the destruction and assure our associates' safety.

STRATEGIC ALLIANCES

102-13, 403-1

We actively participate in PAMI, an industrial support group comprised of 13 companies in the Ecatepec-Tlalnepantla region. The association is dedicated to the prevention, management and control of industrial risk related to the sorts of activities in which affiliated businesses are engaged and which could affect their assets, those of their surrounding communities, their installations and the environment.

Since 2012 we have been partners of the Minatitlán – Cosoleacaque, Veracruz industrial zone's Regional Integral Security Committee (CRIS). This industrial association tries to provide support to affiliated businesses by providing human and material resources to attend and control major emergencies so as to minimize harm to personnel and installations and reduce impacts on the environment and the community.

TRAINING AND EVALUATION

GRI 404: 103-1, 103-2, 103-3
404-1, 404-2, 404-3

As part of our interest in our associates' continuous development, we have designed an annual training and competency program in keeping with the following considerations:

- Applicable laws
- Pinpointing needs
- Business strategies

Need detection process
Client needs
Personnel performance
Changes to or new processes or systems
Audits and corrective actions

In order to enhance the effectiveness of associate training and management processes, our Human Resource department totally restructured itself to operate under a business partner model and by areas of expertise, thereby converting the Human Resource department in a strategic partner for operational processes for helping to achieve the business' objectives and results.

We have a series of channels through which we impart courses and workshops, with the choice of channel depending on the type of program in question.

- Virtually through UVP (Pochteca Virtual University)
- On-site at the company
- On-site outside the company

We also have built strategic alliances with specialized institutions that through their diploma, certification, seminar and workshop programs complement the professional development of Pochteca associates.

During 2017, as a result of the analysis of training needs, legislation, client requirements, corrective and preventive actions and induction seminars, various training programs were carried out, produced the following results:

AVERAGE TRAINING HOURS BY CATEGORY

Administrative	10
Directors	11
Managers	13
Hourly workers	12
Sales	11

AVERAGE TRAINING HOURS BY GENDER

35	16
women	men

12,204 hours of training during 2017 at an average of 11 hours per employee

We attended job fairs at major universities with which we maintain cooperation agreements, and also list our job openings on the schools' job notice boards.

Through our Pochteca Development Potential tool (DPP in Spanish) our associates receive periodic evaluations with objectives established at the beginning of the year. A feedback session is conducted at mid-year and the final evaluation is provided at year's end.

The following table shows a breakdown of 2017 DPP evaluation results.

RESULTS BY JOB CATEGORY

Administrative	77%
Hourly worker	22%*
Sales	93%
Managers	96%
Directors	100%

PERCENTAGE OF PARTICIPANTS IN THE DPP SYSTEM BY GENDER

75%	44%
women	men

Name of educational institution	Month event held
ITAM	February
ITESM	March
UNAM	March and September
IPADE	March
LA SALLE	May
UNITEC	July
IPN	April

YOUTH DEVELOPMENT

GRI 413: 103-1, 103-2, 103-3
102-13, 413-1

We also implemented a program to attract and develop talented young people consisting of interns (who work and study part time) and trainees in order to prepare them in labor matters and provide them with an opportunity to begin their working careers at Pochteca.

During 2017, 18 interns and 25 trainees participated, who after concluding their studies over the course of the year have been joining the company as analysts, coordinators and/or executives.

Students and graduates of youth development programs totaled 28 in 2016 and 33 in 2017. They come from different sources including ANIQ and INROADS, the latter of which provides university scholarships to students in need and helps them find work once they complete their studies.

* This number of warehouse personnnel refers only to those with access to a personal computer; all others are evaluated using a similar mechanism but outside the DPP platform.

SUSTAINABLE SOLUTIONS

102-11

We constantly work to **reduce the risks** related to our operations

Concerned about the environmental problems facing our planet, at Pochteca we constantly work to mitigate the risks that our operations might pose while also looking for preventative measures that can make a positive contribution to our surroundings.

Our Integrated Management System (IMS) is aligned with national and international environmental protection standards so we can be certain that our operations are conducted in accord with applicable norms. All of our activities are controlled, monitored and reported in keeping with this strategy.

BIODIVERSITY

102-11

Our operating centers are located in industrial parks authorized for conducting our commercial activities so none of our land-use permits contain any restrictions related to biodiversity conservation.

Pochteca's Accident Prevention Program (APP) spells out operational and infrastructural controls for cases in which harm to biodiversity could be generated by our operations. Furthermore, our Environmental Risk Assessments (ERA) specify the types of flora and fauna that could be affected in the event of a contingency.

As a precautionary measure, we maintain environmental liability and risk insurance coverage to cover environmental damages.

WATER

GRI 303: 103-1, 103-2, 103-3
303-1, 303-3

Water is necessary for any process. Given its scarcity, we work with strategies and technologies that help us to better manage this vital resource.

Our operations include a solvent recovery process whose distillation phase demands deionized water use. For this purpose, we have at our disposal five units that require 300 liters of water each. Thanks to these units' vapor recovery system, it has not been necessary to refill them since we first deployed them in 2014. Neither has it been necessary to refill the 700-liter deposit of the cooling tower that services these units since it was put into operation.

We reuse **89%** of our drums (4 turns per drum)

The water supply for all of our facilities in Mexico except Cancun and Merida, Mexico, consists of municipal waterlines or purchases of tanker truckloads. The Cancun facility has its own water well that it uses exclusively for sanitization needs and we never surpass the consumption levels specified by Mexico's National Water Commission (CONAGUA) in our concession title, and the facility does not yet have a water harvesting facility of its own.

MATERIALS

GRI 301: 103-1, 103-2, 103-3
301-1, 301-2, 301-3

Below is a list of the basic containers we use for packaging and storage.

Container	Number of pieces
Bucket	31,459
Jug	170,091
Drums	226,710
Tote	7,163
Total	**436,163**

Due to the nature of the products we are unable to recover all our containers. For those not sent for final disposal (drums and jugs) we have a special cleaning process that can be conducted on the premises or outsourced to suppliers with the necessary facilities.

By washing the metal drums in our San José and Minatitlán, Mexico facilities, we were able to reuse each drum 4 times.

Due to the greater efficiency achieved in container usage, we saw a reduction in their sale for recycling compared to 2016:

- A 16% reduction in sales of drums and containers.
- Jug sales were down 23%.

As part of our commitment to promote the reuse of materials, and with an eye toward achieving mutually beneficial results, we initiated sales of cellular equipment to our associates. During 2017, we sold associates 215 iPhones that had been retired from company use at a 60% discount to their market price.

We improved our container recovery and recycling process by **11%**

AVERAGE NUMBER OF SHEETS PRINTED PER CAPITA

Our operations employ previously used wood pallets we acquire and recondition locally at a 78% effective re-use rate.

As part of our waste reduction program, we have assigned a Ps 500,000 budget for controlled printed equipment, which allowed us to maintain an environmental impact record of tree consumption derived from such printing and CO_2 emissions per user. Thanks to the support of our associates, in 2017 we lowered our per capita sheet consumption at our largest warehouse facility (San Juan), which also has the greatest number of people employed. We plan to lower resource consumption by implementing a responsible printing campaign at every one of our sites.

ENERGY

GRI 302: 103-1, 103-2, 103-3
302-4, 302-5

Compared to 2016, we achieved the following energy consumption reductions:

Energy source	Results 2017
Diesel	9% better fuel yield in transport equipment
Biodiesel	In our first year using biodiesel it accounted for 6% of our transport fuel consumption
Gasoline	3% savings L/PK in passenger cars
Electricity	9% savings through operational optimization and improved maintenance program

EMISSIONS

GRI 305: 103-1, 103-2, 103-3
305-2, 305-3, 305-5

Most of the activities Pochteca engages in consist of storage and distribution, so the CO_2 emissions generated by our operations are derived exclusively from our consumption of electricity, gasoline and diesel, as well as mobile sources in the form of transport vehicles.

We arrived at a reading of those emissions using the Emissions Calculator of the National Emissions Registry (RENE), which showed an annual total of 1,054 Ton CO_2 eq, which is well below the maximum level (25,000 Ton CO_2 eq a year) required for the registry's Annual Operations Certificate.

9% reduction in number of sheets printed per capita

During 2017, we spent **7.4 pesos** per average kilometer traveled

436.7 ton CO_2 are generated by indirect electric energy sources

Transport

To facilitate our activities, we have assigned 284 company cars to executives and sales representatives and operate 103 transportation vehicles. To guarantee proper operation and compliance with the applicable environmental regulations, we maintain service records on all our vehicles and have a policy on switching out vehicles after a certain period of use or mileage; we also assign gasoline cards to control consumption.

We work to lower our greenhouse gas emissions (GHG), which consist primarily of those generated by our transport vehicles. The actions we have taken in this regard include:

- Replacing vehicles used to transport hazardous materials with newer, less polluting vehicles with better fuel performance and efficiency. We also continuously monitor them.
- Optimizing the amount of material transported relative to the volume of products sold by monitoring planning and logistical processes.

Electric Energy

We have a number of initiatives for lowering our electric energy consumption including:

- **Lighting:** Replace metallic-additive and sodium vapor installations with LED technology.
- **Acquiring clean energy:** We are evaluating the possibility of purchasing clean energy from wind and/or solar farms in different parts of the country.
- **Review and control:** We detected inefficiencies in our energy supply that led us to make improvements to our electric power substations that in turn lowered our electric power consumption. Moreover, we took into account natural light hours and the peaks time for minimizing our consumption during those periods.

Because of the nature of our operations, we have no need for heating, refrigeration or steam, so no other GHG emissions are generated.

EFFLUENTS AND WASTE

GRI 306: 103-1, 103-2, 103-3
306-2, 306-3, 306-4

Our operations generate hazardous waste in connection with:

- Maintenance processes.
- Replacement or breakdown of machinery and equipment.
- Non-compliant product.
- Packing and wrapping material.
- General services.

When handling materials containers or packages may be breached or broken, products may prove to be non-compliant or other emergencies may arise. This is why most of our facilities are rated "small generators" of hazardous waste with only three of our plants classified as "large generators." None of these facilities surpassed the maximum limits established for these categories.

We generated a total of 200 tons of hazardous waste in 2017. In all cases, the waste was disposed of responsibly, in keeping with applicable SEMARNAT rules.

Leaks and spills are among the environmental risks we contemplate in our operations. For that reason, we have the infrastructure and equipment necessary for containment in the case of storage and transport of liquids as well as the very specific emergency protocols and procedures for each of these scenarios.

The following table lists the leaks and spills that occurred in 2017.

Site	# of spills	m³
Reynosa	1	0.1
Leon	7	7.4
San Luis Potosi	1	0.6
Torreon	1	14.5
San Juan	1	5.8

In all cases, the spills took place within the primary containment areas of the product handling zones, meaning on concrete paving with protective trenches, therefore the material was collected and disposed of in keeping with our toxic waste management procedures.

Following each event, we conduced an accident investigation to determine their causes and take preventive measures in anticipation of future situations. The spills that occurred were the result of failures to abide by established procedures and a lack of training, so we are stepping up efforts in both regards as well as review controls and their supervision.

None of the incidents involved violations of regulatory norms or voluntary codes.

As part of our sustainability strategy, we have 5 German-technology solvent recovery and recycling units that allowed us to recover 3,428,000 liters of clean solvent. In addition, we invited our customers to participate in our initiatives to reduce hazardous waste by offering our cleanup and solvent reuse services.

Our drum washing efforts at one facility require us to maintain a water treatment plant for which we conduct annual studies to assure the discharge parameters remain within applicable regulatory standards. At all other locations, the residual water we generate is derived exclusively from sanitization services.

DIRTY SOLVENT FLOWS

Month	Closed cycle	Internal consumption	Total liters
January	48,522	158,938	207,460
February	72,346	83,722	156,068
March	221,147	96,852	317,999
April	175,734	171,151	346,885
May	174,168	118,729	292,897
June	211,576	77,252	288,828
July	175,218	258,047	433,265
August	187,069	216,394	403,463
September	131,180	302,697	433,877
October	159,215	328,612	487,827
November	131,100	283,155	414,255
December	72,757	313,288	386,045

REGULATORY COMPLIANCE

GRI 307: 103-1, 103-2, 103-3
102-11, 307-1

As part of our core values, we promote environmental protection and abide by all regulations applicable to our operations. Through our IMS we monitor compliance with all obligatory norms, quickly detect any violations, and develop action plans to assure such infractions are not repeated. Furthermore, we allot all the resources necessary to fulfill those objectives.

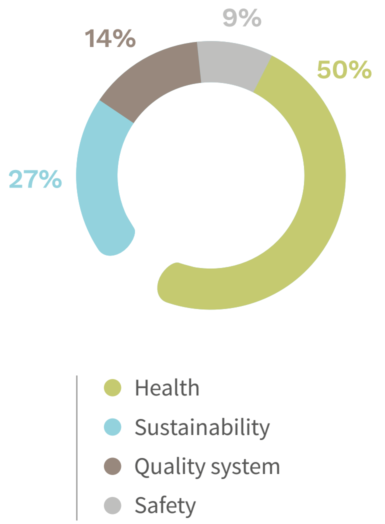
The types of activities our company engages in require that we abide by environmental laws at the municipal, state and federal levels. These obligations are contemplated nationwide in our IMS by means of controls, monitoring and reports that are reviewed each month by Senior Management to assure we maintain the necessary levels of compliance.

We were the subject of 30 inspections during 2017, 8 of which were conducted by environmental authorities. They detected minimal infractions that were dealt with quickly and to the satisfaction of the authorities, so no penalties were imposed in any instance.

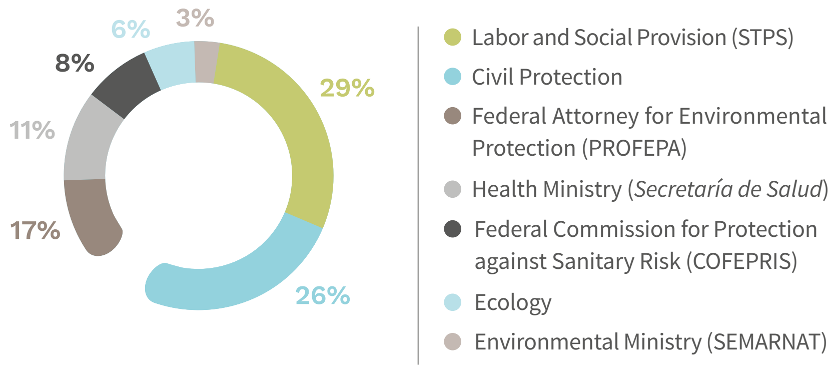
In addition to such governmental inspections, our clients and suppliers conduct an annual evaluation of our environmental performance through second and third-hand audits. In 2017 we were the subject of 33 audits, all of which produced favorable evaluations and in some cases suggestions for improvement.

The results of such verifications are communicated to the organization through our pochtecaNET portal. At the same time, we share each branch location's normative performance though their site within that same portal.

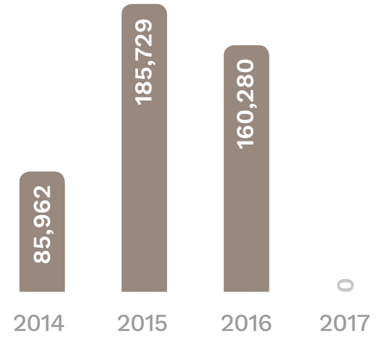
AUDIT PURPOSE



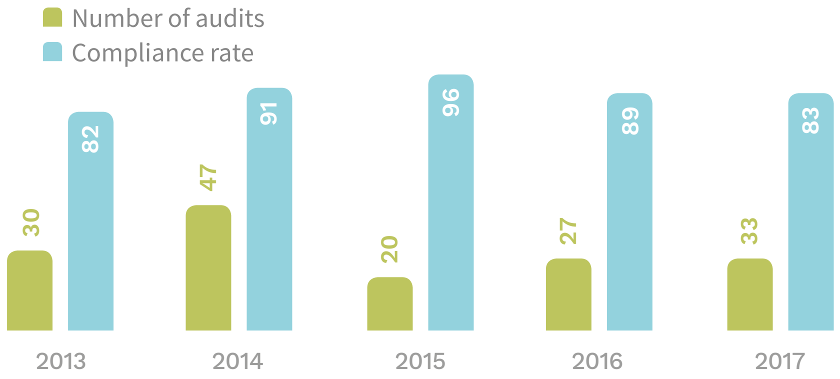
FEDERAL OFFICES CONDUCTING INSPECTIONS



FINES LEVIED, BY YEAR
(Mexican pesos)



AUDITS BY CLIENTS AND SUPPLIERS



Compliance with environmental rules is one of the main criteria we use when deciding whether to accept or reject possible new projects with a determination made during the evaluation phase.

We internally evaluate our performance using process indicators we review on a monthly basis, and once a year during management's strategic planning session. From there we decide on the actions needed to correct any departures from our objectives and strategies, and in this way assure that our company continues to improve and grow.

EXPENSES AND INVESTMENTS

102-11

Pochteca invested Ps 486,000 in environmental protection measures in 2017, including permits, studies and legal consultancy.

At the same time we sustained our efforts in the wake of the 2016 accident in San Luis, but no funds were needed in addition to the Ps 1.5 million originally allocated. The corresponding environmental authorities continue to conduct their assessments of whether the site has been fully restored.

SOCIAL IMPACT

GRI 413: 103-1, 103-2
GRI 419: 103-1
413-1

Each year we collaborate with the *Fundación Julián A.C.* foundation in donating blankets for distribution in marginalized communities in Mexico that experience harsh weather. Through our participation we help thousands of families in need to stay warm.

During 2017, Mexico experienced one of its most catastrophic natural disasters of recent years. In order to help those affected by the September earthquakes we collected donations from our associates and the company doubled that amount as part of our donation to affected vulnerable communities and associates who were also disaster victims.

We identified the needs in damaged areas and donated protective equipment, security tools and metal drums.

Our IMS regulates the company's operations and assures compliance with applicable laws that address our social impact.

COMPETITIVE VALUE CHAIN

102-9, 102-10

Working to **maximize the efficiency** of our logistics network

A key aspect of our company's success is our integrated supply chain. Pochteca's operations strategy encompasses all areas of the company. We set common objectives such as EBITDA and sales targets based on Sales & Operation Planning (S&OP).

Our process begins with information provided by the sales department, which determines supply needs based on statistical information. Requisitions for materials are made with either local or international suppliers taking into consideration wait times and any eventuality that might affect product demand.

The materials are received in our Supplying Branches (distribution centers) either for local sale or shipment to one of our other branches in Mexico, Central America and Brazil. In the event a product requires any special preparation or modification, it is handled in our installations before the product is delivered to the client.

Out of concern for cost control and lowering transport environmental impact, we strive to maximize the efficiency of our logistical network that is used for internal and external transfers. Each of our distribution zones (north, west, Bajio, and southeast) has its own Supplying Branch capable of handling any material the branch requires.

Final customer delivery is conducted using company or qualified third-party delivery services in keeping with our Secure Custody Chain.

SECURE CUSTODY CHAIN

ASSOCIATES

Much of our success depends on the commitment, talent and integrity of our associates

SUPPLIERS

Manufacturers of chemical products, lubricants and paper. We have more than 100 world-class national and international suppliers

PROCUREMENT

Our operations department in conjunction with sales department analyzes and determines our supply needs

WAREHOUSING

We maintain an optimal management of inventories to meet the needs of our customers

DISTRIBUTION

Focused on cost control and profitability, as well as, reducing the environmental impact, we strive to maximize the efficiency of our logistic network

BRANCHES

With 41 branches in Mexico, Central America and Brazil, we assist and bring the product to the customer

BOARD OF DIRECTORS AND EXECUTIVE TEAM

Definition of the corporate strategy for the growth and profitability of Pochteca

COMMUNITIES

We support development of neighboring communities

BRANCHES

The materials are received at Supplying Branches (distribution centers) for local sale or transport to another Pochteca's branches in Mexico, Central America and Brazil

BLENDS

Any special preparation or modification a product requires to be handled in our facilities; we offer high added-value products

FILLING AND PACKAGING

All of our products comply with the corresponding standards of each country in which we operate

CLIENTS

Under a One-Stop-Shop strategy, we have more than 20,500 customers per year in a wide industrial sectors

POST-SALES SERVICE

Through our CRM, postsale we offer to our customers technical support, and professional and personalized service

PROCUREMENT

GRI 204, 407, 408, 409, 414: 103-1, 103-2, 103-3
102-9, 102-10, 204-1, 407-1, 408-1, 409-1, 414-1

In order to convey Pochteca's commitment to sustainable supply chain management, we ask our commercial partners to align their practices with our Integral Management System Policy and our Suppliers' Manual. We require not only familiarity with the contents of those documents, but evidence of abidance in order to assure that this culture is adopted the entire length and breadth of our value chain.

The Suppliers' Manual includes our Code of Ethics, and upon signing that document our suppliers commit themselves to operate in keeping with Pochteca's culture and values.

Our Code of Ethics clearly spells out our commitment to the:

- Right to free association
- Non-discrimination and equal opportunities
- Ban on forced or child labor

In addition, and in order to assure compliance in matters of Human Rights, all suppliers who visit our operating centers to provide any service are required to show some form of official ID establishing that they are of legal working age, and proof that they are covered by a social security program.

80% of our suppliers provide raw materials and services, 100% of which are local. The remaining 20% provide raw materials of which:

- 70% in the chemicals segment are local and 30% foreign
- 18% in the food segment are local and 82% foreign
- 100% in the lubricants segment are foreign
- 30% in the paper segment are local and 70% foreign

SUPPLIER ASSESSMENT

GRI 308, 414: 103-1, 103-2, 103-3
308-1, 414-1

As part of our supplier selection and evaluation, we apply a supplier pre-evaluation questionnaire in which we request evidence of compliance with some environmental management system or a self-evaluation of performance.

We evaluate the supplier's performance with each delivery and in the event, we detect any shortcomings we send a non-compliance service report that becomes part of the quarterly compliance calculation against all services provided.

Currently, 80% of our raw material suppliers and 70% of our transportation suppliers are rated as trustworthy by this measure. To follow up with suppliers who fail to comply with the required standards, we have designed plans of action in order to work together to obtain tangible improvements.

DISTRIBUTION

GRI 417: 103-1, 103-2, 103-3
102-9, 102-12, 102-13, 417-1, 417-2, 417-3

Custody chain

Our world class, secure custody chain differentiates us from the rest of the industry. We are the only company in Latin America with Responsible Distribution certification from the NACD (National Association of Chemical Distributors), which attests to our commitment to continuous improvement in each phase through which our products pass: storage, management, transportation and final disposal.

Moreover, our management system has been evaluated and approved by ANIQ (National Association of Chemical Industries, A.C.) as guaranteeing security in our custody chain, thereby enabling us to use the association's SARI seal of approval. We also have FSC® (Forest Stewardship Council) and ISO-9001-2008 certification.

Our world class, **Secure Custody Chain** differentiates us as industry leaders

205-3

For more information consult our Suppliers' Manual

Customers and suppliers continually **audit all our activities**

We offer products subject to national and international norms for determining their risk levels. As part of our responsible distribution, both Pochteca and customers must assure that 100% of products fulfill the corresponding norms according to the type of risk or material. Some of these applicable standards are:

- NOM-018-STPS
- OSHAS
- GHS
- PROFECO

We have received no reports of compliance failures or incidents either regarding the information or labeling on our products or arising out of their marketing.

SALES

GRI 416: 103-1, 103-2, 103-3
102-9, 102-10, 102-17, 102-21, 201-2, 416-1

We know that our clients share our interest in protecting the environment and health concerns. We constantly work to find products that are more environmentally friendly and less harmful to the health of final customers, and we provide our clients with the best options in this regard.

Pochteca Paper manages 30 FSC certified products, which represent 20% of our product catalogue with a total of 480 tons sold and 1,486 received.

In fulfillment of our 2016 commitments, in 2017 we expanded our sustainable portfolio, in our Raw Materials catalogue we introduced a line of water-based degreasing and paint stripping products that have less of an adverse environmental impact than some of our other products. Total sales increased 46% last year.

To help reduce the use of EDTA (Ethylenediaminetetraacetic acid), we promote the use of Sodium Gluconate as a sequestering agent in cleaning products; sales rose 24% compared to the previous year.

And as a result of our initiative to substitute the use of Sodium Chloride (which contributes to heart disease) with Potassium Chloride, sales were 46% greater than in the previous year.

We are in the process of substituting surfactants such as nonylphenol with lauryl alcohols, which are more environmentally friendly.

Given the nature of our work, we handle “essential chemicals” regulated by Mexico’s Federal Commission for Protection against Sanitary Risk (COFEPRIS). The following controls apply for their sale:

- Sale to customers with operating licenses.
- Logbook of deliveries, outflows, sales and losses.
- Annual report to COFEPRIS.
- Training for members of the sales team on applicable norms and regulated products.
- Review of fulfillment of this process through an internal audit.
- Advice to customers who require sales of these products and are not aware of the applicable norms.

Only 0.8% of the products that we handle are in this previous category above mentioned.

Part of our improvement strategy is to review aspects related to customer communication and satisfaction such as:

- Internal process incidents that can generate customer dissatisfaction or complaints.
- Claims, problems that can not be detected within the incident process and that affect the client.
- Customer satisfaction surveys.

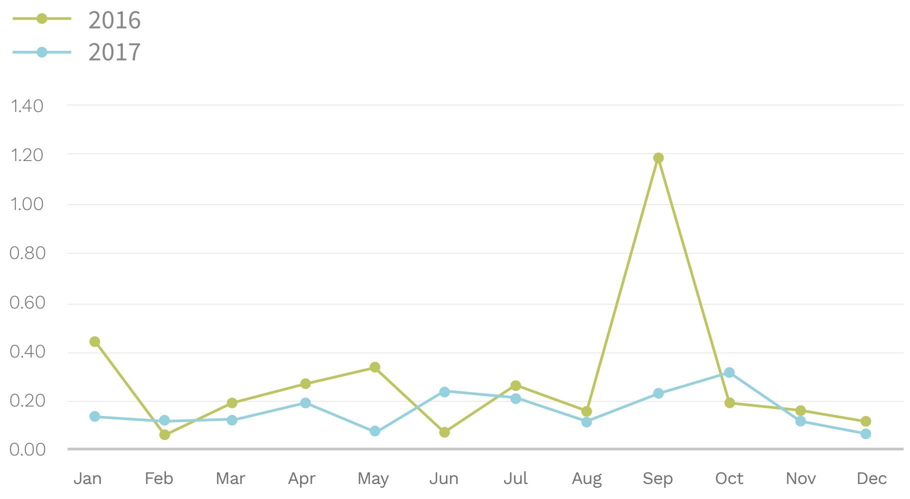
All information is analyzed to arrive at actions and improve our business processes and strategies.

The actions taken have permitted us to lower the kilos ordered / kilos sold index from 0.29% in 2016 to 0.17% in 2017.

Contact media available to Pochteca customers:

- Attention from sales executives, customer services and post-sales service
- Social networks
- 01-800 line
- Internet page
- Surveyers

% OF KILOS ORDERED / KILOS SOLD

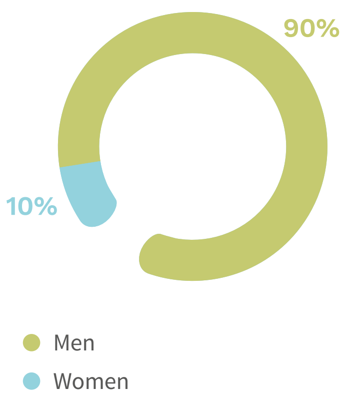


CORPORATE GOVERNANCE

102-18, 102-19, 102-20, 102-22, 102-23, 102-26, 102-29, 102-30, 102-31, 102-32, 202-2

Our Board of Directors is comprised of a maximum of 21 propietary members, who are elected by the Ordinary General Shareholders' Meeting, and at least 25% of these must be independent. Actually, seven of the ten proprietary members are independent, thereby exceeding this legal requirement. In addition, the Board of Directors elects a Secretary who is not a member of the Board. The Board is supported by an Audit and a Corporate Practices Committee.

BREAKDOWN OF EXECUTIVE JOBS BY GENDER



92% of senior executives are Mexican

Board of Directors

Proprietary members	Alternate members
Armando Santacruz González CHAIRMAN	Federico Santacruz González
Margarita Hugues Vélez*	
Eugenio Santiago Clariond Reyes Retana*	
Eugenio Gerardo Manzano Alba	Juan Pablo del Valle Perochena
Francisco Javier del Valle Perochena	Antonio del Valle Perochena
Francisco Javier Moguel Gloria*	
Francisco Javier Ruiz Galindo y Terrazas*	
Ernesto Moya Pedrola*	
José Antonio Vértiz Pani*	
Fernando Benjamín Ruiz Sahagún*	
Juan Pablo del Río Benítez SECRETARY	
Almaquio Basurto Rosas PRO SECRETARY	

Audit and Corporate Practices Committee
Francisco Javier Moguel Gloria CHAIRMAN
Francisco Javier Ruiz Galindo y Terrazas MEMBER
Margarita Hugues Vélez MEMBER
Juan Pablo del Río Benítez SECRETARY, NON MEMBER

ETHICS AND INTEGRITY

GRI 418: 103-1, 103-2, 103-3
102-16, 102-17, 418-1

Pochteca's values define our company's approach to how we should behave and conduct business. We are convinced that as a company we must promote compliance with all laws and regulations applicable to our business and act with respect and integrity toward our stakeholders.

In the same way, and in order to assure strict compliance with the Federal Law on Protection of Personal Data Held by Third Parties, we established a Privacy Committee for the initial purpose to develop an action plan and oversee its implementation to address vulnerabilities detected in a diagnosis of compliance with the aforementioned law.

During 2017, we received no reports indicating any compliance failures.

For more information consult our Code of Ethics includes in the Suppliers Manual

CODE OF ETHICS

GRI 205, 206, 405, 406, 407, 408, 409, 412, 418, 419: 103-1, 103-2, 103-3
102-17, 205-2, 206-1, 406-1, 412-2, 419-1

Our Code of Ethics serves as a guide with which to align our activities and conduct. It spells out our policies of:

- Right to free association
- Non-discrimination and equal opportunities
- Ban on forced or child labor
- Integrity and equality of all people
- Upright conduct
- Leadership with respect
- Informational veracity
- Proper use of tools
- Confidentiality
- Fair treatment
- Discretion

The information contained in our Code of Ethics is transmitted to all our associates from the moment they join the company and we continuously reinforce that awareness. We also share the code with our customers and suppliers so that they can also abide by it.

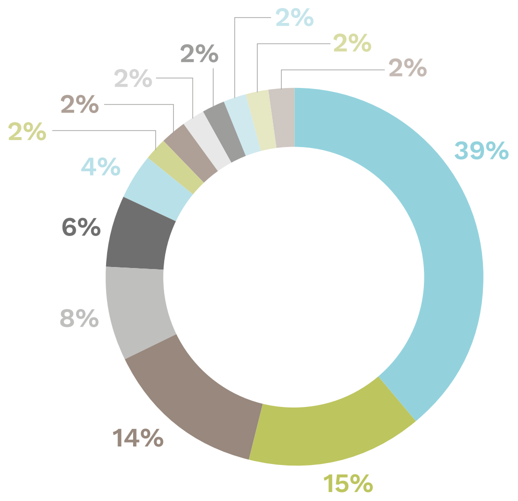
We provide our associates, customers, suppliers and neighboring communities with access to our transparency line mechanism, through which they can report any deviation from or non-compliance with policies and the Code of Ethics. An independent firm handles such complaints in order to assure anonymity and confidentiality. The information thus collected is evaluated and used by the Ethics Committee to develop the appropriate action plans.

Any infraction of our Code of Ethics can be reported by:

- Email
- Designated phone line
- Webpage

During 2017 this mechanism produced the following results:

COMPLAINTS RECEIVED BY CATEGORY
(Support line)



- Employee harassment - 19
- On-job negligence - 7
- Conflict of interest - 7
- Breach of trust - 4
- Sexual harassment - 4
- Risky safety conditions - 2
- Customer complaints (service/treatment by personnel) - 1
- On-the-job violence - 1
- Unethical benefit/dealings with customers - 1
- Breach of laws and regulations- 1
- Accounting irregularities - 1
- Retaliation against anonymous whistle-blowers - 1
- Use of illegal substances - 1

Based on our analysis of these reports, we have developed an awareness program that will be launched during 2018. The plan is designed to attend to the causes of non-compliance and make our associates and their circles of influence more aware of the importance of respecting the company's values and ethical culture.

This program will be developed in association with *México Unido Contra la Delincuencia* (Mexico United Against Crime), based on the following process:

Management

Training

Accompaniment

Evaluation

The topics to be attended with during this process include:

- Participation in legality and illegality in the country
- Tools for doing the right thing
- Acknowledgment of internal rules for generating peaceful and secure labor and environmental relations
- Assertiveness and critical thought in decision-making

We have also drawn up a series of internal rules and policies that compliment the Code of Ethics such as: non disclosure, unfair competition, and information handling agreements, as well as, IMS policies and rules regarding laboral conditions, standards and practices.

FINANCIAL PERFORMANCE

MANAGEMENT RESULTS ANALYSIS
2017 REPORT FROM CHIEF EXECUTIVE OFFICER

GRI 201: 103-1, 103-2, 103-3
102-7, 201-1

In 2017, we achieved **excellent results in Mexico** along with a point of inflection in Brazil's negative trend

Pochteca's **diversification strategy** has compensated the loss in the mining and oil sector that until recently has been the company's two main pillars

SALES, GROSS PROFIT AND MARGINS

In 2017, **sales grew 3.2%** compared to 2016 increasing to Ps 6,333 million. The oil industry remains depressed. Compared to the end of 2016, there were 21% fewer active rigs in Mexico; Brazil saw a trend change with an almost 8% increase, but only compared to severely depressed levels. The number of rigs in both countries is well below its peak of early 2013.

Despite the weakness of these industries, Pochteca achieved sales and profitability growth in 2017.

Gross profit grew 7% and experienced a marked trend change compared to 2016.

On a consolidated basis, our **gross margin expanded 70 basis points (bp)** from 17.5% to 18.2%, supported by the execution of the commercial strategy in Brazil and Mexico. In 2017, the gross margin of our Brazil operations expanded 90bp, and the Brazilian real weakened 2% against the dollar as it softened from 3.26 at the beginning of the year to 3.31 reals per dollar at the end of 2017.

GROSS MARGIN

17.5%	18.2%
2016	2017

OPERATING PROFIT AND EBITDA

During 2017, **operating profit grew a strong 101% from Ps 116 million to Ps 234 million.** The 3.7% operating margin was 180bp greater than in 2016. Industrial activity in Brazil recovered during the second half of 2017, allowing our operation in that country to revamp its downtrend and embark on a gradual recovery.

"In 2017, we achieved satisfactory operating profit and EBITDA results in line with our projections."

Armando Santacruz
Chairman of the Board of Directors
Pochteca

EBITDA

248 Ps MILLON 2016 | **361** Ps MILLON 2017

+46% growth

For full year 2017, **EBITDA increased 46% to 5.7% EBITDA margin**, 170bp higher than in 2016.

Operating expenses (excluding depreciation) decreased 4.6% in 2017. Expenses as a percentage of sales decreased from 13.5% in 2016 to 12.5% in 2017 (-100bp), despite the impact of inflation in Brazil where a considerable part of expenses are indexed as a result of the country's annual federal mandated wage and salary inflation adjustments, (known as "dissídio salarial"). In a minor impact, expenses in Mexico were affected in less level. This effect was partially offset by the 6% annual revaluation of the Mexican peso against the Brazilian real, which impacts Brazil expenses in the same level when they are converted to pesos. The Mexican peso began 2017 at 6.33 per Brazilian real and ended 2017 in 5.95 per real.

FINANCIAL EXPENSES AND NET PROFIT

During 2017, **net interest expense was 65% greater than in 2016.** This increase comes primarily as consequence of continued increases in interest rates in Mexico during 2017. TIIE 91 days rate at the end of 2017 was 7.66% compared to 3.59% at the beginning of 2016, thereby notably expanding debt service. In addition, the spread that we negotiated with our banks increased from 200bp –which corresponded to a rate that assumed financial leverage less than 2.0x Net Debt / EBITDA– to 250bp for leverage of 2.0 to 2.5x, and 350bp for leverage between 2.5x a 3.0x for those quarters in which Net Debt / EBITDA rose. Considering that 2017 ended with Net Debt/EBITDA below 2.0x, and that we expect it will continue to decline, we are confident that the spread will narrow to below 2017 levels during 2018. Moreover, this year there will be an importation amortization of bank debt that will further lower financial leverage.

We recorded a Ps 54 million net loss in 2017 compared to a Ps 6 million net loss in 2016, a reduction that resulted from the two factors mentioned above. Unfortunately, the improvement seen in the Brazilian unit's EBITDA (24.2% increase in 2017 compared to 2016) was more than offset by it having incurred Ps 70 million more in foreign exchange losses in 2017 against in 2016, as well as, a substantial increase in financial expense in that country.

NET DEBT AND FINANCIAL LEVERAGE METRICS

Net consolidated debt ended 2017 at Ps 712 million, which was Ps 16 million (or 2%) less than in 2016. The reduction in net debt at the end of 2017 was largely achieved on the strength of a Ps 110 million in the cash generation during 2017, that was partially offset by the rise in the Brazil unit's net debt, which was reported in pesos:

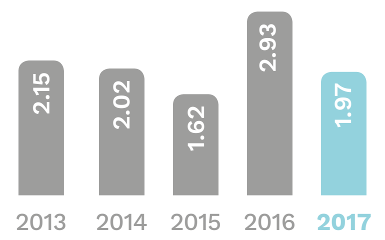
- During 2017, Coremal's net debt increased 32% in reals, from BRL 50 million to BRL 66 million.
- The Mexican peso/Brazilian real exchange rate appreciated 6% during the same 12-month period, from 6.33 to 5.95 pesos per real.
- Therefore, Coremal's net debt increased 24% in pesos, rising from Ps 316 million to Ps 391 million.

The Net Debt / EBITDA ratio decreased from 2.93 times in 2016 to 1.97 times in 2017. This level is below our target of no more than 2.0 times, and was result of our strong performance in EBITDA and cash flow generation in 2017. We expect that sales growth and operating expenses control, leveraged by expected economic growth for 2018 in Mexico and Brazil will allow for continuing EBITDA growth and reductions in Net Debt / EBITDA ratios.

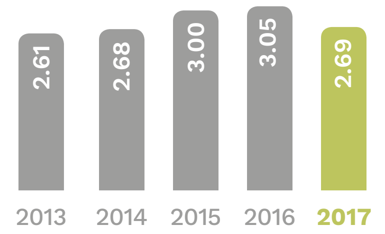
In 2017, **interest coverage (EBITDA / interest) was 2.69 times**, which is below the 3.05 times level of 2016 due to the substantial increase in interest rates over the course of 2017.

In 2017, cash flow generation and EBITDA conversion, was Ps 369 million after taxes and CAPEX; and before interest, debt amortization, acquisitions, and the stock repurchase fund was practically a 1 to 1 conversion of EBITDA to cash. The cash blance increased by Ps 110 million despite the acquisition of Conjunto LAR at a net Ps 90 million payment. Excluding LAR acquisition and the Ps 17 million used for the stock repurchase fund, net cash flow generation would have been Ps 217 million: a 60% conversion of EBITDA to cash.

NET DEBT / EBITDA



EBITDA / INTEREST



	2016	2017
Gross Debt (Ps mn)	873	967
Net Debt (Ps mn)	728	712
Net Debt/ EBITDA 12 m	2.93x	1.97x
Interest Coverage	3.05x	2.69x
Outstanding Shares	130,522,049	130,522,049

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

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2017, 2016 and 2015, and Independent Auditors' Report Dated April 5, 2018

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Grupo Pochteca, S. A. B. de C. V. and Subsidiaries

102-45

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, 2017, 2016 and 2015, 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, 2017, 2016 and 2015, 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 the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the Code of Ethics issued by the Mexican Institute of Public Accountants (IMCP Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of Goodwill

The Group has identified several cash-generating units related to the business combinations which are shown as goodwill in the consolidated statements of financial position. An impairment analysis is performed on a yearly basis, which considers tangible and intangible assets as required by IAS 36 "Impairment of Assets". Under this standard, discounted future cash flows are calculated in order to determine whether the asset value has been impaired. There is a risk that the determination of the assumptions used by management to calculate the discounted future cash flows might not be reasonable considering the current and projected circumstances of the Group.

Our audit procedures included, among others:

i) Involve our internal specialists to:

- Critically evaluate whether the model used by management to calculate 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 Group to determine the proper discount rates in each case.
- Review that the projected cash flows are consistent with the historical audited information, 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

ii) Testing 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.

iii) Examine the methodology and reasoning of the Group's management in the impairment analysis, and conclude that the assumptions used are comparable to the historical performance and the projected circumstances of the Group as well as the discount rates used were appropriate in the circumstances.

The results of our audit procedures were reasonable. In addition, we did not note evidence of impairment that require adjustment to the Group's reported goodwill balance.

Other Information

Management is responsible for the other information. The other 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 made 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 other 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.

Other matter

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

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. Carlos Ignacio Muñoz Miranda

April 5, 2018

GRUPO POCHTECA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos)

	Notes	2017	2016	2015
Assets				
Current assets:				
Cash and cash equivalents	5	$ 254,628	$ 144,799	$ 385,672
Accounts receivable and recoverable taxes - Net	6	1,130,964	1,123,138	1,050,658
Due from related parties	19	7,785	7,481	2,356
Inventories – Net	7	888,009	855,305	830,616
Prepaid expenses		34,576	42,336	46,510
Total current assets		2,315,962	2,173,059	2,315,812
Non-current assets				
Property, plant and equipment - Net	9	755,597	813,248	813,712
Other investments		4,381	4,381	4,381
Investment property	8	15,060	15,060	12,727
Other assets		110,264	101,470	97,359
Deferred income taxes – Net	23	46,661	69,477	42,152
Intangible assets	11	212,490	51,524	51,574
Goodwill	12	419,596	433,067	366,097
Total non-current assets		1,564,049	1,488,227	1,388,002
Total		$ 3,880,011	$ 3,661,286	$ 3,703,814

The accompanying notes are part of the consolidated financial statements. (available for further reading and consultation in our corporate website)

	Notes	2017	2016	2015
Liabilities and stockholders' equity				
Current liabilities:				
Bank loans and current portion of long-term debt	14	$ 300,292	$ 500,911	$ 325,279
Trade accounts payable		1,313,877	1,100,641	1,199,576
Other accounts payable and accrued expenses	13	173,050	194,018	169,606
Due to related parties	19	8,120	6,871	9,909
Income taxes and statutory employee profit sharing		47,788	19,800	15,780
Total current liabilities		1,843,127	1,822,241	1,720,150
Long-term liabilities:				
Other long-term accounts payable	13	210,019	228,253	210,067
Long-term debt	14	666,250	371,975	614,323
Employee benefits	15	7,457	7,681	7,002
Total long-term liabilities		883,726	607,909	831,392
Total liabilities		2,726,853	2,430,150	2,551,542
Stockholders' equity:				
Contributed capital –				
Capital stock	16	1,096,837	1,096,837	1,093,624
Premium on sale of repurchased stock		58,176	58,176	58,176
Earned capital –				
Retained earnings		18,233	69,550	31,884
Reserve for repurchase of shares		3,257	22,488	56,582
Translation effects of foreign operations		(22,723)	(12,170)	(86,883)
Other comprehensive income		(622)	(3,745)	(1,111)
		(1,855)	76,123	472
Total stockholders' equity		1,153,158	1,231,136	1,152,272
Total		$ 3,880,011	$ 3,661,286	$ 3,703,814

GRUPO POCHTECA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos, except earnings per common share expressed in Mexican pesos)

	Notes	2017	2016	2015
Continuing operations:				
Net sales	20	$ 6,332,988	$ 6,139,273	$ 6,078,819
Cost of sales	21	(5,182,656)	(5,064,001)	(4,972,853)
Gross profit		1,150,332	1,075,272	1,105,966
Profit in business acquisition		5,040	–	–
Operating expenses	22	(921,455)	(959,113)	(883,069)
Income from operations		233,917	116,159	222,897
Financing costs:				
Interest income		13,433	14,901	14,893
Interest expense		(147,471)	(96,308)	(113,573)
Exchange (loss)		(54,343)	(49,526)	(93,888)
		(188,381)	(130,933)	(192,568)
Income (loss) before income taxes		45,536	(14,774)	30,329
(Benefit) income taxes expense	23	99,341	(9,100)	(3,213)
Consolidated net (loss) income		$ (53,805)	$ (5,674)	$ 33,542

	Notes	2017	2016	2015
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		3,123	(2,634)	(74)
Exchange differences on translating foreign operations		(10,553)	74,713	(45,519)
Total comprehensive (loss) income for the year		$ (61,235)	$ 66,405	$ (12,051)
Earnings per share:				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		$ (0.4122)	$ (0.0435)	$ 0.2570
Weighted average shares outstanding		130,522,049	130,522,049	130,522,049

The accompanying notes are part of the consolidated financial statements. (available for further reading and consultation in our corporate website)

GRUPO POCHTECA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos)

	Contributed capital								
	Common stock				Earned capital				
	Nominal	In trust	Premium on sale of repurchased stock	Total	Accumulated results	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	Total stockholders' equity
Balances as of December 31, 2014	$ 1,104,721	$ (15,032)	$ 51,060	$ 1,140,749	$ 17,667	$ 54,652	$ (41,364)	$ (1,037)	$ 1,170,667
Payment of capital	–	3,935	–	3,935	–	–	–	–	3,935
Cancellation of reserve for repurchase of shares	–	–	–	–	24,675	(24,675)	–	–	–
Creation of reserve for repurchase of shares	–	–	–	–	(44,000)	44,000	–	–	–
Repurchase of shares	–	–	7,116	7,116	–	(17,395)	–	–	(10,279)
Net comprehensive loss for the year	–	–	–	–	33,542	–	(45,519)	(74)	(12,051)
Balances as of December 31,2015	1,104,721	(11,097)	58,176	1,151,800	31,884	56,582	(86,883)	(1,111)	1,152,272
Payment of capital	–	3,213	–	3,213	–	–	–	–	3,213
Cancellation of reserve for repurchase of shares	–	–	–	–	73,340	(73,340)	–	–	–
Creation of reserve for repurchase of shares	–	–	–	–	(30,000)	30,000	–	–	–
Repurchase of shares	–	–	–	–	–	9,246	–	–	9,246
Net comprehensive income for the year	–	–	–	–	(5,674)	–	74,713	(2,634)	66,405
Balances as of December 31,2016	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 loss for the year	–	–	–	–	(53,805)	–	(10,553)	3,123	(61,235)
Balances 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

The accompanying notes are part of the consolidated financial statements. (available for further reading and consultation in our corporate website)

GRUPO POCHTECA, S. A. B. DE C. V. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2017, 2016 and 2015
(In thousands of Mexican pesos)
(Indirect method)

	Notes	2017	2016	2015
Cash flows from operating activities:				
Consolidated net (loss) income		$ (53,805)	$ (5,674)	$ 33,542
Adjustments for:				
Income taxes (benefit) expense	23	99,341	(9,100)	(3,213)
Depreciation and amortization	22	127,063	131,944	118,269
Gain on sale of property and equipment		(4,988)	(1,316)	(3,033)
Amortization of commissions paid		10,921	4,260	4,231
Interest paid		136,550	92,048	109,342
Interest income		(13,433)	(14,901)	(14,893)
Unrealized exchange (gain) loss		(11,836)	107,386	83,561
		289,813	304,647	327,806
(Increase) decrease in:				
Accounts receivable and recoverable taxes	6	(17,707)	(79,938)	(23,260)
Inventories	7	(26,627)	(24,689)	79,701
Prepaid expenses		7,760	4,174	3,565
Other assets		(17,420)	(4,111)	(22,726)
(Decrease) increase in:				
Trade accounts payable		213,236	(98,935)	6,568
Other accounts payable and accrued expenses		(53,100)	844	(84,382)
Due to related parties	19	1,249	(3,038)	3,199
Income taxes paid		(38,362)	(14,205)	(26,249)
Net cash provided by operating activities		358,842	84,749	264,222

	Notes	2017	2016	2015
Cash flows from investing activities:				
Purchase of machinery and equipment		(41,379)	(57,500)	(76,082)
Sale of equipment		14,501	3,120	16,554
Acquisition of subsidiaries		(176,577)	(40,951)	(11,857)
Interest collected		13,433	14,901	14,893
Net cash used in investing activities		(190,022)	(80,430)	(56,492)
Cash flows from financing activities:				
Borrowings	14	1,096,105	205,996	58,778
Repayment of loans received	14	(964,436)	(354,216)	(26,222)
Payment of financial leasing		(33,099)	(41,107)	(25,645)
Purchase of own common shares		(16,743)	9,246	(10,279)
Interest and commissions paid		(128,908)	(78,525)	(68,443)
Issuance and payment of common stock		–	3,213	3,935
Net cash (used in) provided by financing activities		(47,081)	(255,393)	(67,876)
Effects of changes in exchange rates on cash held in foreign currency		(11,910)	10,201	(78,640)
Net (decrease) increase in cash and cash equivalents		109,829	(240,873)	61,214
Cash and cash equivalents at beginning of year		144,799	385,672	324,458
Cash and cash equivalents at end of year		$ 254,628	$ 144,799	$ 385,672

The accompanying notes are part of the consolidated financial statements. (available for further reading and consultation in our corporate website)

ABOUT THIS REPORT

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This year we are presenting our fourth sustainability report and the third integrated one. As a company at the forefront of the industry, this report is written under the latest version of the Global Reporting Initiative's Standards in compliance with its "Essential" reporting guidelines. This year's sustainability report has not been externally verified.

The sustainability information includes the results of the activities of our operations in Mexico based on the material aspects identified as part of our materiality study. The information contained herein corresponds to the period between January 1 and December 31, 2017, and does not include any re-expression of information compared to the previous year.

In 2017, Jaime Azamar Gil joined Pochteca as Chief Financial Officer.

We also provide an online report for the convenience of our readers, as well as a social responsibility site where you can find more information about the company, and both our financial and sustainability results.

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