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1988-2018

1988-2018

pochteca[®]

2018 Integrated Annual Report

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COMPETITIVE SOLUTIONS IN INDUSTRIAL RAW MATERIALS

102-2, 102-3, 102-6

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

pochteca

30 YEARS OF HISTORY



pochteca TODAY

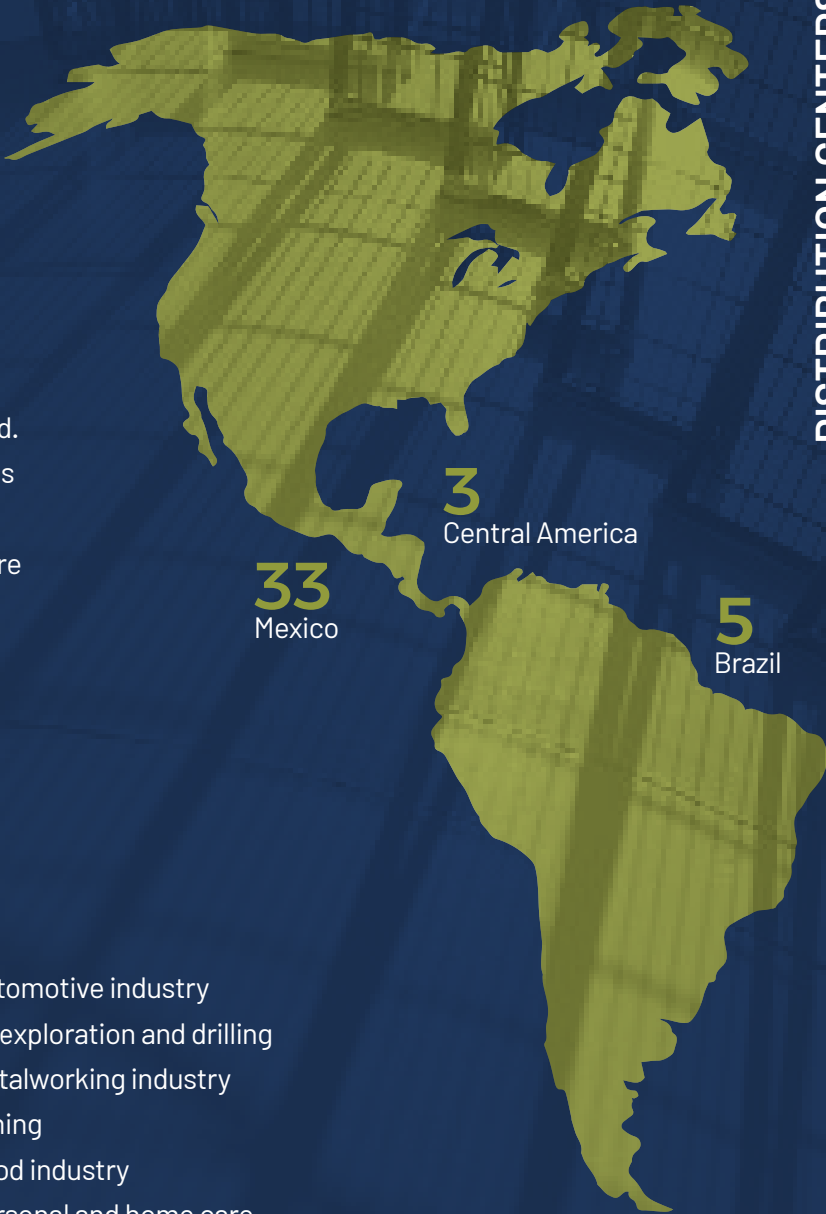
102-1, 102-2, 102-4, 102-6, 102-7

BUSINESS SECTORS

- Inorganic chemicals
- Solvents and blends
- Ingredients, additives and specialties for food.
- Lubricants and greases
- Paper and cardboard
- Personal and home care specialties

INDUSTRIAL SECTORS

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



DISTRIBUTION CENTERS

+301,000
orders

+313,000
tons delivered

+300,000 m²
logistics capacity

+20,500
customers

+7,100
products

+21
million liters of
storage capacity

12
quality control
laboratories

12
research and
development laboratories

5.9
million liters of
recovered solvents

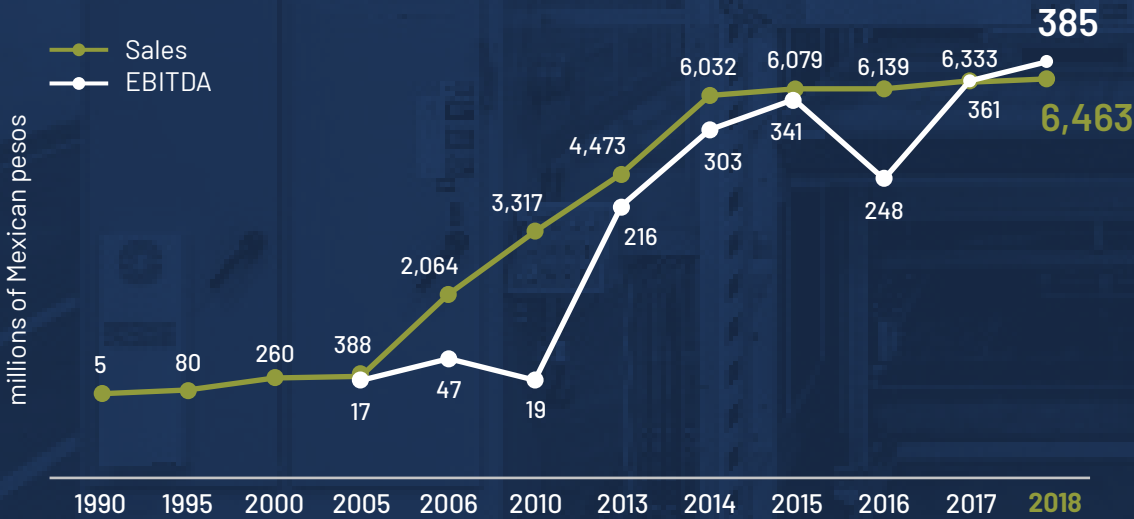
2018 RESULTS

102-7, 201-1

	2018	2017	(%) 2018 vs. 2017
Sales	6,463	6,333	2.1%
Gross Profit	1,207	1,150	4.9%
Gross Margin (%)	18.7%	18.2%	50pb
Operating Profit	267	234	14.2%
Operating Margin (%)	4.1%	3.7%	40pb
Depreciation	118	127	-7.4%
EBITDA	385	361	6.6%
EBITDA Margin (%)	6.0%	5.7%	30pb
Financial Expense	(138)	(134)	3.2%
Forex Gain (Loss)	(12)	(54)	-77.0%
Pre-tax Income	116	46	155.3%
Net Income (Loss)	64	(54)	NC
Net Debt/ EBITDA 12M	1.67x	1.97x	
EBITDA/ INTEREST 12M	2.78x	2.69x	

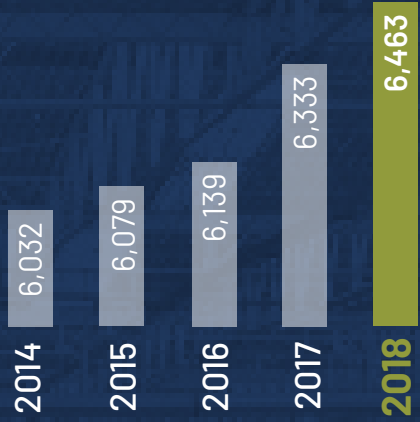
EBITDA = operating earnings before interests, taxes, depreciation and amortization; NC = non comparable
Ps = Mexican pesos

SALES AND EBITDA PERFORMANCE



SALES

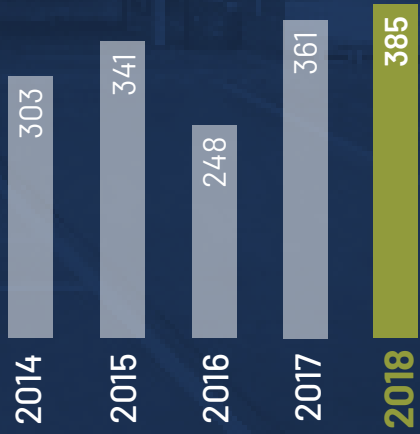
millions of Mexican pesos



\$6,463 MP

EBITDA

millions of Mexican pesos



\$385 MP

MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

102-7, 102-11, 102-14

Dear shareholders:

During 2018, we recorded good results in Mexico and Brazil compared to the previous year. Despite the fourth quarter drop in oil prices, for the year we achieved 2.1% growth in sales, 14.2% in operating profit, and 6.6% in EBITDA. The price of oil had trended higher throughout the first three quarters of the year, climbing an accumulated 21%

In 2018 sales increased 2.1%, totaling \$6,463 million pesos

EBITDA grew 6.6%, totaling \$361 million pesos

Net Debt /EBITDA continues below 2.0x

by the end of September. But after peaking in early October, crude prices had fallen 41% by the end of the year. Such a decrease in a short time devalued our inventories and pressured our margins during the final quarter of 2018.

Despite difficulties in the oil markets of Mexico and Brazil, we have managed to consolidate our sales and profitability growth. The Brazilian economy continued to experience a slight recovery between the second half of 2017 and the third quarter of 2018, however it only grew 0.1% in the fourth quarter of 2018. For the full year, Brazil's GDP expanded 1.1% compared to 2017. In Mexico, GDP increased an annual 2.0%.

Coremal's results improved continuously on a year-on-year basis between the third quarter of 2017 and the fourth quarter of 2018. During 2018, EBITDA grew 46.1% above 2017 levels. These results have brought us greater clarity, and we are convinced that this business will continue to grow EBITDA during 2019. The gross margin expanded 50 basis points compared to the previous year to reach 18.7%. Accumulated operating income totaled Ps 267 million, a 14.2% increase over 2017.

During 2018, we achieved a Ps 310 million cash flow before taxes and CAPEX, interest, amortization, acquisitions, and contributions to the stock repurchase fund for a 0.81 ratio of EBITDA conversion to cash.

This allowed us to decrease our debt by Ps 185 million during the year, repurchase Ps 48 million in Company shares, and still close the year with a Ps 138 million cash balance.

Working capital improved over year end levels of both 2016 and 2017, as we decreased

our days of working capital from 31 days in December 2016 to 22 days in December 2017 and 18 days in December 2018. We accomplished this through continuous improvement in days receivable and days payable compared to 2017.

One of the year's most relevant events was the great progress achieved in the design, construction and development of the new Guadalajara facility. Work is at an advanced stage and the plant is expected to begin operations in mid 2019, allowing us to significantly expand our product reception by rail, and grow our installed and logistic capacity. With this plant we expect to bolster our market penetration and distribution in Guadalajara and Western Mexico, and thus broaden the business. We are convinced that we will have one of the best rail installations in the State of Jalisco.

These results and stability could not have been achieved without the support and commitment of employees, 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 all:

It is my pleasure to present you Pochteca's performance in matters of sustainability, as we have achieved very good results with the support of our stakeholders.

We are committed to the efficient use of natural, economic and social resources while assuring that our products fulfill the highest quality and sustainability standards.

Since we founded the Company in 1988, we have maintained a long-term vision, generating meaningful jobs for our employees, investing in their development and training. During 2018, we provided more than 3,500 hours of online training and more than 26,000 hours of classroom instruction. We also have a future talent program for young people who are later promoted inside the company as we are faithfully committed to their development and growth.

This year we are celebrating the permanence of 448 employees who have been with Pochteca for more than five years.

We are implementing high impact programs such as a Culture of Legality initiative called "I Do the Right Thing." Through this training, communication and follow-up program, we strengthen our person-centered culture by treating others as we wish to be treated ourselves, with responsibility, respect, commitment, honesty and frugality.

We are an inclusive Company that supports diversity and gender equality. Our diverse team is comprised of people of different ages, origins, and genders and with distinct religious and sexual preferences. During 2018, 173 women were hired accounting for 29.5% of our new talent. We also promote family integration through togetherness promotion activities.

Our Integrated Management System (IMS) assures we meet our financial and sustainability goals 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 9001:2015, which we renewed this year, FSC®; and the Integrated Responsible Management System (SARI) program of the National Association of Chemical Industries, A.C. (ANIQ), which also rated our TLYDSA transport business as surpassing the industry average.

Moreover, we maintain a responsible value chain, making sure our suppliers live up to best practices. Along that same line, we have set a goal of expanding our solvent recycling capacity from five to six processing lines with the capacity to recover more than 5.9 million liters annually.

We have developed product applications with latest generation and environmentally friendly materials for food, cleaning and personal care products, coatings, metalworking, mining and petroleum, among others.

We are greatly concerned about the wellbeing of communities neighboring where we are located. Therefore, we participate in diverse activities and initiatives in regions where we operate by establishing and maintaining strategic alliances with civil associations.

We are committed to our stakeholders, maintaining a clear and constant dialogue in order to better understand their concerns, opinions and needs in relation to our business. We have defined the economic, environmental and social indicators that we operate under, which also contribute to fulfilling our mission and vision.

On behalf of Pochteca, we express our thanks for the support and confidence entrusted to us throughout the year, and we wish to reiterate our commitment to continue working jointly with our employees, customers and suppliers to build the path toward sustainability, essence of our values and operations.

Eugenio Gerardo Manzano Alba
CHIEF EXECUTIVE DIRECTOR



OUR COMPANY

102-16

With the aim of reinforcing our culture of service excellency and transparency through our “I Do the Right Thing” initiative, we renewed our values, redesigned our Code of Ethics, and established a pact that defines our commitment in keeping with our Culture of Legality.

Additionally, we opened a “Transparency-Anticorruption” space on our website that makes it possible to meet the evaluation requirements of Mexicanos Contra la Corrupción y la Impunidad (Mexicans Against Corruption and Impunity).

In order to ground such strategies within our operations, evaluate the results and make them auditable, we have documented the policies, controls and indicators that allow for their fulfillment within our Integrated Management System. The commitment to these initiatives by Pochteca and all its employees is expressed within our Integrated Management System policy.

PACT

- 1. I do the right thing.*
- 2. I am familiar with the basic rules that govern us.*
- 3. I comply with the basic rules that govern us.*
- 4. I reject and report improper, violent and unsafe acts.*
- 5. I make demands on, and work with, authority figures.*

OUR
REASON
FOR BEING

MISSION

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

PREPARING FOR
THE LONG TERM

VISION

Sell more than USD 1.0 billion in the Americas.

GROWTH PILLARS

Talent
excellence

Operating
efficiency
and secure
custody chain

Commercial
excellence

Financial
Strength

BASIS OF OUR
CULTURE

SUSTAINABILITY AND SAFETY

Integrated Management System

CONTRIBUTION TO
OUR STAKEHOLDERS

COMMITMENT

- **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 employees.** Promote their personal and professional development
- **To society.** Provide benefits and risk avoidance

PERFORMANCE GUIDELINES

VALUES

- **The individual.** To treat others as one wishes to be treated
- **Honesty.** To act with veracity
- **Service.** To maintain the best attitude
- **Respect.** Treat others cordially, justly and equally
- **Commitment.** Give my best
- **Frugality.** I temper my use of resources and my behavior
- **Responsibility.** I fulfill my commitments while prioritizing safety

MARKET FOOTPRINT

102-3, 102-4



- Branches
- Sales offices
- Conjunto LAR

MAKING THE DIFFERENCE

Pochteca stands out for having the most diverse supply of quality products, and its excellent value proposal. Being a one-stop-shop makes us an excellent buying option for customers.

VALUE PROPOSITION

- Timely product availability
- One-stop-shop: the market's broadest product portfolio
- Pre and post sales technical support
- In-house labs developing applications that respond to customers' needs
- Inventory programs tailored each client's demands
- Credit to help customers with working capital cycles
- Logistical solutions and nationwide delivery
- Safety and sustainable supply chain
- Solvent recycling and recovery
- Development of blends, dilutions and formulas
- Business intelligence to minimize risk and design procurement strategies
- Efficient order processing system
- Packaging solutions
- Consistent quality from world-class suppliers with standardized production processes
- Secure supply

Mexico - San Juan



DIVERSIFICATION

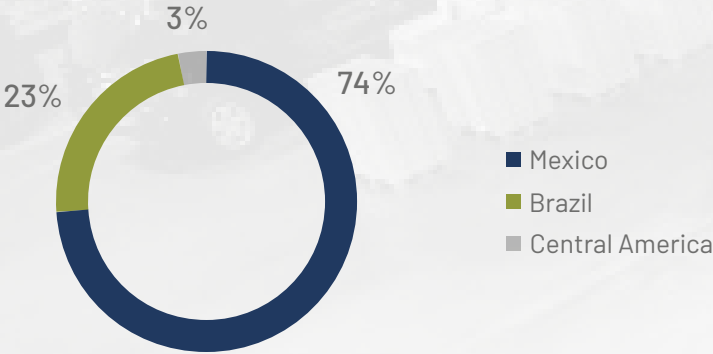
102-6, 102-11

Our diversification of customers, products, industries, regions, channels and suppliers is key to our commercial strategy. This avoidance of dependence 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. Likewise token, each of our business segments attends to dozens of industries.

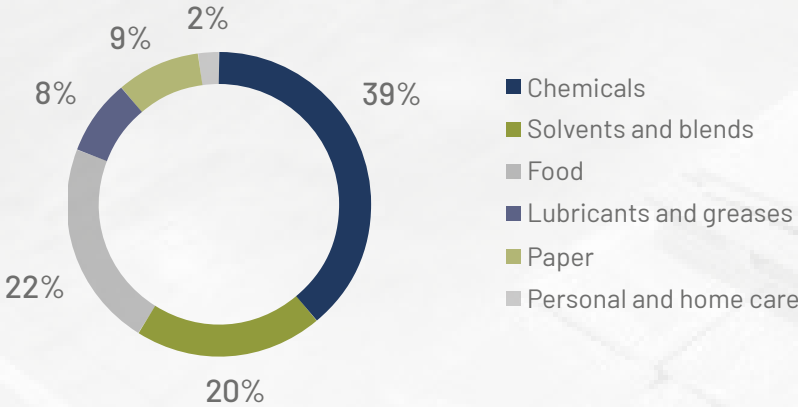
- *Our 5 main customers account for 6% of sales*
- *Our 5 main products account for about 5% of sales*
- *No product or client represents more than 3%*

More than 20,500 active customers
More than 301,000 orders per year

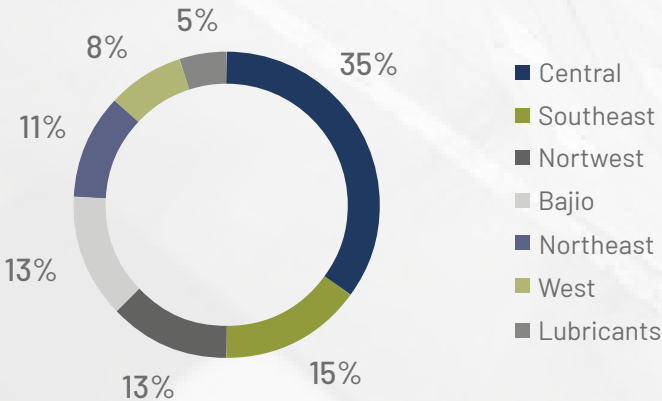
PERCENTAGE OF SALES
BY GEOGRAPHY
(Americas)



PORTFOLIO BY SEGMENT
(% of consolidated sales)



PERCENTAGE OF SALES
BY REGION
(Mexico)



Costa Rica

	% participation 2018	% participation 2017
Customer 1	1.8%	1.6%
Customer 2	1.4%	1.2%
Customer 3	1.1%	1.2%
Customer 4	1.0%	1.0%
Customer 5	0.8%	1.0%
Total	6.1%	6.0%

	% participation 2018	% participation 2017
Product 1	2.3%	2.7%
Product 2	1.0%	1.5%
Product 3	0.3%	1.3%
Product 4	1.1%	1.2%
Product 5	0.4%	1.1%
Total	5.1%	7.8%

SUSTAINABILITY STRATEGY

*We base our operation on a preventive
and sustainable approach focused on
continuous improvement.*

CAP. MAX. 60.000 LTS.

SUSTAINABILITY
STRATEGY

Pochteca had general management empower an interdisciplinary team to take charge of implementing, monitoring and communicating inside and outside the Company our sustainability strategy to all interested parties.

This interdisciplinary group is led by distinct Directors and Managers drawn from the following corporate departments:

- Finance
- Marketing
- Human resources
- Management systems

In the monthly management review and annual strategic planning sessions, we analyze how the strategy is performing in relation to key indicators.

During 2018, we applied a new work philosophy called Integrated Customer-focused Transformation (or TIC for its Spanish acronym), which central purpose is to increase processes efficiency, decrease waste and improve communications and working conditions within teams, thereby strengthening the Company's sustainability strategy.

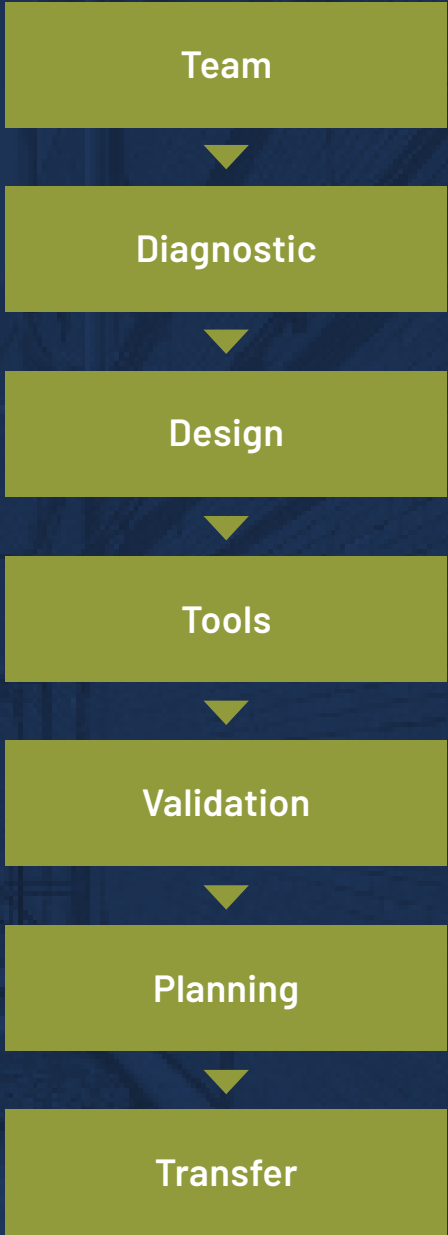
We began by implementing the initiative among four high performance teams:

1. Cuernavaca branch
2. Conjunto LAR Bolivar branch
3. Order and delivery processing
4. Sales and Operations Planning (S&OP)



Mexico - Leon

We will conclude the experience with these high performance teams and measure the results during 2019 based on the following process:



INTEGRATED MANAGEMENT
SYSTEM POLICY

102-11

Grupo Pochteca works with a focus on risk reduction and continuous processes improvement to satisfy the needs and expectations of our customers and all other parties interested in our business, as well as to meet our financial and growth objectives while basing the operation on our 4 sustainability pillars.

We have ISO 9001:2015 certification that applies to both Mexico and Brazil.

In the case of Mexico, it includes the three plants and corporate headquarters in the Greater Mexico City Metropolitan Area, which accounts for 60% of our certified operations.

In Brazil, certification extends to all five of our facilities, thus accounting for 100% of our certified operations.



OUR PEOPLE
We work to assure their wellbeing, health and safety, offering fair treatment in according to the law.

ENVIRONMENT
We set controls in our operations to reduce the impact to the environment.

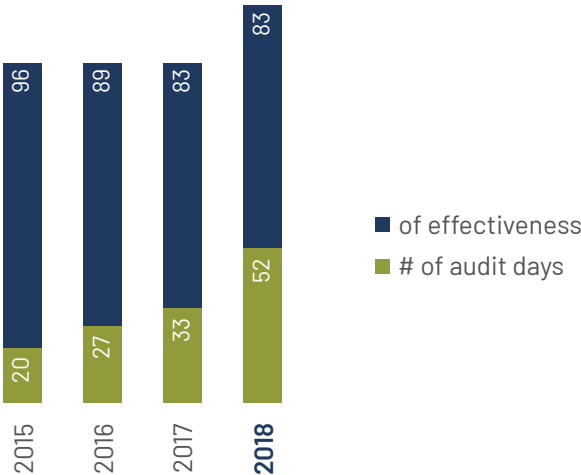
SUPPLY CHAIN
We assure the quality of our products and the safety of food grade materials, operating in a secure and ethical manner with all those engaged in the supply chain while maintaining operating expense efficiency.

COMMUNITY
We act in accordance with our values and applicable regulations while supporting communities and helping them build a culture of legality, responsibility, and mutual cooperation.



This policy's commitment and operability were determining factors in:

- Successfully transitioning our ISO 9001 certification from version 2008 to that of 2015.
- Keeping our certifications up to date.
- Maintain our customers' confidence on the strength of the audits received.



INTEGRATED
MANAGEMENT SYSTEM

102-11, 102-13

Our Integrated Management System (IMS) is the foundation of our operations. It allows us to manage, control and evaluate our performance to assure a continual improvement process.

Accordance to our IMS policy, we have defined four objectives to archieve our goals on the level of:

EBITDA

This financial indicator measures a company’s capacity to generate income strictly based on its productive activity: earnings before interests, taxes depreciation and amortization.

The way in which our team collaborates to fulfill this goal is by increasing sales and gross margins, controlling expenses, avoiding claims and eliminating fines, accidents and/or reworks.

SALES GROWTH

In the search for continuous improvement and customer satisfaction, we must optimize our processes execution.

We achieve this by analyzing our customers’ needs, constantly monitoring our indicators in order to take action in line with our performance, as well as identifying risks and mitigating them through indicators and controls.

ACCIDENT RATE INDEX

This index mesures our performance in matters of safety and helps us better understand how to improve.

Our employees fulfill the highest safety standards by sensitizing and rasing awareness. We provide them with safety recomendations, safety inspections through our Environmental, Health and Safety recording and monitoring system (EHS).

COMPLY RECALL OBJECTIVES

A product recall is the process of retrieving products that might pose a risk to consumer health and/or which fail to meet regulatory criteria or suffers from labeling errors. All of this is done for the purpose of protecting public health.

We meet this objective by means of complying with manufacturing requirements, keeping our warehouses in order, and respecting each product’s batch and procedures.

UP-TO-DATE CERTIFICATIONS



MATERIALITY

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

Cognizant of just how important it is for our sustainability report to include the most significant matters to our stakeholders, we had an external consultant to undertake a Materiality Report. The results of that analysis allow us to identify the issues related to our operations with the greatest impacts on our stakeholders, and that as a result are important to generating the content of this report.

The methodology of the materiality analysis took as a point of reference a benchmark between the maturity of major companies in the sector dedicated to the distribution of speciality chemical products, and the risk characterized by sectorial and social prescribers –whether legally binding or voluntary– for economic, social and environmental matters.

In Brazil, the study included a review of public information from four major companies in the sector dedicated to the distribution of specialty chemical products, as well as at four sectorial and four social prescribers. In Central America, the study analyzed public information from three major companies in the sector, as well as three sectorial and three social prescribers.

102-43
The most significant issues were discussed with four of our stakeholders –investors, employees, clients and suppliers– in order to validate material aspects for the 2018-2019 period.

The sample was comprised of 111 employees in Brazil and 38 in Central America, 14 investors and 185 clients in Mexico, and 56 suppliers globally.

The survey consisted of questions that allowed us to know stakeholder’s opinions, as well as the context in which they interact with our Company. It also made possible a quantitative evaluation of major issues detected in our 2017 materiality report, as well as those conducted in Brazil and Central America during 2018.

- 34% of our Brazilian employees that participated in the survey said constant training was of importance.
- 28% of Brazil employees and 39% in Central America said our Company needs to focus its attention on guaranteeing a safe workplace, as well as the existence of a prevention culture and the measures necessary for avoiding accidents.
- 24% of employees in Central America said their greatest concern is job security.
- 34% of customers surveyed in Mexico said it was important to assure that product and service advertising convey true and reliable information.

Important risk factor issues for Pochteca are:

1. RSC 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 service development / product responsibility

10. Customer-Relationship Management
11. Environmental policies

12. Materials (products we offer as raw materials)

13. Energy eco-efficiency

14. Water resource 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

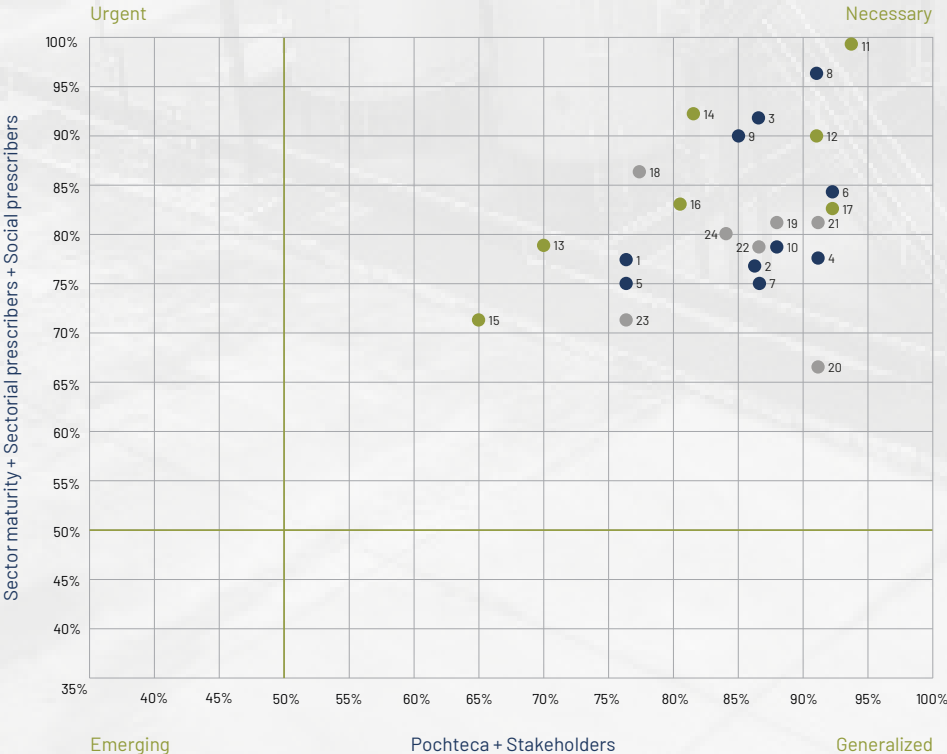
23. Social impact

24. Supplier standards

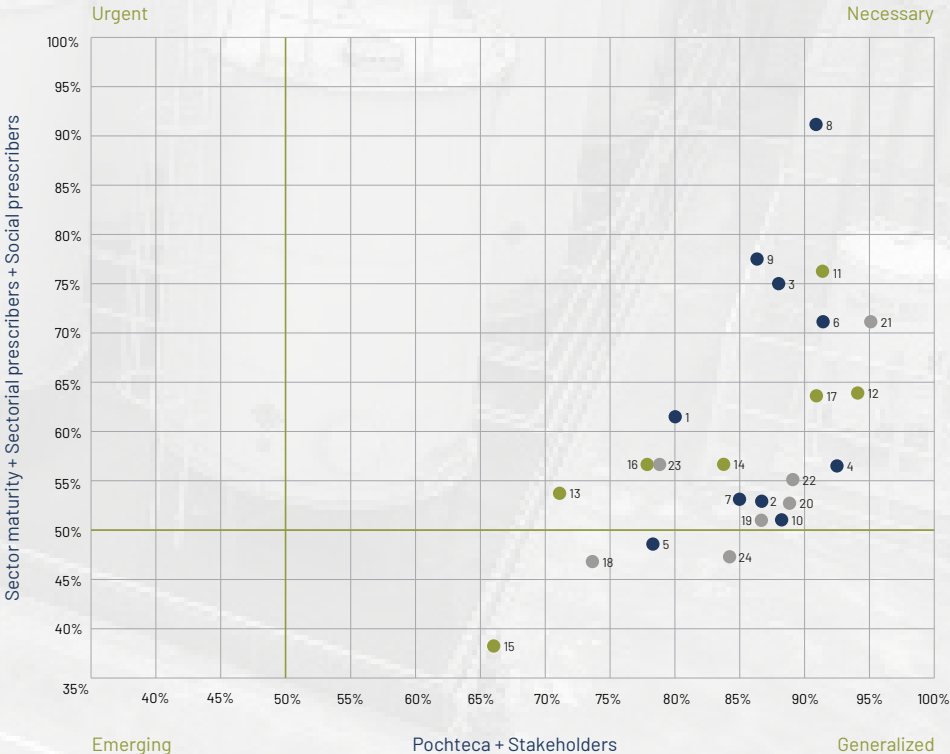
BRAZIL MATERIALITY



MEXICO MATERIALITY



CENTRAL AMERICA MATERIALITY



OUR

STAKEHOLDERS

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

We have identified our stakeholders and our commitment to each of them. These commitments are of overarching importance to establishing our culture and strategies. Therefore, we survey them for the purpose of incorporating their expectations and needs into our strategies, which we update each year to achieve the elements necessary to improve our performance and respond to them.

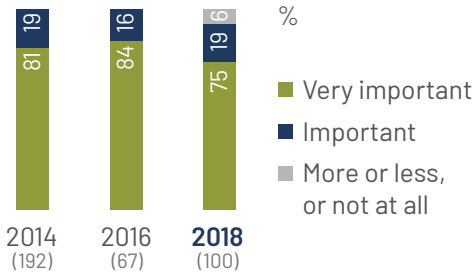
Our customers

We have various types of established mechanisms to address the following points:

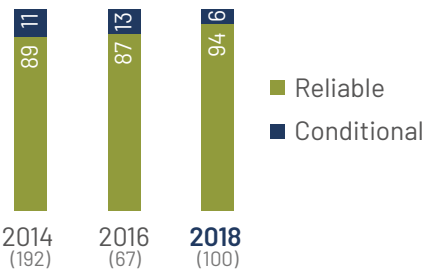
- Guarantee our customers’ safety by assessing the risks associated with handling our materials, and providing training in the use, handling, applicable regulations, and disposal of the waste materials we sell.

We focus on staying in constant communication in order to detect each group’s needs in a timely manner

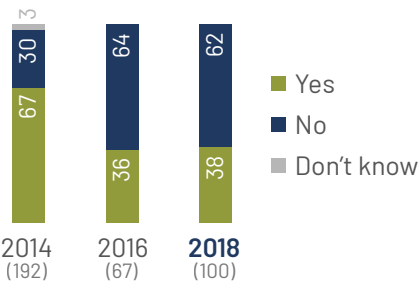
How important is it for Pochteca to have international and domestic certifications?



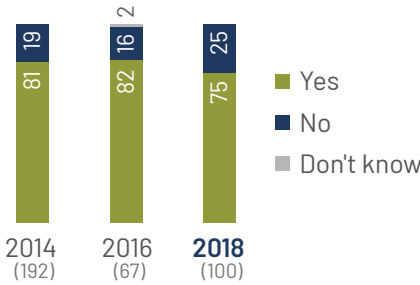
Have you assessed us as a supplier in any specific category?



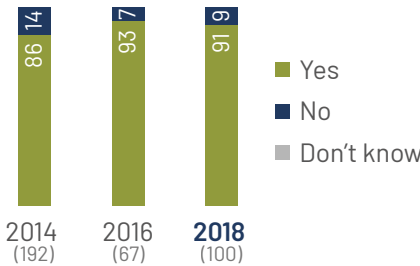
Have you audited us or do your supplier controls demand auditing?



Did you know Pochteca abides by official safety and regulatory norms?



Do you know that your company is co-responsible, together with the supplier, in handling, use and storage of dangerous chemical products that you buy?



- Evaluate and define actions in relation to customer satisfaction. During 2018 the main areas of opportunity detected and in which the high-performance teams will be focusing are: sales / representatives / customer service and communication.



2018 CUSTOMER SATISFACTION SURVEY

Topics	Lubricants	Raw materials	Paper	Basic industry
Product quality	97.0	92.0	91.1	97.9
Shipping and reception conditions	90.0	89.0	85.1	87.1
Sales executives	83.0	79.5	81.6	85.2
Communication	87.0	83.5	80.3	87.3
Administrative support	94.0	90.0	89.6	89.0
Client service	83.0	80.9	81.6	88.9
Technical support	94.0	99.2	80.9	85.5
General satisfaction	89.7	87.7	84.3	87.2

* Source: FACTUM Mercadotécnico parameter

Our employees

We have strategies for attracting, retaining and developing our employees using internal tools that we have strengthened year after year:

• **Pochteca Personnel Development (DPP in Spanish).**

This tool allows us to evaluate our employees’ objectives and competencies aligned with the Company’s strategy.

• **Universidad Virtual Pochteca (UVP)**

Allows us to conduct distance training in courses designed for each employee’s job profile.

We launched two more tools that complement our commitment to our employees:

• **Opinion and culture evaluations**

To know the employees’ commitment to the Company and their teams.

• **Candidates interview panel**

Allows us to optimize time and resources and affords us a greater sense of certainty as to the talent we have chosen.

75% of our suppliers are rated as being reliable

The remaining 25% have precise monitoring and joint action plans with which to elevate their job status during 2019



Costa Rica

Our community

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

- Providing donations, advisory services and training for educational centers, associations and foundations.
- Comply applicable laws.

Our suppliers

Sustainable criteria for selection, evaluation and suppliers development, as well as aligning and harmonizing strategies to assure mutual benefits.

We have set ourselves the goal of launching in 2019 a supplier management website for improving communication, follow-up and responses to the non-conformance reports that are currently sent to the vendor by email and managed manually within the Company. The website will allow our suppliers to duly receive general and per-event performance data for each period.

Our competition

- Professionalism and honest competition.
- We share better practices through the associations and other groups we belong to: ANIQ, OMNICHEM, NACD, NPTA, CANACINTRA and Club de Editores.

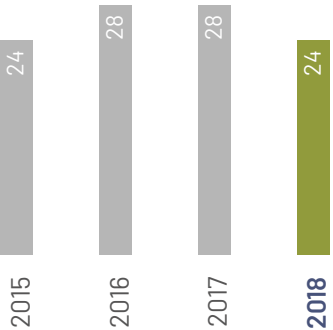
Our shareholders

- Growth, profitability, and a competitive return on investment.

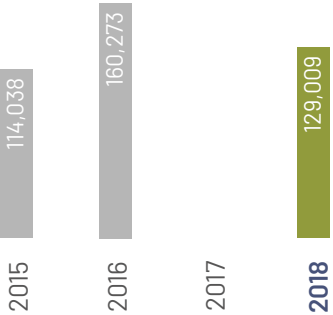
Our authorities

It is important to regularly interact with the authorities that regulate our activities. Such interaction includes complying with regulatory requirements through inspections, mutual support groups, contributing to the development of applicable regulations, and participating in events coordinated by the authorities.

NUMBER OF INSPECTIONS



AMOUNT OF FINES





OPERATING PERFORMANCE

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

*Our 2018 results reaffirm the growth
of our Company and its profitability.*

OPERATING
PERFORMANCE

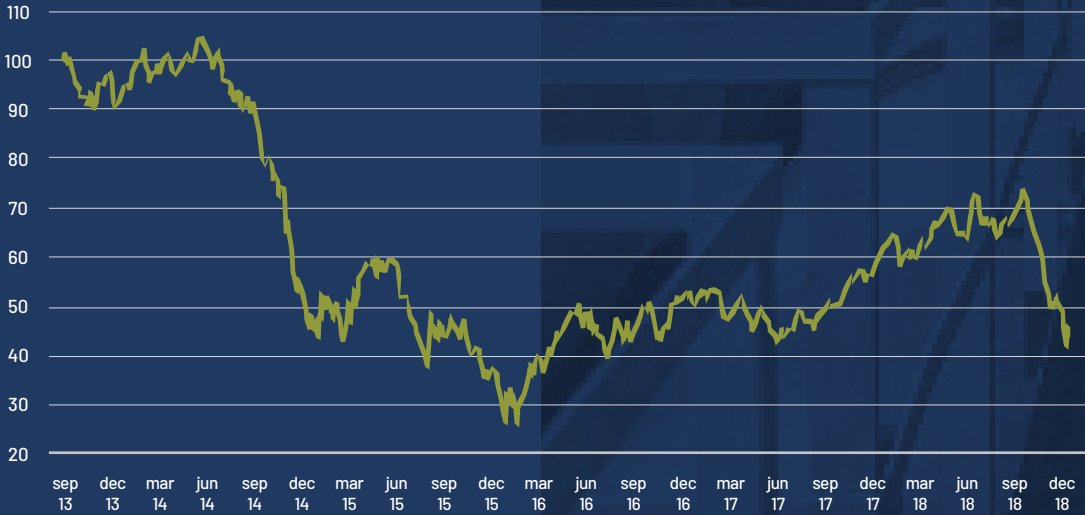
OPERATING PERFORMANCE

Throughout the first nine months of the year, oil prices trended higher, climbing an accumulated 21% as of September. However, after peaking in mid October, oil prices had fallen 41% by year's end. Such significantly drop in so short time devalued our inventory, reducing margins during the final quarter of 2018.

Despite difficulties experienced in the oil markets of Mexico and Brazil, we have managed to consolidate our sales and profitability growth.

During 2018, oil prices decreased 24.8% from USD 60.42 at the end of 2017 to USD 45.41 per barrel at December 31, 2018, as the following graph indicates.

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



Diversification: An important risk mitigation factor

Diversification of our customer and product portfolios constitutes a key part of our commercial strategy. It has allowed us to grow sales and margins despite the loss of an important part of the business we previously maintained in the oil, gas and mining sectors, in which activity remains greatly diminished. At present, the Company manages more than 7,100 products and more than 301,000 orders, delivering 313,000 tons to more than 20,500 customers per year. Our 5 main clients account for 6% of sales, our 5 leading products represent less than 5%, and no product or customer accounts for 3% of revenues.

2018 highlights and the 2019 outlook:

2018 results reaffirmed the Company's strengthening and profitability growth.

- Sales grew +2.1% during 2018 compared to 2017.
- Gross income increased +4.9%, gross margin in Mexico and Brazil (+50 bp), operating profit +14.5%, and EBITDA results Ps 385 million equal to +6.6%.
- We have yet to see signs of a recovery in mining nor in oil exploration and drilling in Mexico. However, diversification toward other sectors has compensated for the contraction in these segments, which until recently were Pochteca's two main ones.



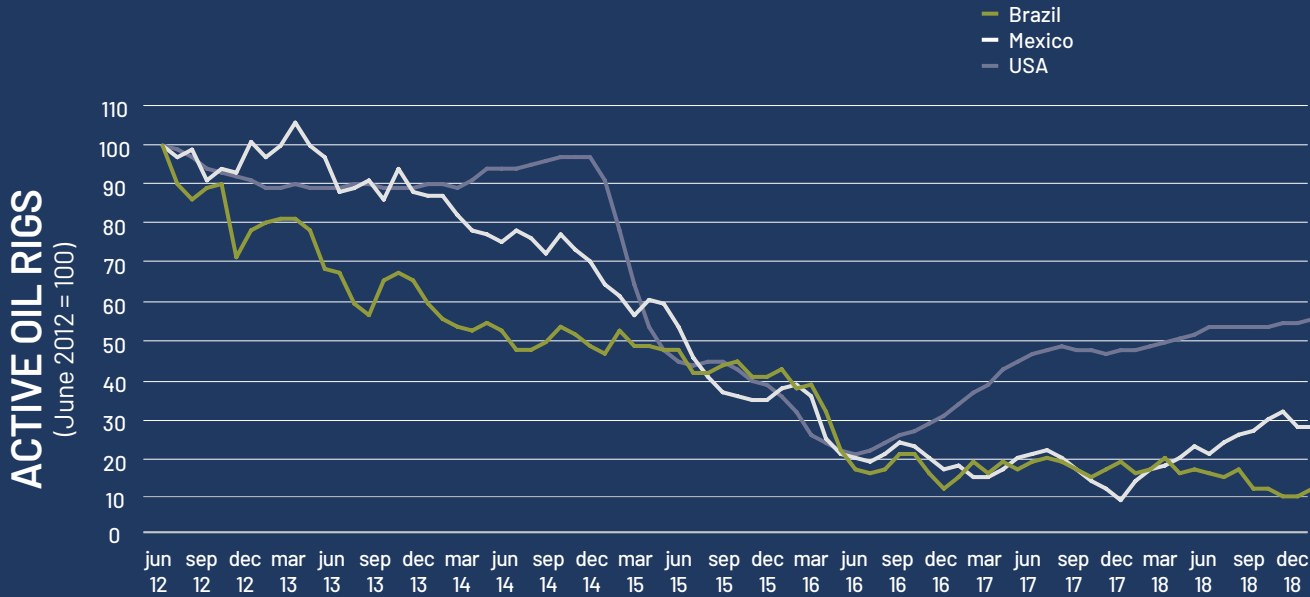
- Industrial production recovered slightly in Brazil during the second half of 2017 and the first six months of 2018, but fell once again during the third quarter of 2018. Industrial production slightly increased between October and December, snapping a three-month streak of sequential monthly declines and closed 2018 with a +1.1% growth compared to 2017; and despite the prolonged weakness of industrial activity, we have managed to keep our operation in that country on a road to recovery.
- In Mexico, GDP grew 2.0% during 2018 compared to 2017. That performance was adversely affected by uncertainty surrounding: (i) negotiations over the North American Free Trade Agreement (NAFTA) and the signing of a new agreement (T-MEC/USMCA) that is intended to supersede it; (ii) tariffs decisions by the United States, the European Union and China; (iii) the 2018 elections; and (iv) the decision to

- cancel construction of the New Mexico City International Airport (NAIM). These developments affected the performance of, and investment in economic sectors in Mexico.
- Focus on strategies to strengthen our profit margins, promoting our competitiveness and bolstering our cash position:
 - Customer stratification as part of a commercial strategy for growing our gross margin.
 - Strengthening our portfolio of high-specialty products through the incorporation of Conjunto LAR.
 - Increased diversification toward higher-margin and higher-unit-value products.
 - Continuing to reduce days of working capital in order to reduce demand on resources and improve operational liquidity.

OIL AND GAS SECTOR IN MEXICO
REMAINED LETHARGIC IN 2018

- The oil industry has experienced a recovery in the United States and moderate growth in Mexico, although based on a very low comparison. In Brazil, this sector remains in deep recession.
- The number of active rigs in the United States increased 17% throughout 2018.
- The number of active rigs in Mexico rose from 15 to 31 in 2018 (+107%). However, 2018 also saw a drop in onshore exploratory

- and development drilling, so demand for chemicals used in such operations also declined.
- In Brazil, the rigs count fell 29% during that same period.
 - The number of active rigs in Mexico has declined 74% from the 120 rig peak at the start of 2013, with only 31 active at the close of 2018. During that same period Brazil's rigs count decreased 86%.
 - Despite these challenges, we managed to grow sales and profitability during 2018.





WORKING RESPONSIBLY

GRI 202, 401, 402, 405: 103-1, 103-2, 103-3
102-7, 102-8, 102-22, 102-35, 102-36, 102-41, 201-3, 202-1, 401-1, 401-2, 401-3, 402-1, 405-1, 405-2

*We are an inclusive Company.
We support gender diversity and
promote the safety and development
of our talented team.*

WORKING RESPONSIBLY

WORKING RESPONSIBLY

A key element of our success depends on our employees’ commitment, talent and integrity. Therefore, we invest in programs and tools that support a safe, healthy and equitable working environment, and promote their professional development.

We are committed to providing our employees with benefits and opportunities that exceed legally mandated levels. The range of wages and salaries paid depends on the type of position and each person’s qualifications. In no cases are they determined on the basis of gender, age, ethnic origin or social condition.

AVERAGE MONTHLY SALARY BY REGION AND GENDER

Region	Women	Men
Bajío	14,437	16,592
Central	17,815	23,819
Central-South	14,130	16,460
Northeast	17,129	16,371
Northwest	15,041	16,417
West	13,456	18,792
Southeast	14,217	14,024
Mexico total	15,175	17,496
Guatemala	17,372	27,016
Costa Rica	19,485	16,628
El Salvador	3,079	1,745
Coremal	20,309	18,053
Grand total	15,133	16,901



Mexico - San Juan

Within our compensation strategy is designed to offer our personnel compensation based on individual competition and completion of set goals while making sure that gender does not influence wage and salary decisions.

We strive to assure a work environment to promote our employees’ commitment and desire to remain with the Company.

In addition, to our training and development plans we implemented a program to promote a Culture of Legality, as well as activities for our "high performing teams" designed to improve our employees’ styles of communication and leadership skills.

Additionally, to enroll our employees in social security health insurance and providing them with a life insurance policy, during 2018 we established the Xonexca employee cash savings and loan to promote savings culture and awareness, and above all to provide our employees with yields higher than what they can obtain from banks.

At Pochteca we make sure all of our employees have a right to parental leave in keeping with Mexico’s Federal Labor Law, and work regulations.

We make sure all of our employees may take maternity leave in compliance with both

local regulations and Mexico’s Federal Labor Law, and we guarantee an employees’ right to return to work post maternity leave.

We grant options to make it easier for them to extend such leaves through a combination of flextime and homeoffice as they begin to resume their duties. To that end we have invested substantially in infrastructure and equipment to assure employees have work connectivity at all times.

80%
Portable computers

60%
Smarth phones

- VOIP telephone service with call forwarding between the employees’ office extension and portable computer.
- A secure VPN connection through which to securely access their information from anywhere.
- Skype for Business.
- Joinme.
- Cloud-based information access, making it possible to access our internal company network "pochtecaNET".
- KMkey for documenting our Integrated Management System.
- OneDrive to backup and store materials online.

Of the 498 women on payroll in 2018, 29 requested maternity leave, 22 whom returned to work, and only 24% left the Company

Pochteca’s very clear commitment to equity and equal opportunities is backed by our Code of Ethics, which we constantly communicate to all Pochteca employees. The Code is one of the basic introductory documents we provide each new employee. Through our transparency line we receive anonymous reports about such issues and act on them.

We provide our employees and their elected union representatives one month’s notice of any practice or significant change that could affect them directly and substantially, a commitment that is stipulated in their contract.

NUMBER OF ASSOCIATES BY REGION AND GENDER

Region	Women	Men	Grand total
Bajío	36	80	116
Central	216	435	651
Central-South	29	57	86
Northeast	29	48	77
Northwest	26	50	76
West	18	31	49
Southeast	12	52	64
Mexico total	366	753	1,119
Guatemala	5	12	17
Costa Rica	7	7	14
El Salvador	6	11	17
Brazil	114	155	269
Grand total	498	938	1,436

PERSONNEL TURNOVER

Region	Separations women	Separations men	Total separations	HC	Turnover women	Turnover men	Turnover total
Grand total	156	411	567	1,436	10.9%	28.6%	39.5%



NEW HIRINGS 401-1

587

173 Women
414 Men

HIRING INDEX BY AGE, GENDER AND REGION

Region	Age	Women	Men	Grand total
Bajio	<35	11	32	43
	35-50	3	11	14
Central	<35	63	137	200
	35-50	18	51	69
	>50	2	10	12
Central-south	<35	8	25	33
	35-50	1	11	12
Northeast	<35	10	23	33
	35-50	2	15	17
Northwest	<35	3	22	25
	35-50	3	3	6
West	<35	9	8	17
	35-50	2	8	10
	>50	0	1	1
Southeast	<35	7	10	17
	35-50	0	5	5
Mexico total	<35	111	257	368
	35-50	29	104	133
	>50	2	11	13
Guatemala	<35	0	1	1
Costa Rica	<35	1	0	1
	35-50	1	4	5
El Salvador	<35	1	1	2
	35-50	2	1	3
	>50	0	1	1
Brazil	<35	15	19	34
	35-50	9	14	23
	>50	2	3	5
Grand total		173	414	587

OCCUPATIONAL
HEALTH AND SAFETY

GRI 403: 103-1, 103-2, 103-3
102-8, 403-2, 403-3, 403-4, 403-5, 403-6, 403-9

We have an occupational health and safety system we classify along three lines:

Identifying operational risks

Using risk matrixes we clasify risks considering their impact and severity, and in each case we establish the necessary controls, which include but are not limited to:

- Infrastructure requirements
- Operating equipment
- Personal Protection Equipment (PPE)
- Emergency equipment
- Training needs

Identifying unsafe conditions and practices

We have an EHS (Environmental, Health and Safety) recording and monitoring system, through which our employees can register any condition or act that might lead to an accident. A record is made of the actions taken to avoid such accidents, the date on which they took place and the people in charge.

Weekly safety meetings

Every week we share articles, videos and lessons learned in the course of our operations. The person in charge of each branch convenes her or his team to provide them with weekly updates, and to share employee comments and experiences within the same group.

We expect to take immediate actions directed at diffusion campaigns regarding the benefits to employees and relatives alike of continuing to use the "Orienta-PAE" system. Along these same lines, Culture-of-Legality work plans will be delivered to relatives when they participate on scheduled dates, and we prioritize the most commonly registered topics in the medical-nutritional segments.

We achieved an "Orienta-PAE" use rate of 96% among employees and 4% among employee relatives, 56% of whom were men and 44% women. Among the issues dealt with, 38.8% were of an emotional nature, 25% legal, 16.3% medical, 15% diet, and 5% family economy.

- In 2018, the system used on the part of relatives decreased from 11% to 4%.
- Cases of general use grew from 321 to 369.
- Cases that could adversely affect productivity narrowed from 90% to 87%
- Emotional family cases grew from 4.17% to 32.2%.
- Orthopedic and trauma issues climbed from 9% to 23% and otolaryngology ones increased from 18% to 38%.

GENERAL NATURE

Emotional

Emotional conflicts	19.35%
Addictions	6.45%
Family Relations	32.26%
Interpersonal	12.90%
Couple Relations	25.81%
Courtship	3.23%

Legal

Social security	15.00%
Labor	10.00%
Penal	15.00%
Family	30.00%
Civil	10.00%
Administrative	20.00%

Medical

Orthopedic & Trauma	23.08%
Otolaryngology	38.46%
Dentistry	15.38%
Internal Medicine	15.38%
Gynecology and Obstetrics	7.69%

Nutritional

Healthy weight	8.33%
Growth phases	8.33%
Calorie modification program	25.00%
Meal plan	58.33%

Family Economy

Credit	100.00%
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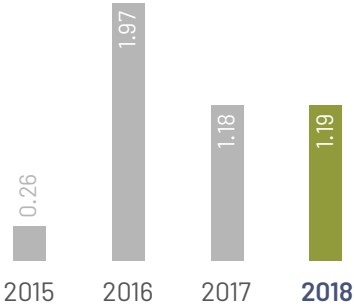
To promote a prevention culture we adopted a Secure Environment Strategy that allows us to recognize how the various participating branches are performing

Costa Rica

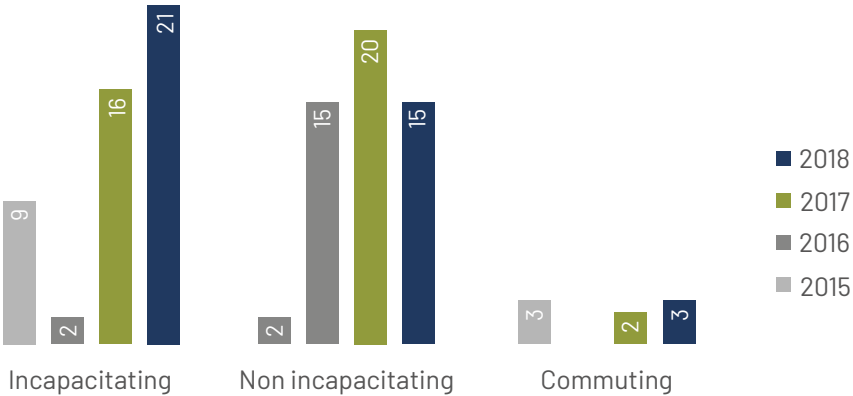


Our 2018 safety results show no fatal accidents either on the job or while commuting. However, our 2019 training program includes subjects such as material management to reduce lesser accidents, and the screening of videos to better explain proper material handling and maintenance of personal protective gear.

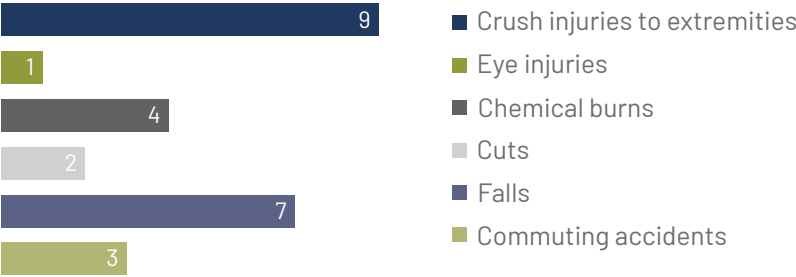
ACCIDENT INDEX



ACCIDENTS AND INJURIES



2018 TYPES OF ACCIDENTS



We had no fatal on-the-job or commuting accidents¹

There were no permanent disability injuries

¹ These results include those of our Brazilian operations.

EMERGENCY BRIGADES

GRI 403: 103-1, 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 entire personnel are engaged in these brigades.



- At present we actively participate in the full-drills initiative of Mexico’s Civil Protection Ministry.
- We constantly update our emergency protocols.
- The leadership team receives crisis management training during which we gauge resource management competencies and offer emergency response guidelines.



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 Minatitlan – Cosoleacaque, Veracruz industrial zone’s Regional Integral Security Committee (CRIS).

This industrial association tries to provide support to affiliated businesses by offering human and material resources for attending to and controlling major emergencies, as well as minimizing harm to personnel and installations, and reduce impacts to 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 employees’ continuous development, we have designed an annual training and abilities program including the following topics:

- Applicable laws
- Pinpointing needs
- Business strategies

Our training process begins by applying our Training Needs Analysis (TNA) to each of our employees. We consider other factors when designing the plan such as:

- Company strategies
- Audits
- Corrective actions
- Development plans
- Changes to applicable norms
- Process and infrastructure changes
- Customer needs

Plan courses are available online through UVP (Pochteca Online University) or pochtecaNET, or on site with company or external instructors.



TRAINING BY PERSONNEL CATEGORY

Administration	274
Senior executives	13
Managers	110
Operations	481
Sales	241

3,896

Hours of on-line training

26,786

Hours of on-site training

The performance evaluation process begins by defining and loading each employee’s goals based on the competencies framework so that they can develop their responsibilities. Mid year we conduct a review of initial objectives to make sure that by year’s end they fulfill those goals, and to discern gaps of opportunity for generating development plans for each employee.

Evaluation results are presented based on the following scales:

GOALS

No met. The goals posed by the employee at the beginning of the year were not fully met.

Met. All goals were met.

Exceeded. The employee met all goals and undertook other objectives including other special projects.

COMPETENCIES

No met. The employee did not achieve the level of professional development mandatory for fulfilling his or her goals.

Met. The employee accomplish the level of development mandatory for fulfilling his or her goals.

Exceeded. The employee has developed the competencies necessary for fulfilling his or her goals and beyond, and is prepared to take on a new post or responsibility.

- The general score in relation to all goals assessed during the year is 2, equivalent to meeting them.

- 43% of participants were women and 57% men, receiving a 2 score, equivalent to fulfilling individual goals and dominating competencies skills.
- By hierarchy, the average in the case of personal objectives and competencies is equivalent to 2, or Met.



Costa Rica



YOUTH DEVELOPMENT

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

We strengthened our program for attracting and developing "talented youth", through which we continue to integrate trainees in order to prepare them in labor matters and provide them with an opportunity to embark on their working careers at Pochteca.

During 2018, 12 young people participated in the project and after concluding their studies 11 have joined the Company as analysts, coordinators and/or commercial executives. Giving way to a new generation of future talent.

The developing youth programs 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.

SUSTAINABLE SOLUTIONS

102-11
403-7, 403-8

*We join efforts to mitigate our
operations' environmental footprint.*

SUSTAINABLE
SOLUTIONS



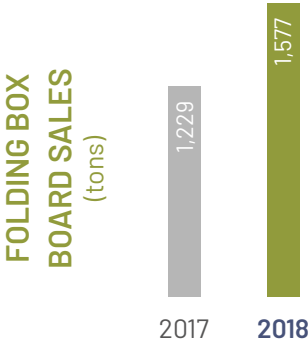
Our commitment serves as the main motivation for our constant efforts to reduce environmental risks

We strengthen risk mitigation by complying with a series of regulations to help protect and preserve the environment. In addition, our IMS is aligned with national and international environmental protection standards to be aligned with applicable norms.

In the case of Paper business unit, all of our products are sustainable.

We also work under Forest Stewardship Council (FSC) standards, which we comply with through annual audits of our Vallejo and Cancun warehouses. By complying with this standard we are able to sell paper from sustainable forests.

In 2018, we introduced a new, FDA certified, high performance multilayer board. We sold 1,577 tons, up from 1,229 tons in 2017, achieving 28.3% growth with a more environmentally friendly product.



MATERIALS

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

As a material reuse preventive measure, we play an important role in recycling containers and pallets. We integrate these recycling processes through two channels: in house and externally, through specialized suppliers, reusing the same container as many as five times.

In our facilities

- Through quality control that assures environmental stewardship.
- Water treatment plants for our own washing needs.

Specialized suppliers

- Audited to assure they have the required authorizations.

We recycle pallets by sending them to external vendors to recondition them for continuing use. During the year, we acquired 105,017 pallets and 5,806 units were recycled; through our recovery processes we were able to keep close to 100,000 in use.



In 2018, 167,087 drums were acquired

ENERGY

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

For the first time we integrated our electric energy information company wide, including that of Brazil. We expect to install solar panels in 2019 as we continue to strive to bolster our sustainability progress.

During the year, we consumed 4,372,890 kWh of power

Gasoline

- We improved utility vehicle use efficiency by 7%.
- The entire 265 vehicle fleet consumed 527,580 liters.
- Forklifts consumed 204,758 liters.



Costa Rica

WATER

GRI 303: 103-1, 103-2, 103-3
303-1, 303-2, 303-3, 303-5

In 2018, we began to consolidate the electric energy information from Brazil.

None of our installations has a water harvesting facility of its own. All of our installations in Mexico rely on municipal waterlines or purchases of tanker truckloads. The Cancun facility has its own well that is used primarily for sanitization needs and we never surpass the consumption levels specified in our concession title by Mexico's National Water Commission (CONAGUA).

At the San Juan plant we have begun to evaluate the viability of a water supply and recovery optimization program. Based on its results, we will determine whether to extend the program to other installations as part of a clear plan

Our water consumption during 2018 totaled 17,402,352 m³

BIODIVERSITY

We are interested in having our operating centers located in industrial parks authorized for conducting our commercial activities while seeking to avoid generating any biodiversity footprint. Therefore, we have established a series of controls to monitor any possible effect and monitor them.

When incorporating new products, we conduct environmental risk assessments (ERA).

We conduct environmental impact studies for new projects and/or decisions to relocate our warehouses and plants.

We provide our brigades with periodic emergency response training.

We identify leak, spill, and resource-waste risks during our Environment, Health and Safety (EHS) rounds.

We maintain 10 million dollars in public liability insurance coverage.



Mexico - Leon

EMISSIONS

GRI 305: 103-1, 103-2, 103-3
305-2, 305-5, 305-6

The CO₂ 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.

Atmospheric emissions generated by our operations totaled 2,162.61 tons. TLYDSA's result was 0.137 tons. We determined these readings of our emissions using the Emissions Calculator of the National Emissions Registry (RENE).

The hazardous waste derived from handling the materials we sell can arise from certain incidents such as leaks and spills or damage to packaging and containers. However, our installations are registered as "Small Quantity Generators" of hazardous waste.

There was an increase in the amount hazardous waste generated by the Leon plant in 2018 as a result of increased productivity in solvent recovery. In turn, that process has also lowered the amount of hazardous waste sent to controlled confinement by 2,046 tons.

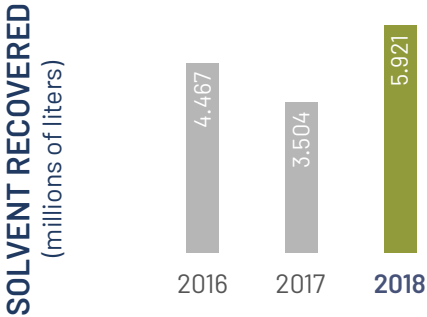
We generated 2,130 tons of hazardous waste in 2018

EFFLUENTS AND WASTE

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

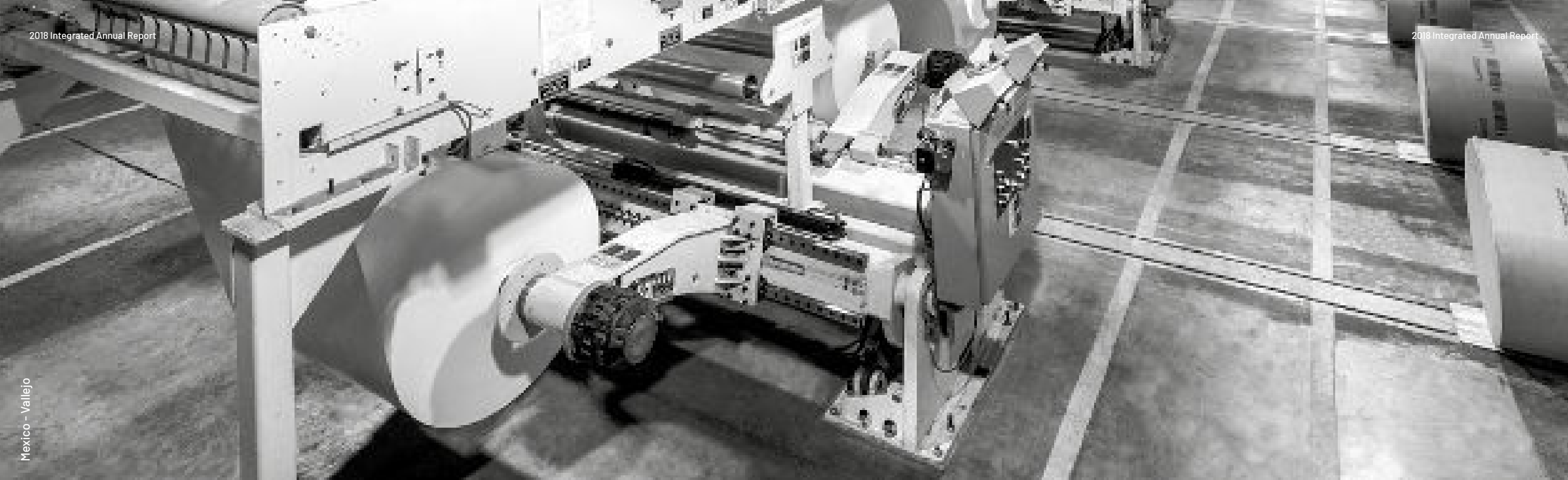
Our operations responsibly dispose of waste comply with the resolution of Mexico's Ministry of the Environment and Natural Resources (SEMARNAT).

It's formulation comes from:



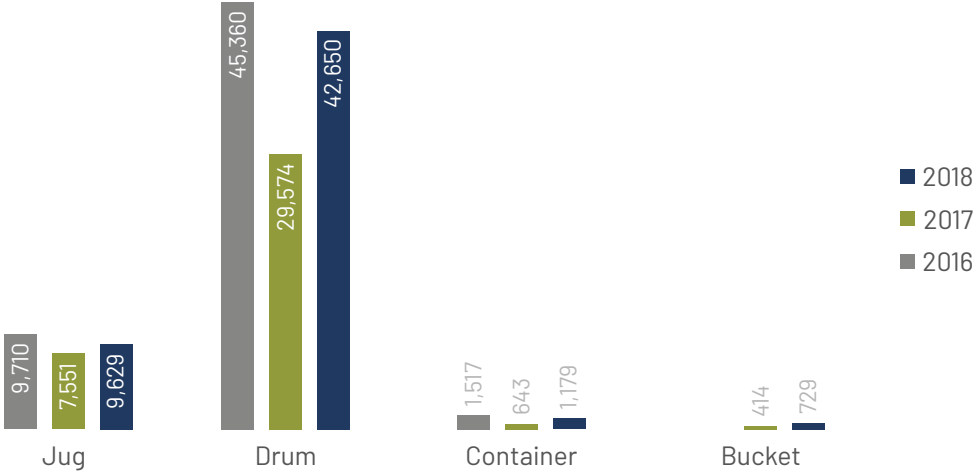
- Maintenance Processes
- Machinery and Equipment Assistance
- Non-compliant Product
- Packing and Packaging Materials
- General Services

Mexico - Vallejo



We adopted the following processes for the sale of non hazardous waste:

SALES OF SCRAP CONTAINERS



PAPER AND CARDBOARD WASTE

We collect paper waste from offices and both plastic and wood from containers and packaging, and sell such products to recycling firms.

- Container washing, for which we use water treatment plants. Periodically, we analyze samples of such water to verify whether the discharge meets SEMARNAT standards.

WASTEWATER

Our operations generate two types of wastewater:

- Sanitization and services, which is discharged through the municipal network.

During 2018 we sold 600 tons of paper and cardboard waste



In order to take necessary actions, we monitor our regulatory compliance by means of:

- Internal corporate audits.
- Internal management system audits.
- External audits by clients, suppliers and certified companies.



Mexico - San Juan

ENVIRONMENTAL COMPLIANCE

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

At Grupo Pochteca, we have a norms coordinating office whose main job is to guarantee compliance with applicable regulations at all of our sites. The process consists of:

1. Identifying legislative changes by reviewing official sources, and participating in associations, committees and groups related to our industry.
2. Identifying the norms applicable to each new product that enters our portfolio.
3. Coordinating with those involved in the production of documentation, controls, reports and registries within our Integrated Management System to assure compliance with regulatory requirements.
4. Regulatory monitoring of each facility.
5. Reporting compliance, inspection and fine indicators.
6. Reporting any event resulting from regulatory compliance or non compliance.

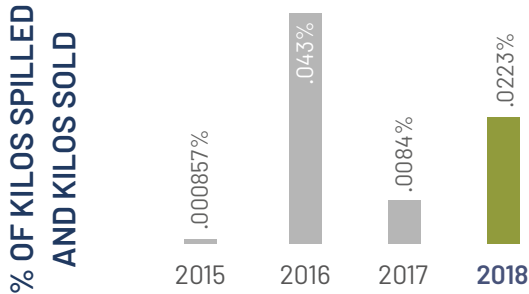


Costa Rica

2018 SIGNIFICANT ENVIRONMENTAL EVENTS

- **Pochteca Leon:** we achieved cleanup and release of these installations we acquired in 2012, and that contained 493 m³ of contaminated soil.
- **Pochteca San Luis Potosi:** under SEMARNAT supervision, we concluded our soil remediation plan for the 1,881 m³ of contaminated soil during a 2016 accident.
- **Pochteca Monterrey:** we had a hydrogen peroxide spill in December 2018 owing to a failure in the charging valve of a tanker truck belonging to one of our clients. The event was dealt with under the response and practice protocol, which helped to determine and prevent possible consequences.

We constantly monitor for the prevention of spills and leaks, and we review results each month in management meetings where preventative measures are adopted to reduce such events. All applicable cases (spills greater than 1 m³) have been reported to environmental authorities along with the analysis and corresponding actions for avoiding their recurrence, and active interaction with the authority to assure compliance with all legal requirements.



SOCIAL IMPACT

GRI 203, 413: 103-1, 103-2
GRI 419: 103-1
203-1, 413-1

We are committed to the environment in which we operate, and conduct diverse activities for contributing to our stakeholders' progress.

Every year, we work with different foundations with the aim of reinforcing our firm belief in social responsibility and the development of the communities in which we work.

- We hold events designed to involve our employees' families. We invite them so they can get to know our emergency processes, risks, controls and guidelines for guaranteeing the safety of all those engaged in the supply chain, including our neighbors and the environment. We conduct games aimed at raising awareness among our employees' children and other relatives about the importance of doing the right thing as in the case of our campaign to achieve a safe environment, "I do the right thing".
- We participate in campaigns for promoting corporate and local donations in the Fundación Julián and Kardias.
- We donate to local communities.

During 2018, more than 500 people participated in family events in our plants and branches



Yo hago lo CORRECTO

DO THE RIGHT THING MEANS:

- *Caring for our safety and that of others*
- *Environmental stewardship*
- *Complying with applicable regulations*
- *Fulfilling our responsibilities*
- *Overseeing our business' ethics and integrity*
- *Supporting and working with the authorities*

COMPETITIVE VALUE CHAIN¹⁰²⁻⁹

As part of our commitment to clients and suppliers, we have an integrated value chain based on procurement and quality procedures that have contributed to our current success and scope.

COMPETITIVE VALUE CHAIN

Our strategy extends to all company departments. We set common goals such as meeting our sales budget and EBITDA target, based on a Sales & Operation Planning (S&OP) process.

Our process begins with information provided by the sales department, which draws on statistical information to determine our procurement needs.

Material requests take the form of orders for domestic and international suppliers, focused on lead times and any event that might affect product demand. The materials are received in our Distribution Centers for either local sale or distribution to one of our branches in Mexico, Central America or Brazil. If a product requires any special preparation or modification, it is handled in our facilities 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 domestic and international transfers. Each of our distribution zones (North, West, Bajío, and Southeast) has its own distribution center capable of handling any material the branch requires. Final delivery to our

customers is directly through our own transport means or that of third parties qualified to meet our Secure Custody Chain commitment.

Every two years RDP audits are conducted at all our sites in Mexico, and are assessed by NACD.

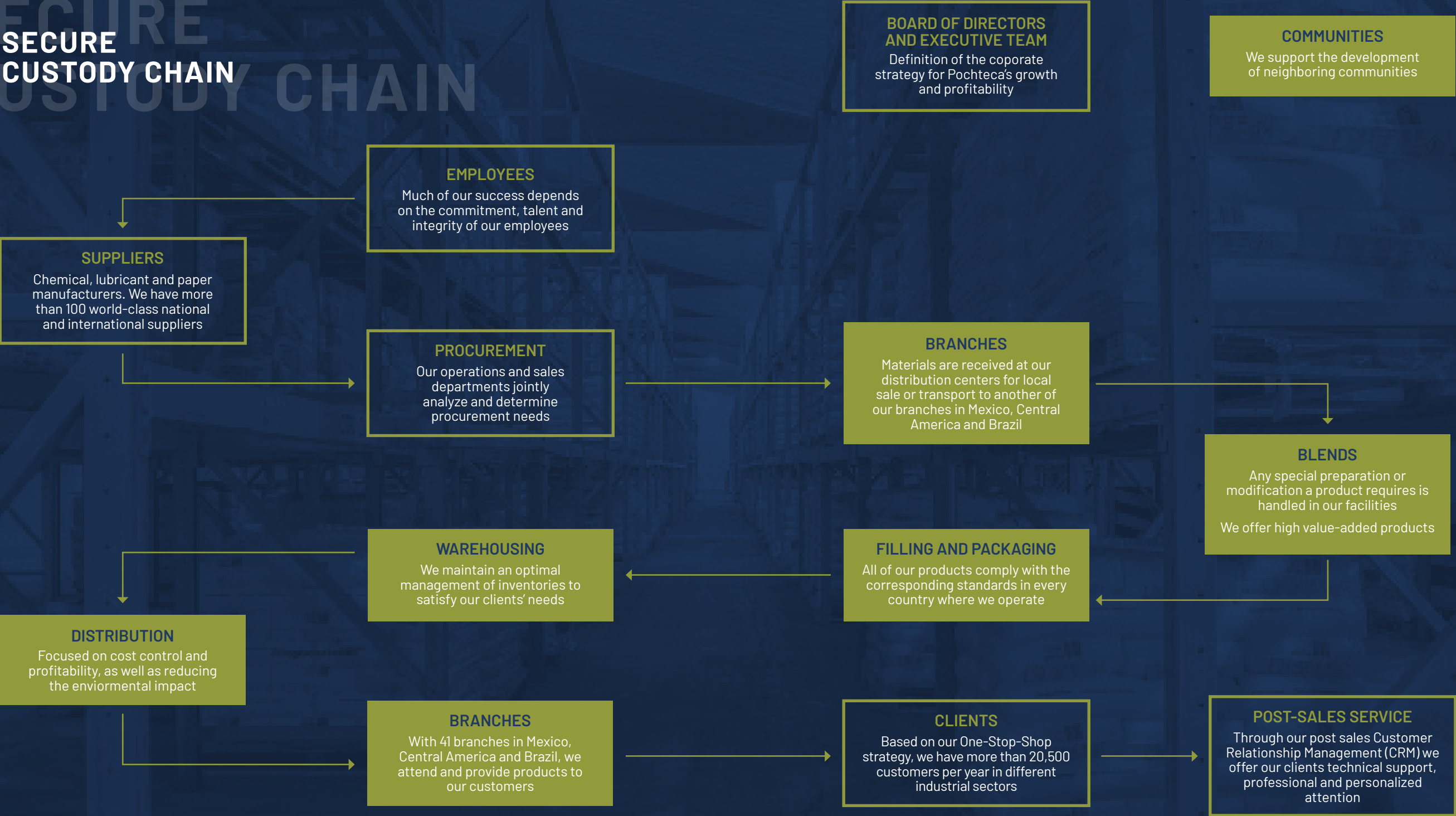
Until 2017, we had audits at nine facilities and our 2019 goal is to have five more.

In 2018, we received SARI certification from the ANIQ based on the verification of five sites in Mexico. For 2019, we will receive such audits at four other branches and one more that has been audited previously just to validate this standard's monitoring and maintenance.

A key part of our success is to have a secure supply chain and integrated logistics



SECURE CUSTODY CHAIN



POCHTECA

POCUREMENT

GRI 204, 407, 408, 409, 414: 103-1, 103-2, 103-3
102-9, 204-1, 205-1, 407-1, 408-1, 409-1, 412-3, 414-1

In order to covey Pochteca’s commitment to sustainable supply chain management, we ask our commercial partners to align their practices with our Integrated 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 order to assure compliance in 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.



Our operations in Brazil are audited to guarantee the "Responsible Distribution Process" in accordance with the PRODIR standard, established by Associquim

80% of our suppliers provide materials and services, 100% of which are local

20% of our suppliers correspond to Raw Material suppliers

RAW MATERIALS SUPPLIERS

CHEMICAL SEGMENT	70% Local 30% International
FOOD SEGMENT	18% Local 82% International
LUBRICANT SEGMENT	100% International
PAPER SEGMENT	30% Local 70% International

EVALUACIÓN DE PROVEEDORES

SUPPLIER ASSESSMENT

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

Our supplier selection and assessment process includes a pre-evaluation in which we request evidence of compliance with our guidelines on quality, occupational safety, environmental stewardship, food safety, and social responsibility. Our suppliers receive a copy of our manual that has been dedicated specifically to them in the hope of getting them involved in, and familiarized with our culture, Code of Ethics, evaluation criteria and transparency line. In this way, we seek to share our own philosophy so we can establish a long-term relationship.

El Salvador



DISTRIBUTION

GRI 417: 103-1, 103-2, 103-3
102-9, 102-10, 102-12, 102-13, 413-2, 417-1, 417-2, 417-3

Due to the nature of the products we distribute, a requirement of Mexico’s NOM-018-STPS-2015, is that the products identify any health or environmental hazards. This regulatory change took effect in 2018 and introduced a new Global Harmonization System (GHS).

In addition to the changes to product labeling, the sale of such products requires that GHS safety data sheets be included with deliveries.

We worked jointly with our suppliers to comply with the timing of the new GHS risk communication system

PHYSICAL RISKS



GHS01:
Explosive substances (EX)



GHS02:
Flammable substances (IN)



GHS03:
Oxidizing substances (CB)



GHS04:
Compressed gas (GZ)

HEALTH RISKS



GHS05:
Corrosive substances (CR)



GHS06:
Acute toxicity, categories 1, 2, 3 (T0)



GHS07:
Acute toxicity, category 4 (inhalation hazard) (DA)



GHS08:
Carcinogenic, mutagen (MU)

ENVIRONMENTAL RISK



GHS09:
Environmental hazard harmful to the aquatic environment (EN).

SALES

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

From the start we prioritize the safety of all those involved, sharing with our clients the products safety data sheets, and technical and application forms for our products. Moreover, the same sales team evaluates the handling of the materials we supply, and in the event that a more specialized visit is needed to provide handling, storage and infrastructure recommendations, we schedule visits by our safety personnel.

Our application and post sales service labs provide advice for guaranteeing the safety of all those involved and the products themselves, a well as the most appropriate ways our products can be applied to our clients’ processes.



Guatemala

CORPORATE GOVERNANCE

102-18, 102-19, 102-20, 102-22, 102-23, 102-26, 102-27, 102-28, 102-29, 102-30, 102-31, 102-32, 202-2

We have a solid Corporate Governance model that helps assure the transparency, commitment and vitality of Pochteca culture and values.

CORPORATE GOVERNANCE

Our Board of Directors is comprised of 21 proprietary 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 independents, there by exceeding the legal requirement. In addition, the Board of Directors designates a Secretary who is not a member of the Board. The Board of Directors is supported by an Audit and a Corporate Practices Committee.

BOARD OF DIRECTORS

Proprietary members

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

Alternate Members

- Federico Santacruz González
- Antonio del Valle Perochena

* Independent board members

BREAKDOWN OF EXECUTIVE POSITIONS BY GENDER



92% of senior executives are Mexican

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
102-17, 418-1

Pochteca’s values define our Company’s approach to how we should conduct our 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 of developing an action plan and oversee its implementation so as to address vulnerabilities detected in a diagnosis test of compliance with the aforementioned law. During 2018, we received no reports that indicated any compliance failures.



CODE OF ETHICS

GRI 205, 206, 405, 406, 407, 408, 409, 412, 415, 418, 419:
103-1, 103-2, 103-3
102-17, 102-25, 205-2, 412-2, 419-1

As part of our strategy in support of anticorruption practices, in 2018 we received the results of the study “Mexicanos Contra la Corrupción y la Impunidad y Transparencia” (Mexicans Against Corruption and Impunity, Mexican Transparency), by the digital platform *Integridad Corporativa 500* (IC500). We were listed among *Expansión* magazine’s 500 Top Mexican Companies, ranked 349th with a 27.5 score, enabling the possibility to identify the features companies must

integrate as part of their anticorruption policies. According to that evaluation, and in combination with the work plan implemented in association with *México Unido Contra la Delincuencia* (Mexico United Against Crime or MUCD), we undertook an exhaustive review of all the documents that form part of our culture, a process that led to us updating our values and Code of Ethics with the aim of defining Pochteca’s position on matters of:

- Non discrimination
- Equal opportunities
- Anti-bribery and anti-corruption policies
- Child labor
- Conflicts of interest
- Compliance with applicable laws
- Confidentiality and information management
- Personal data protection

We assure compliance of the Company’s Code of Ethics and policies through a transparency line that our stakeholders can easily access, and through which any deviation can be reported. Similarly, all of the information generated by the reviews is always available in our web page’s “Transparency-anticorruption” section.

When producing the reviews we use an independent firm for applying a methodology to safeguard the integrity of the personal data and confidential information of the persons and media that file reports, which they can do by email, phone and our web page. Our Ethics

Committee is in charge of investigating all reported cases and adopting the appropriate responses.

One result of our good practices is the absence of any Code of Ethics violations or any instances of legal accusations of disloyal competition on our part.

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

In 2018, we had 21% decrease in reported cases compared to 2017. However, during the activities carried out within the culture of legality program, we detected that there are cases that are not reported due to lack of certainty of the consequences that exist when they happen. For this reason, we have decided to carry out changes to the reporting procedure and give certainty of anonymity to the whistleblowers, especially to the attention and follow-up.

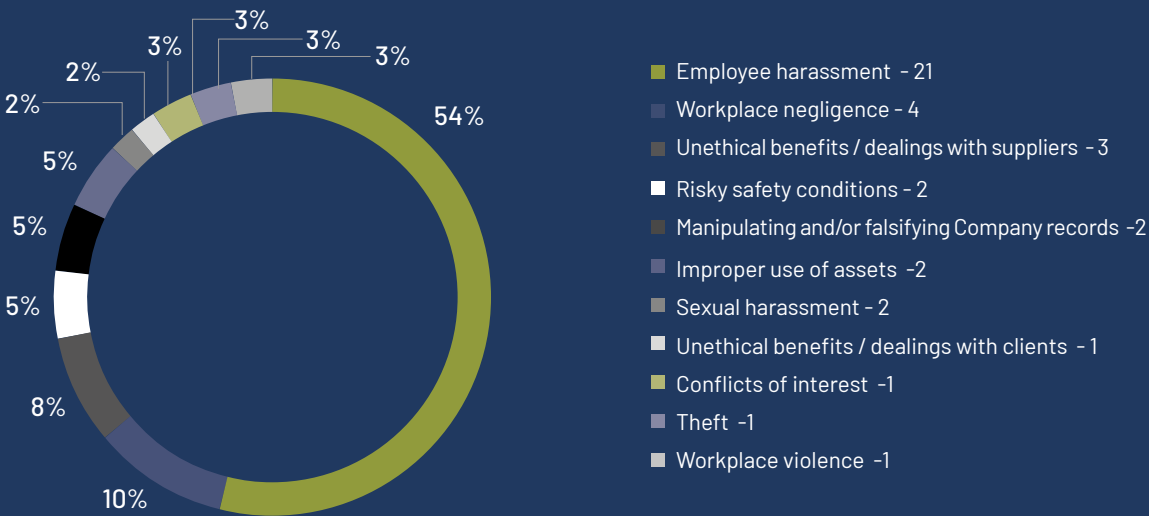
The changes in the platform that will be made are:

It is possible to report any deviation of our employees from our Code of Ethics through:

- Email
- Phone line
- Web page

- Whistleblowers can follow up to the anonymous tip that they raised, through a password and number, provided by the system when registering.
- Definition of menus for the necessary information selection to carry out the right investigation of the event.

During 2018, this mechanism produced the following results:





We will take advantage of the second phase of our Culture of Legality program to reinforce complaints and communicate the aforementioned improvements made to this tool.

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



We have also updated the internal rules and policies that compliment the Code of Ethics such as the confidentiality, unfair competition, and information handling agreement, as well as internal work rules and ones governing our IMS system.

UPDATING OUR CODE OF ETHICS

Company	Women	Men	Grand total
Argostal	2	91	93
TLYDSA		42	42
Total employees	2	133	135
Grand total	1,436	939	1,436
Percentage covered	9%		

We are committed to respecting and supporting the ban on child labor, forced labor, and human rights compliance assessments. We share these guidelines with our suppliers through our Supplier Manual.

Furthermore, we have a Privacy Committee responsible for assuring compliance of Mexico’s Federal Law on Protection of Personal Data Held by Individuals (LFPDPPP). The committee’s duties include verifying whether our privacy notices are available to customers and assuring that personnel safeguarding information remain fully aware of the importance of complying with the aforementioned law. In the event of any complaints of LFPDPPP compliance failures, the Privacy Committee is in charge of conducting the corresponding investigations and coordinating corrective actions to address problems that led to the complaint.

Pochteca’s departments of Human Resources and Finance are responsible of establishing controls and monitoring their fulfillment so as to guarantee compliance with applicable legislation and social and economic requirements.

During 2018, we received no reports of failures to comply with the Federal Law on Protection of Personal Data Held by Individuals (LFPDPPP)

We have included in our Culture of Legality training "I do the right thing" as well as a review of our Code of Ethics and Pochteca's Values, for a total of 7,648 hours

FINANCIAL PERFORMANCE

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

MANAGEMENT ANALYSIS RESULTS

2018 REPORT OF THE CHIEF EXECUTIVE OFFICER

In 2018, we achieved goods results in Mexico and Brazil compared to those of the previous year and which confirm we remain on the growth path.



Brazil

SALES, GROSS PROFIT AND MARGINS

Consolidated sales increased 2.1% compared to 2017. During the third quarter, Kansas City Southern, the rail company with which Pochteca works, experienced major delays in deliveries of freight and tanker cars, which caused us to lose sales of dependent on products moved by rail that failed to arrive during that period. During the fourth quarter of 2018, sales were affected by the political and economic environment and higher uncertainty in the business environment in Mexico.

Gross profit increased 4.9%, rising from Ps 1.15 billion in 2017 to Ps 1.21 billion in 2018.

On a consolidated basis, our gross margin grew 50bp from 18.2% to 18.7% in 2018. In 2018, the gross margin in both Mexico and Brazil expanded 50bp as percentage of sales. During the year, the Brazilian real depreciated 10.7% against the Mexican peso as it firmed from a 2017 average of 5.92 to 5.29 reals per peso on average basis during 2018.



OPERATING PROFIT AND EBITDA

Operating income rose 14.2% during 2018, climbing from Ps 234 million in 2017 to Ps 267 million. Operating margin expanded 40bp from the previous year.

Consolidated EBITDA grew 6.6%, rising from Ps 361 million in 2017 to Ps 385 million. In 2018, our 6.0% EBITDA margin marked a 30bp higher than 2017.

Operating expenses (excluding depreciation) increased 4.2% compared to 2017. As a percentage of sales, they grew from 12.5% in 2017 to 12.7% in 2018 (20bp).



Mexico - Monterrey



FINANCIAL EXPENSES AND NET PROFIT

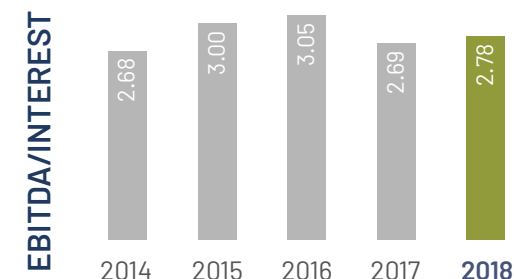
Net interest expense increased 3.2% year on year in 2018. The Company's bank debt ended 2018 at Ps 781 million, a 19.2% reduction year on year. During 2018, net financial expense was 3.2% higher than in 2017. The rise in interest expense primarily came in response to continuing increases in interest rates in Mexico over the course of 2018, as well as the expense of acquiring foreign exchange and interest rate hedges. Excluding the cost of those hedges, interest expense grew 0.8%. Net Debt / EBITDA ratio ended 2018 below 2.0x and we expect it will continue to declining.

Net profit totaled Ps 64 million in 2018 compared to a Ps 54 million loss in 2017, an improvement achieved on the strength of greater operating income and the decrease in foreign exchange losses and taxes.

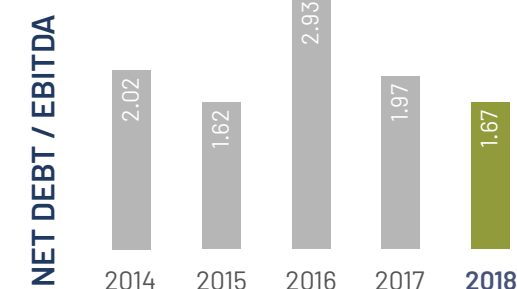
NET DEBT AND FINANCIAL LEVERAGE METRICS

Net consolidated debt ended 2018 at Ps 643 million, which was Ps 69 million or -9.7% less than in 2017. The reduction in net debt at the end of 2018 was achieved due to bank debt amortization.

Net Debt / EBITDA decreased from 1.97 times in 2017 to 1.67 times in 2018. This level is below our target of no more than 2.0 times, and was a result of our strong performance in EBITDA and bank debt amortization in 2018. We expect sales growth and operating expense control, as well as expected economic growth for 2019 in Mexico and Brazil, will allow for a further strengthening of EBITDA and reduce the Net Debt / EBITDA.



Cash flow generation and EBITDA conversion to cash. During 2018, the Company generated a cash flow after taxes and CAPEX; and before interest, amortization, acquisitions, and the stock repurchase fund of Ps 310 million, which represents a 1.0 to 0.81 conversion of EBITDA to cash. The cash balance decreased by Ps 116 million due to bank debt amortization, interest payments, and resources used for the stock repurchase fund.



In 2018, interest coverage (EBITDA / interest) was 2.78 times, which is above the 2.69 times level of 2017 due primarily to our good EBITDA performance during 2018.

	2018	2017
Gross debt (Ps millions)	781	967
Net Debt (Ps millions)	643	712
Net Debt / 12 M EBITDA	1.67x	1.97x
Interest Coverage	2.78x	2.69x
Outstanding Shares	130,522,049	130,522,049



GRI INDEX

102-55

GRI INDEX

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	102-30	Effectiveness of risk management processes	87
	102-31	Review of economic, environmental, and social topics	29, 87
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	102-35	Remuneration policies	43
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	102-40	List of stakeholder groups	32
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	Reporting practice		
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	102-46	Defining report content and topic Boundaries	29, 3 th cover
	102-47	List of material topics	29
	102-48	Restatements of information	There are no restatements of the information.
	102-49	Changes in reporting	3 th cover
	102-50	Reporting period	3 th cover
	102-51	Date of most recent report	2017
	102-52	Reporting cycle	Annual
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GRI 201: Desempeño económico	201-1	Direct economic value generated and distributed	6, 37, 97
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	201-4	Financial assistance received from government	The Company does not receive financial assistance by the government.
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GRI 204: Procurement Practices 2017	204-1	Proportion of spending on local suppliers	82
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	103-3	Evaluation of the management approach	90
GRI 205: Anti-corruption 2017	205-1	Operations assessed for risks related to corruption	82
		Communication and training about anti-corruption policies and procedures	90
	205-3	Confirmed incidents of corruption and actions taken	There are no confirmed cases of corruption.
Competencia desleal			
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its boundary	90
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	103-3	Evaluation of the management approach	90
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GRI 302: Energy 2017	302-1	Energy consumption within the organization	64
		Reduction of energy consumption	64
	302-5	Reductions in energy requirements of products and services	64
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	103-3	Evaluation of the management approach	65
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	306-2	Waste by type and disposal method	67
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	306-4	Transport of hazardous waste	67
	306-5	Water bodies affected by water discharges and/or runoff	There are no bodies of water affected by the discharges.
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		Benefits provided to full-time employees that are not provided to temporary or part-time employees	43
	401-3	Parental leave	43
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	103-3	Evaluation of the management approach	43
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Freedom of association and collective bargaining			
GRI 103: Management Approach 2017	103-1	Explanation of the material topic and its boundary	82, 90
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GRI 413: Local communities 2017	413-1	Operations with local community engagement, impact assessments, and development programs	59, 73
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Public policy			
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CONSOLIDATED FINANCIAL STATEMENTS

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

For the Years Ended December 31, 2018, 2017 and 2016,
and Independent Auditors' Report Dated April 8, 2019

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INDEPENDENT AUDITOR'S

REPORT

INDEPENDENT
AUDITORS' REPORT

GRI 102-45

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

Opinion

We have audited the consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and its subsidiaries (the “Group”) which comprise the consolidated statements of financial position as of December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016, 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.

The Group's management used a method allowed by IAS 36, elaborating estimates regarding future cash flows, discount rates and growth rates, based on the future prospects of the business. The assumptions used by the administration, as well as the valuation of the assets, have been considered as a key audit matter.

Our audit procedures included, among others:

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

The results of our audit procedures were reasonable. 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. If based on the work we do, we conclude that there is a material misstatement in the other information, we would have to report this matter. When we read the annual report we will issue the conclusion about its reading.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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



C. P. C. Marco Antonio Arellano Alfaro
April 8, 2019

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

CONSOLIDATED STATEMENTS
OF FINANCIAL POSITION

As of December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos)

	Notes	2018	2017	2016
Assets				
Current assets:				
Cash and cash equivalents	5	\$ 138,253	\$ 254,628	\$ 144,799
Accounts receivable and recoverable taxes - Net	6	996,398	1,130,964	1,123,138
Due from related parties	19	7,234	7,785	7,481
Inventories - Net	7	950,019	888,009	855,305
Prepaid expenses		45,650	34,576	42,336
Total current assets		2,137,554	2,315,962	2,173,059
Non-current assets				
Property, plant and equipment - Net	9	703,102	755,597	813,248
Other investments		4,381	4,381	4,381
Investment property	8	15,060	15,060	15,060
Other assets		79,696	110,264	101,470
Deferred income taxes - Net	23	40,099	46,661	69,477
Intangible assets	11	203,903	212,490	51,524
Goodwill	12	349,570	419,596	433,067
Total non-current assets		1,395,811	1,564,049	1,488,227
Total		\$ 3,533,365	\$ 3,880,011	\$ 3,661,286

	Notes	2018	2017	2016
Liabilities and stockholders' equity				
Current liabilities:				
Bank loans and current portion of long-term debt	14	\$ 405,414	\$ 300,292	\$ 500,911
Trade accounts payable		1,331,709	1,313,877	1,100,641
Other accounts payable and accrued expenses	13	238,698	173,050	194,018
Due to related parties	19	8,561	8,120	6,871
Income taxes and statutory employee profit sharing		32,234	47,788	19,800
Total current liabilities		2,016,616	1,843,127	1,822,241
Long-term liabilities:				
Other long-term accounts payable	13	2,003	210,019	228,253
Long-term debt	14	375,993	666,250	371,975
Employee benefits	15	8,019	7,457	7,681
Total long-term liabilities		386,015	883,726	607,909
Total liabilities		2,402,631	2,726,853	2,430,150
Stockholders' equity:				
Contributed capital -				
Capital stock	16	1,096,837	1,096,837	1,096,837
Premium on sale of repurchased stock		58,176	58,176	58,176
Earned capital -				
Retained earnings		24,477	18,233	69,550
Reserve for repurchase of shares		13,169	3,257	22,488
Translation effects of foreign operations		(61,407)	(22,723)	(12,170)
Other comprehensive income		(518)	(622)	(3,745)
		(24,279)	(1,855)	76,123
Total stockholders' equity		1,130,734	1,153,158	1,231,136
Total		\$ 3,533,365	\$ 3,880,011	\$ 3,661,286

The accompanying notes are part of the consolidated financial statements (available for reading and online consultations on the corporate page).

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

CONSOLIDATED STATEMENTS OF INCOME
AND OTHER COMPREHENSIVE INCOME

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos, except earnings per common share expressed in Mexican pesos)

	Notes	2018	2017	2016
Continuing operations:				
Net sales	20	\$ 6,463,342	\$ 6,332,988	\$ 6,139,273
Cost of sales	21	(5,256,146)	(5,182,656)	(5,064,001)
Gross profit		1,207,196	1,150,332	1,075,272
Profit in business acquisition		-	5,040	-
Operating expenses	22	(940,110)	(921,455)	(959,113)
Income from operations		267,086	233,917	116,159
Financing costs:				
Interest income		8,560	13,433	14,901
Interest expense		(146,883)	(147,471)	(96,308)
Exchange (loss)		(12,498)	(54,343)	(49,526)
		(150,821)	(188,381)	(130,933)
Income (loss) before income taxes		116,265	45,536	(14,774)
(Benefit) income taxes expense	23	52,027	99,341	(9,100)
Consolidated net (loss) income		\$ 64,238	\$ (53,805)	\$ (5,674)

	Notes	2018	2017	2016
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		104	3,123	(2,634)
Exchange differences on translating foreign operations		(38,684)	(10,553)	74,713
Total comprehensive (loss) income for the year		\$ 25,658	\$ (61,235)	\$ 66,405
Earnings per share:				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		\$ 0.4922	\$ (0.4122)	\$ (0.0435)
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 reading and online consultations on the corporate page).

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

CONSOLIDATED STATEMENTS
OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos)

	Contributed capital			Total	Earned capital				
	Common stock		Premium on sale of repurchased stock		Retained earnings	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	Total stockholders' equity
	Nominal	In trust							
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 loss 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 income 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
Cancellation of reserve for repurchase of shares	-	-	-	-	3,257	(3,257)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(61,251)	61,251	-	-	-
Repurchase of shares	-	-	-	-	-	(48,082)	-	-	(48,082)
Net comprehensive loss for the year	-	-	-	-	64,238	-	(38,684)	104	25,658
Balances as of December 31,2018	\$ 1,104,721	\$ (7,884)	\$ 58,176	\$ 1,155,013	\$ 24,477	\$ 13,169	\$ (61,407)	\$ (518)	\$ 1,130,734

The accompanying notes are part of the consolidated financial statements (available for reading and online consultations on the corporate page).

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

CONSOLIDATED STATEMENTS
OF CASH FLOWS

For the years ended December 31, 2018, 2017 and 2016
(In thousands of Mexican pesos)
(Indirect method)

	Notes	2018	2017	2016
Cash flows from operating activities:				
Consolidated net (loss) income		\$ 64,238	\$ (53,805)	\$ (5,674)
Adjustments for:				
Income taxes (benefit) expense	23	52,027	99,341	(9,100)
Depreciation and amortization	22	117,647	127,063	131,944
Gain on sale of property and equipment		(14,059)	(4,988)	(1,316)
Amortization of commissions paid		3,498	10,921	4,260
Interest paid		143,385	136,550	92,048
Interest income		(8,560)	(13,433)	(14,901)
Unrealized exchange (gain) loss		(13,178)	(11,836)	107,386
		344,998	289,813	304,647
(Increase) decrease in:				
Accounts receivable and recoverable taxes	6	135,117	(17,707)	(79,938)
Inventories	7	(62,010)	(26,627)	(24,689)
Prepaid expenses		(11,074)	7,760	4,174
Other assets		10,358	(17,420)	(4,111)
(Decrease) increase in:				
Trade accounts payable		17,832	213,236	(98,935)
Other accounts payable and accrued expenses		(45,369)	(53,100)	844
Due to related parties	19	441	1,249	(3,038)
Income taxes paid		(2,911)	(38,362)	(14,205)
Net cash provided by operating activities		327,382	358,842	84,749

	Notes	2018	2017	2016
Cash flows from investing activities:				
Purchase of machinery and equipment		(121,507)	(41,379)	(57,500)
Sale of equipment		101,009	14,501	3,120
Acquisition of subsidiaries		–	(176,577)	(40,951)
Interest collected		8,650	13,433	14,901
Net cash used in investing activities		(11,938)	(190,022)	(80,430)
Cash flows from financing activities:				
Borrowings	14	160,000	1,096,105	205,996
Repayment of loans received	14	(344,122)	(964,436)	(354,216)
Payment of financial leasing		(15,114)	(33,099)	(41,107)
Purchase of own common shares		(48,082)	(16,743)	9,246
Interest and commissions paid		(128,589)	(128,908)	(78,525)
Issuance and payment of common stock		–	–	3,213
Net cash (used in) provided by financing activities		(375,907)	(47,081)	(255,393)
Effects of changes in exchange rates on cash held in foreign currency		(55,912)	(11,910)	10,201
Net (decrease) increase in cash and cash equivalents		(116,375)	109,829	(240,873)
Cash and cash equivalents at beginning of year		254,628	144,799	385,672
Cash and cash equivalents at end of year		\$ 138,253	\$ 254,628	\$ 144,799

The accompanying notes are part of the consolidated financial statements (available for reading and online consultations on the corporate page).



ABOUT THIS REPORT

102-10, 102-46, 102-49, 102-50, 102-54

This year we are presenting our fifth sustainability report and the fourth integrated one. The contents of this report have been prepared in accordance with the Essential Option of Global Reporting Initiative (GRI) standards. It includes the performance results and developments in economic, social, environmental and corporate that occurred between January 1 and December 31 of 2018

Sustainability data includes the results of our operations in Mexico, Brazil and Central America based on material aspects, unless otherwise indicated.

We have published a report on line for the comfort of the reading public and a social responsibility site where you can find more information about the Company, and both our financial and sustainability results.

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