

#POCHTECA and I DOING CHEMISTRY



2019 Integrated Annual Report

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COMPETITIVE SOLUTIONS IN INDUSTRIAL RAW MATERIALS

GRI 102-2, 102-3, 102-6

We are a México 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 México, Central and South America.

Our stock trades on the Mexican Stock Exchange (BMV) under the POCHTEC ticker symbol.

2019 RESULTS

GRI 102-7, 201-1

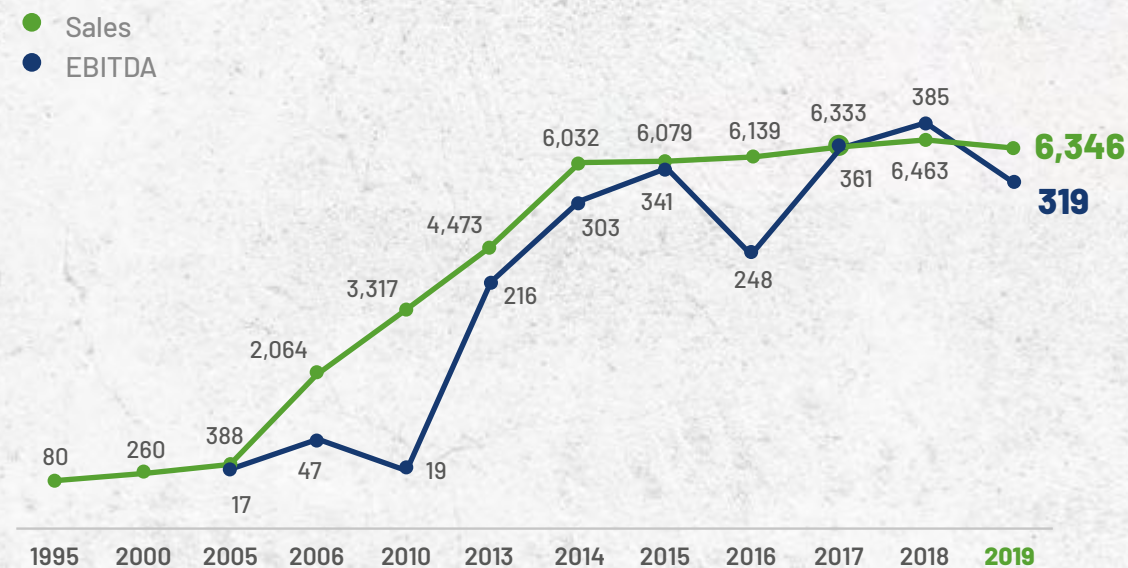
millions of Mexican pesos

	2019	2018	(%) 2019 vs. 2018
Sales	6,346	6,463	-1.8%
Gross profit	1,163	1,207	-3.7%
Gross margin (%)	18.3%	18.7%	-40pb
Operating profit	155	267	-42.0%
Operating margin (%)	2.4%	4.1%	-170pb
Depreciation	164	118	39.3%
EBITDA	319	385	-17.1%
EBITDA margin (%)	5.0%	6.0%	-100pb
Financial expenses	(151)	(138)	8.8%
Forex gain (loss)	8	(12)	NC
Earnings before taxes	12	116	-89.5%
Net profit (loss)	(15)	64	NC
Net Debt / EBITDA 12M	1.68x	1.67x	
EBITDA / Interests 12M	2.13x	2.78x	

EBITDA = Operating earnings before interests, taxes, depreciation, and amortization; NC = non-comparable

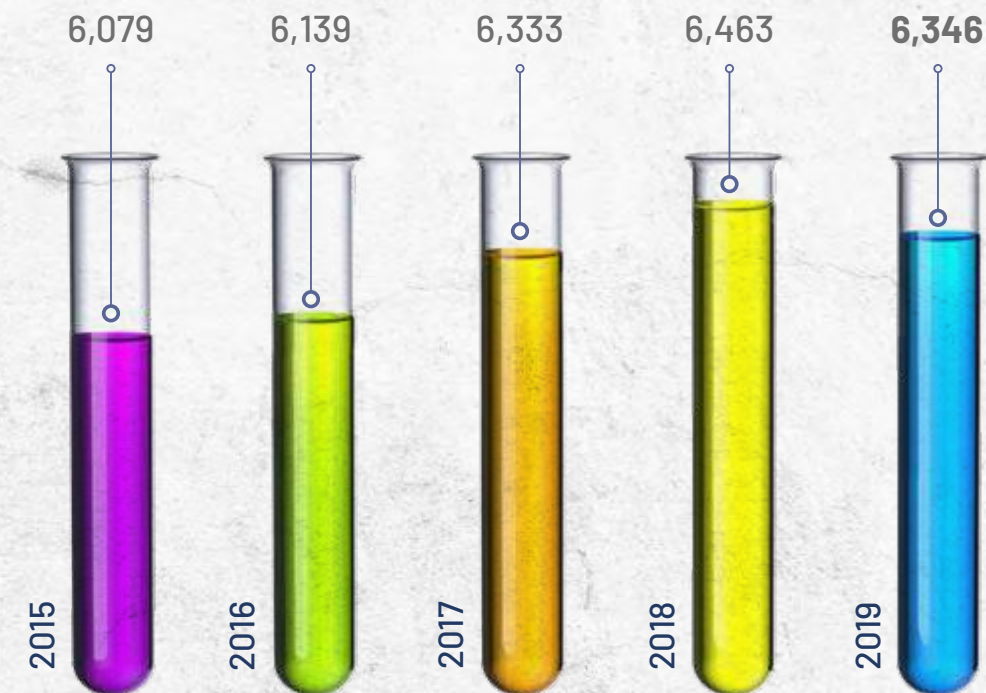
SALES AND EBITDA PERFORMANCE

millions of Mexican pesos



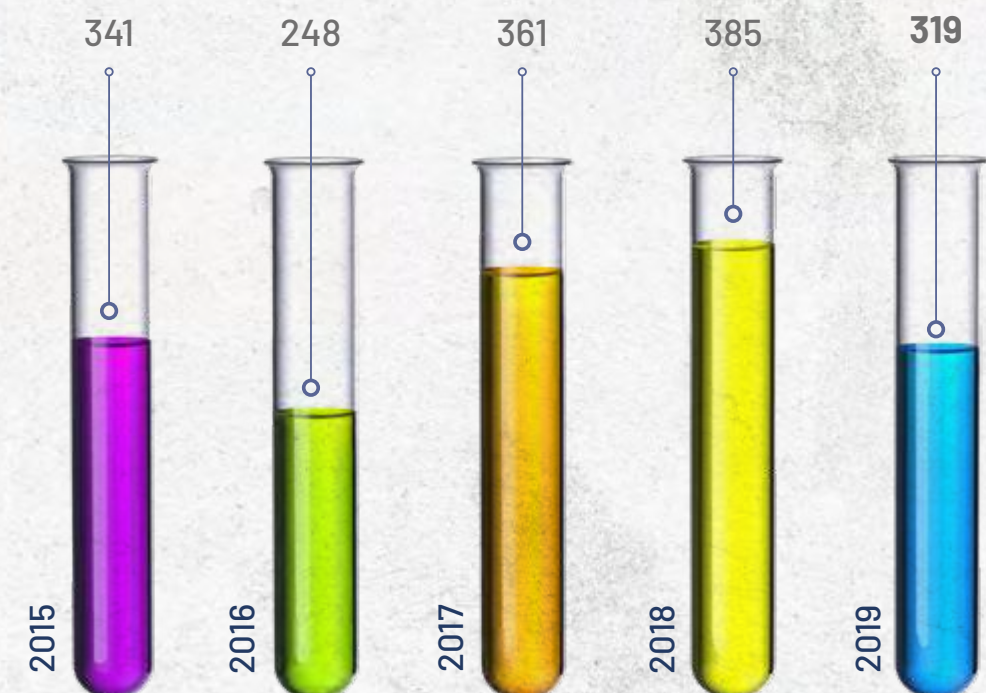
SALES

millions of Mexican pesos



EBITDA

millions of Mexican pesos



Message from the Chairman of the Board of Directors

GRI 102-7, 102-11, 102-14

Dear Shareholders,

During 2019, Pochteca's sales decreased -1.8% compared to the previous year, thus amounting \$ 6,346 million pesos, mainly due to four factors:

- A relevant drop in international prices for a substantial part of the products that we sell.
- The Mexican peso- US dollar revaluation.
- The termination of the commercial relationship with Shell, as of September 30, 2019, derivating a loss of over 80% of the lubricants and greases business.
- The unpredictability and payment delays from PEMEX, which forced us to cut back on sales to exploration and drilling sector suppliers, thereby greatly affecting the sales volume for that market.

The combined effect of the drop in international prices was worsened by the Mexican peso- US dollar revaluation. This produced a considerable drop in the prices at which we sell our products, and despite an increase of 4% in kilograms of chemical sales (except for lubricants) as compared to 2018, the sales in Mexican pesos for chemicals dropped 2%. The prices reduction also impacted our profitability because inventories underwent a reduction in value throughout the year, and logistics costs increased in terms of sales prices, by remaining constant while prices per kilo went down.

To offset the negative impact caused by the loss of the Shell business, we negotiated a new master distribution contract with Castrol, which is the lubricants division of British Petroleum. As a result, over the next 18 to 24 months we will be able to recover from the reduction in sales caused by the loss of the Shell lubricants business.

Despite the inventory value deterioration, we diminished the impact on our profit margins by closing with 18.3%, 0.4% lower than the 18.7% achieved during the previous year. This containment was possible through different strategies adopted, such as entering the industrial waste management business, which began in the third quarter of 2019; strengthening the 3PL business (third-party logistics) in specialized logistics; investing in added-value businesses, such as the sustainable recovery of solvents (RSS in Spanish); and private label formulations for the oil sector.

All the above, in spite of the 4.1% Mexican peso-US dollar revaluation and the ensuing impact of price drops, allowed us to contain plummeting gross margins throughout the year, to a fraction of the double impact of currency revaluations and price drops for our products.

As a result of the economic situation in Brazil, the operation in that country suffered the consequences of a contraction

in chemical sector sales, as compared to the previous year. Moreover, the drop in international prices for those products that affected Pochteca in México, also impacted Brazil. This was reflected by a 29% reduction in EBITDA, as compared to 2018.

In addition, the main supplier for Coremal plastic resins had issues at its plants, resulting in not supplying us with the volumes that we normally sold. This greatly affected sales as plastic resins which was the most important sales for Brazil before the interrupted supply took place.

Nonetheless, we partially offsetted this situation through more profitable business lines, such as ingredients for food products, and other products having greater unit value and higher margins. However, due to the importance of the sale of resins for Brazil, the process of completely replacing lost sales requires time.

Notwithstanding the above, the results for Brazil for all four quarters in 2019, reflect increases over the previous one in terms of tonnage, and the gross margin improved each quarter, despite the overall contraction the country faced.

In 2019, we opened a new branch in the southern region of the country, whereas in the past we sold whatever we could

from Sao Paulo. This new branch enabled us to grow sales in the region by 128%, as compared to 2018.

Despite reductions in GDP, overall contraction of the industrial sector in México, and the situation of past-due payments in the oil exploration and drilling sector, we maintained our accounts receivable at a sound level. We closed the year with 43 days, compared with 44 in 2018, and 49 in 2017, a continuous improvement in A/R days despite the problems faced by the sectors to whom we sell. Inventories also remained stable, growing by only one day in comparison to the previous year.

Although EBITDA was not as expected, compared to 2018, we managed to maintain our financial leverage at 1.68 times Net Debt/EBITDA. This was lower than our internal policy of a maximum of 2.0 times.





Hopefully in 2020, with certain inventory enhancements and the expected growth in EBITDA, our cash position will rise, and our net debt will go down.

IMPORTANT EVENTS

The opening of our plant and distribution center in El Salto, Jalisco, is among the more important events for 2019, thus enabling us to serve better the Pacific coast and our customers in the Bajío region of México, in addition to offering industrial waste management and logistic services.

By mid-year we initiated a “high-performance teams” project known as Customer-Centric Comprehensive Transformation (TIC), currently underway, and which will translate into reduced turnover, in addition to improving the creation and identification of leadership, to eventually lead to a self-managed company.

GROWTH DRIVERS

- We believe that if PEMEX put its payment schedules in order and government invest in exploration and drilling, Pochteca will benefit considerably from this.

We consider that the devaluation and US-China commercial strife will lead to a competitive position for Mexican manufacturing, one that is more robust regarding other countries, and therefore generate sales increase for Pochteca, as we are an important supplier for export manufacturing sector.

- Our plan is to continue investing in the sustainable recovery of solvents (RSS), which has enabled us to im-

prove margins in the solvent business, consolidate customer loyalty by reducing the ecological footprint and making our mix production process more flexible.

We are convinced that our business model is highly resilient. Proof of this are the results obtained despite a very adverse price in the market and that of the oil sector. There are certain factors that help to create such resilience:

- Our ability to serve 500 cities throughout México with our 33 branches nationwide. Each one has personnel trained in the responsible handling of our products.
- The diversification of customers, products, regions, and markets, allowing us to overcome price drops, sectorial or geographic economic depressions, natural phenomenon, technological obsolescence, and regulatory or competitive changes. Our five main customers represent 6.7% of our sales; our top five products represent 7.1%. We sell to more than 20,000 customers in over 500 cities throughout México, in addition to our commercial footprint in Central America and Brazil.

I wish to thank all our employees in México, Brazil, Guatemala, Costa Rica and El Salvador, as well as our suppliers, customers and shareholders for their support and trust, as without them none of this would be possible.

Armando Santacruz González
CHAIRMAN OF THE BOARD OF DIRECTORS

Message from the Executive Director

GRI 205, 301, 302, 305, 306, 307, 401, 403, 404,
410: 103-1, 103-2, 103-3, 102-26, 102-31, 102-34

Dear all,

It is a pleasure for me to present the sustainability results we have achieved during 2019.

Ever since we began as a Company, we have always been concerned with caring for our people, our suppliers, customers, shareholders and other stakeholders, as well as for our planet's natural resources and environment. With this purpose in mind, we have implemented actions and initiatives year after year that help meet the needs of each group, prioritizing adherence to the highest of

standards in sustainability, and to the regulations established in each of the countries where we operate.

In the social field, I wish to highlight the education program we implemented for operators, together with the *Construyendo y Creciendo* institute, for which we set up the Pochteca Room (*Aula Pochteca*) in our San Juan plant. Here primary, secondary and preparatory and trade school classes are offered free of charge, using the latest generation of audio-visual and computer equipment. This program will gradually be extended to the principal cities where we operate.

Likewise, as part of our program, *Developing Youth (Jóvenes en Desarrollo)*, we continue developing new talent in a wide range of areas within the Company. Some of them have been incorporated as Department Heads and Managers.

We are an inclusive Company. Gender diversity, origin, age, and sexual and religious preferences are all respected. We foster internal promotions, local recruitment, and the inclusion of people with disabilities. During 2019, we designed a project aimed at labor inclusion by working together with *Fundación Unidos*, whereby we trained and created awareness among our collaborators, with the purpose of onboarding people with different disabilities. This project also encompassed retrofitting the physical facilities and purchasing equipment needed to welcome and incorporate people with disabilities.

The work-life balance of our collaborators is essential to good performance. In keeping with the initiative to implement and create a committee for official Mexican standard NOM-035-STPS-2018 (occupational psycho-social risk factors: identification, analysis, and prevention), we undertook different actions that focus on the quality of life and wellness of our collaborators, including nutrition campaigns, health fairs and campaigns, leisure activities, and special agreement with suppliers of cultural, recreational and social events; in addition to reinforcing and driving the Orienta PAE help desk.

Through the use of Orienta PAE, our lower income collaborators may gain access to an income level that will allow them to meet their needs more easily; jun therefore, together with a group of

over 100 companies that have the same conviction, we launched *Companies in Favor of Wellbeing*, in which we committed to ensuring that no collaborator would gross less than \$6,500 pesos a month, plus benefits.

With the purpose of becoming familiar with and endorsing personnel engagement with the Company, we conduct climate and culture evaluations, driving communication channels to listen to and serve the needs and suggestions made by our people.

Under the heading of safety, health, and environment, through the Safe Surroundings campaign we encourage our collaborators to share with the whole organization their experience and the lessons learned regarding accidents or injuries through the videos uploaded to our PochtecaNet platform. In 2019 we linked this campaign to our strategy on culture, good service and transparency: *"I Do the Right Thing"*.

Our efforts in health and safety produced good results. Our incident rate goal per 200,000 working hours dropped from 1.19 to 0.7 in 2019.

In addition we created a program called *"Pochteca and I Caring for My Health,"* through which we establish monthly activities surrounding the health of our collaborators.

At Pochteca we reject any act of corruption. Our collaborators are trained in, and committed to our Code of Ethics, which we convey to our value chain participants.

Our transparency help desk had no report from customers or suppliers





during 2019, and as a Company we had no incident recorded in corruption.

Regarding environmental care and climate change, we made different investments aimed at reducing CO₂ atmospheric emissions, such as placing flame arresters in storage tanks; and increasing maintenance of paint sheds to prevent reduction of VOCs (volatile organic compounds), total solid particles, and carbon monoxide and dioxide. These actions enabled us to reduce emissions by 13%.

In order to save energy in our operations, we developed a solar panel project that entailed placing them in areas with the highest electricity use, thus allowing us to achieve annual indirect reductions of 1,133 tons of CO₂ emissions and water savings of 1,423,000 liters.

During 2019, we have launched our industrial waste management and environmental services division. This new division offers our customers integrated waste management services, including collection in over 50 cities, transportation with specialized equipment and operators, proprietary collection centers, storage, final disposal, and consulting. These services include the experience we are known for in handling chemical products.

We continue recovering solvents through our sustainable recovery process, in line with our purpose of having a strategy that supports the circular economy. In 2019, we posted a 2%-increase in solvent recovery volumes, through the use of the equipment installed in León, Guanajuato, and approval was granted for investment in an additional fractional distillation column

that will increase current volumes of recovery by 20%.

As part of our strategy, we continue developing applications and formulations with environment friendly products for the different industries we serve, including coatings, oil, personal hygiene, metal treatment, among others.

Our Comprehensive Management System is extending its scope to include compliance with ISO 22000:2018 requirements to guarantee food safety. Our San Juan and Guadalajara branches are included in this scope.

We are proud to have obtained the Excellence Award for Execution of the SARI System in 2019, and award given each year by ANIQ (Mexican Association of the Chemical Industry) which serves as

testimony to our commitment to sustainable operation.

As we announced in our 2018 Integrated Annual Report, in November 2019 we opened our new plant and distribution center in El Salto, Guadalajara. It has very strict safety and sustainability controls, and is part of the mutual assistance group for industrial companies in the region.

We appreciate the support and commitment that each collaborator, customer, supplier, shareholder, and financial institution has given to Pochteca, making us the preferred supplier of raw materials and comprehensive solutions in our industry.

Eugenio Gerardo Manzano Alba
EXECUTIVE DIRECTOR

OUR COMPANY

GRI 102-16- 102-1, 102-2, 102-4, 102-6, 102-7

Inorganic chemicals	Solvents and blends	Ingredients, additives, and specialties for food industry	Lubricants and greases	Paper and cardboard	Specialties for personal and home care	Logistic services	Industrial waste management
<ul style="list-style-type: none"> Pharmaceutical Electroplating Mining Adhesives Automotive Oil and gas Paintings Textile Construction Agricultural Dyes Tannery Metalworking Water treatment 	<ul style="list-style-type: none"> Pharmaceutical Resins Mining Adhesives Automotive Oil and gas Paintings Textile Construction Agriculture and livestock Dyes Tannery Metalworking Water treatment 	<ul style="list-style-type: none"> Beverages Meat Baking Sauces and dressings Dairy Pharmaceuticals Mining Soap manufacturing Basic chemicals Oil and gas Flavors and fragrances Confectionary 	<ul style="list-style-type: none"> General manufacturing Aviation Automotive Energy generation Construction Cement and quarries Cargo and passenger fleets Food Mining Oil and gas Agriculture Marine Metalworking 	<ul style="list-style-type: none"> Printing Folding box manufacturers Publishing Packing and packaging Design and advertising Corporate stationery Cardboard and paper for industrial printing Digital 	<ul style="list-style-type: none"> Cosmetics Fragrances Air fresheners Pharmaceutical 	<p>LOGISTICS</p> <ul style="list-style-type: none"> Storage National distribution Merchandise insurance Crossdocking Collection Third-party transportation Inventory management <p>PRODUCTION</p> <ul style="list-style-type: none"> Decanting Bottling Special blendings and milling Confinement Sustainable recovery Labelling Bagging Consultancy 	<ul style="list-style-type: none"> Offering services pertaining to integrated waste management, collection, transportation, co-processing (recycling), assessment, final disposal, of any type of waste generated by industries in México.
							

KEY ACCOUNTS



33 branches in México



3 branches in Central America



5 branches in Brazil

Processes for the Customer



CREDIT

FINANCE

AUDIT

LEGAL

HUMAN RESOURCES

MAINTENANCE AND PROJECTS

QUALITY AND COMPREHENSIVE LIABILITY

MARKETING

OPERATIONS

IT

OUR COMPANY IN NUMBERS

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



FOR FURTHER INFORMATION:

https://www.pochteca.com.mx/wp-content/uploads/2020/02/Pochteca_Catalogo_feb_2020.pdf

GRI 102-11

Timely product

Pre and post-sale

One-Stop-Shop:

Supply

Labs

3PL Logistic

Credit

Inventory

Efficient

Efficient order processing system.

Business

intelligence to minimize risks and design supply strategies.

Blending, dilution, and formulation

development.

Recycling

and recovery
of solvents

Packing,

bottling and
packaging
solutions.

Consistent

world-class quality from our suppliers to ensure production process standardization.

Safe

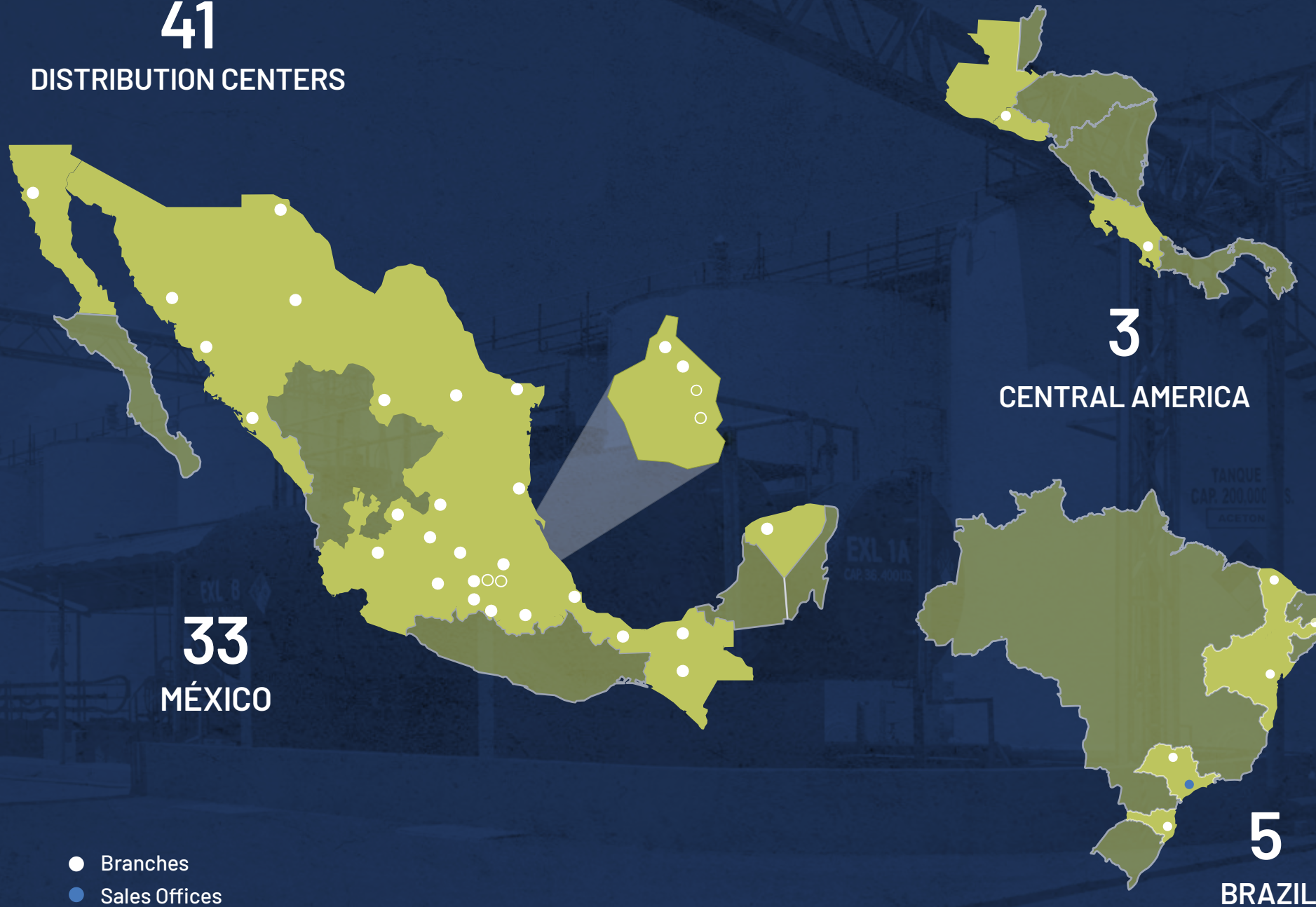
and sustainable supply chain.



BETTER SERVICE FOR OUR CUSTOMERS

GRI 102-3, 102-4
GRI 102-7

41
DISTRIBUTION CENTERS



**Our branches and
distribution centers**

EL SALVADOR

SAN LUIS POTOSI

GUADALAJARA

COREMAL

COSTA RICA

MERIDA

SAN JOSE

GUATEMALA

SAN JUAN

VALLEJO

MONTERREY

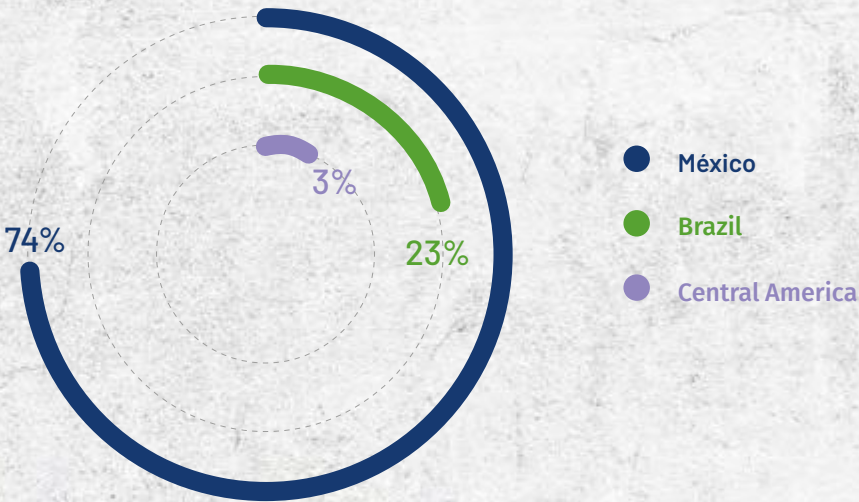


DIVERSIFICATION

GRI 102-6, 102-11

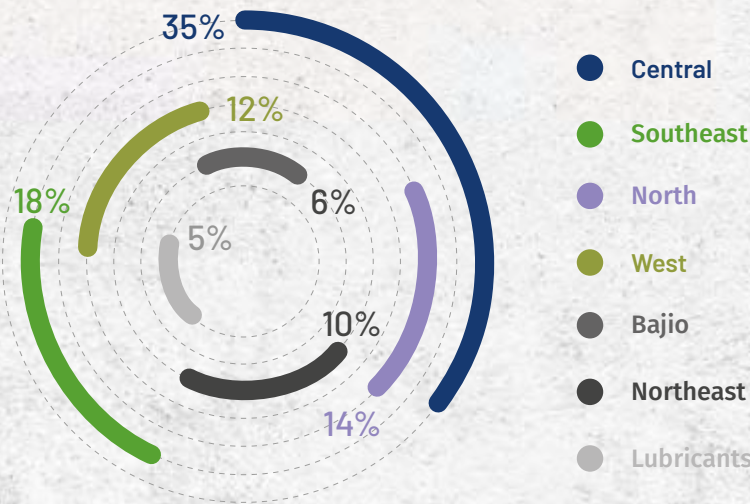
PERCENTAGE OF SALES BY GEOGRAPHY

Americas



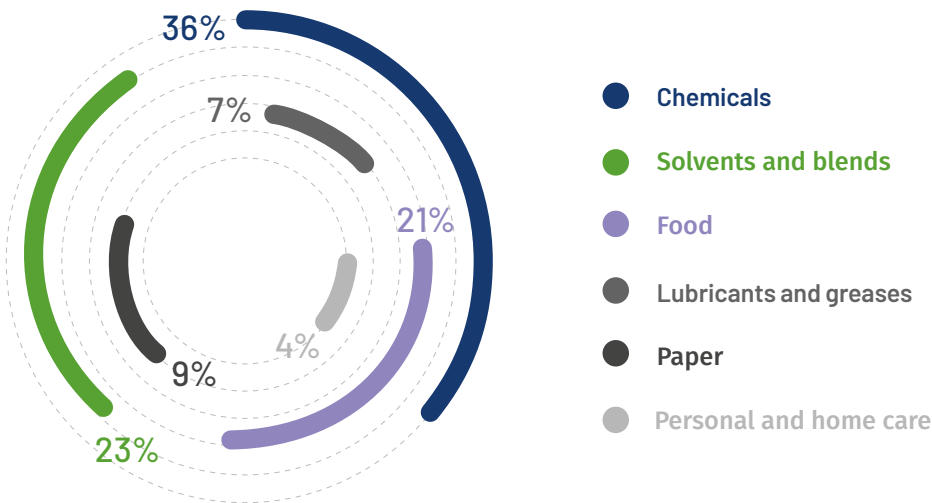
PERCENTAGE OF SALES BY REGION

México



PORTFOLIO BY SEGMENT

(% of consolidated sales)



Part of our commercial strategy entailed obtaining a diversification of customers, products, industries, regions, channels, and suppliers through which we minimize risk factors by protecting sales, margins, and supply, thus standing apart from our competitors. In addition, each of our business segments serves dozens of industries.

	% Share 2019	% Share 2018		% Share 2019	% Share 2018
Customer 1	1.9%	1.8%	Product 1	2.1%	2.3%
Customer 2	1.3%	1.4%	Product 2	1.3%	1.2%
Customer 3	1.2%	1.1%	Product 3	1.3%	1.1%
Customer 4	1.2%	1.0%	Product 4	1.3%	1.0%
Customer 5	1.1%	0.8%	Product 5	1.1%	0.4%
Total	6.7%	6.1%	Total	7.1%	6.0%

SUSTAINABILITY STRATEGY

GRI 102-15, 102-33

Pochteca is committed to working with the highest quality and safety standards that guarantee our operations in economic, environmental, and social terms. We also maintain a good corporate governance and pursue the well-being of the communities where we are present.

Moreover, we have designed policies, procedures and processes that support our products and brands in the markets where we operate.

Our sustainability strategy is based on four pillars: people, environment, supply chain, and community, through which we respect the commitments we have with our customers, suppliers, collaborators, competitors, shareholders, investors and authorities. Communication takes place via an interdisciplinary team empowered by the Company's Top Management.

The work we do focuses on reducing risks and continuously improving our processes so we can meet the needs and expectations of our customers and other business stakeholders we have; achieving our commercial, financial and expansion goals; and ensuring our operation adheres to the four sustainability pillars.



OUR PEOPLE

We ensure their well-being, health, and safety by offering equal treatment in keeping with all applicable laws.



ENVIRONMENT

We have operation controls that minimize environmental impact.



SUPPLY CHAIN

The quality of our products and the safety of food grade items are ensured by operating safely and ethically along the entire chain, while maintaining efficiency in operating expenses.



Community

The work we do is in strict adherence with our values, complying with all applicable legislation, supporting the community to drive a culture of legality, responsibility and mutual cooperation.

We continue to follow our philosophy of "Integrated Customer-Centric Transformation" (TIC in Spanish), whose goal is to increase process efficiency, reduce waste, and enhance work conditions and communication of the teams, reinforcing the sustainability strategy of the Company, in addition to measuring our results.

MATERIALITY

GRI 102-29, 102-44, 102-46

According to the materiality study results presented in 2018 for México and 2019 for Brazil and Central America, during the period of this year's report we have continued reinforcing management of subjects of importance for both Grupo Pochteca as well as for the distribution sector of specialized consumer chemicals and our stakeholders, through constant dialogue that allows us to identify issues related to our operations and which could cause greater impact.

The materiality analysis method has benchmarked a comparison between the maturity of specialized consumer chemical companies and the risk that characterizes requirements set forth by sectorial influencers -both binding and voluntary- in matters pertaining to economic, social, and environmental issues.

GRI 102-33, 102-43

Dialogue held with stakeholders in Brazil -specifically speaking, with customers- was completed in 2019, to then obtain results and analyze them together with existing results for México and Central America, and fine tune the data for material aspects to be reported.

The subjects were discussed with stakeholders through online surveys, with the purpose of verifying material issues for 2018-2019 with 101 customers in Brazil.

The primary results were as follows:

IMPORTANCE OF COMMUNICATING CORPORATE RESPONSIBILITY

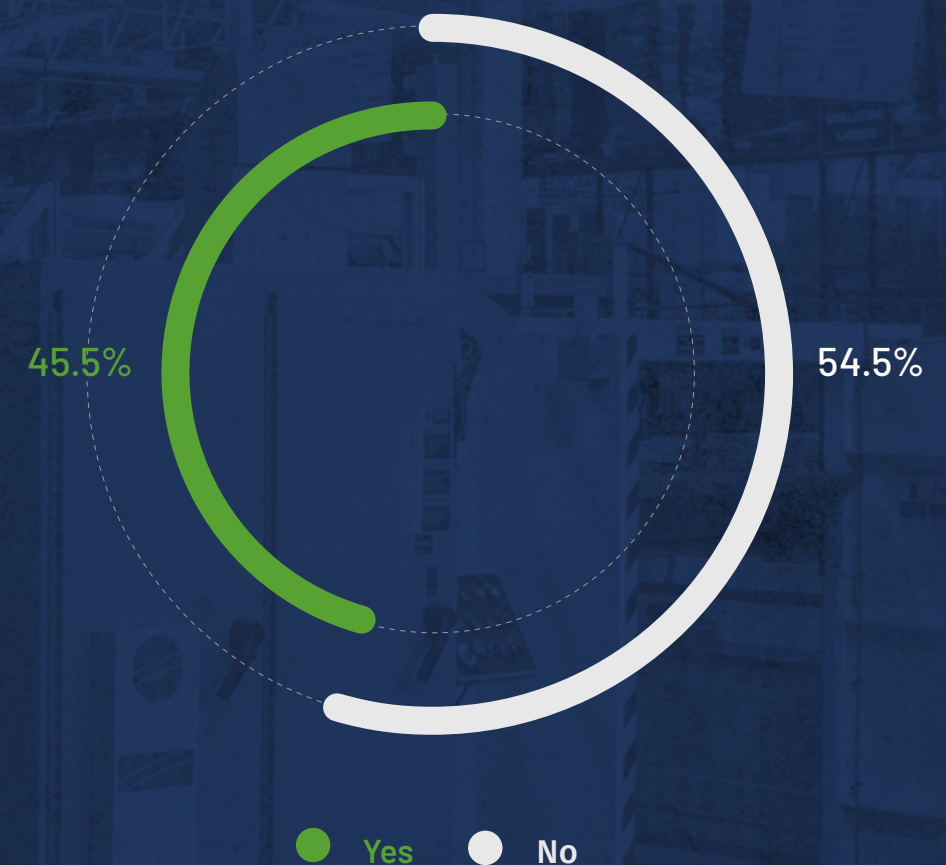
Pochteca customers ranked the importance of communicating economic, environmental and social information with a score of 8 (on a scale of 0 to 10), stating that conveying sustainability trends is as important as conveying those regarding marketing trends.

CHOOSING SUPPLIERS

49% of customers surveyed consider very important that products have the highest of quality standards. This percentage increased by 14 pp over that of the previous year.

SATISFACTION SURVEYS

Over 45% of our customers answered satisfaction surveys in the last year, a 177% increase over the previous survey.



STAKEHOLDER ENGAGEMENT RESULTS

	Clients	Collaborators	Investors	Suppliers	Average	Pochteca	Pochteca + Stakeholders	Sector maturity + Sector Risk+ Social Risk
ECONOMIC MATTERS								
CSR management	80%	90%	86%	88%	86%	71%	79%	84%
Corporate governance	70%	80%	94%	77%	80%	92%	86%	61%
Risk management	80%	80%	96%	89%	86%	89%	88%	86%
Ethics and integrity	70%	80%	94%	87%	83%	93%	88%	72%
Corruption, bribery and transparency	70%	80%	96%	87%	83%	63%	73%	65%
Brand management	80%	80%	86%	85%	83%	100%	91%	70%
Financial affairs	70%	80%	94%	79%	81%	90%	85%	73%
Operations	70%	80%	96%	79%	81%	100%	91%	87%
Product and service development / product liability	80%	80%	90%	90%	85%	82%	84%	84%
Customer relation management	80%	80%	90%	86%	84%	86%	85%	71%
ENVIRONMENTAL MATTERS								
Environmental policies	80%	90%	94%	93%	89%	100%	95%	82%
Materials	70%	80%	88%	77%	79%	100%	89%	76%
Energy eco-efficiency	70%	80%	82%	83%	79%	60%	69%	65%
Water resource management	70%	80%	84%	81%	79%	86%	82%	68%
Biodiversity	80%	90%	80%	86%	84%	50%	67%	40%
Climate change	80%	80%	84%	87%	83%	77%	80%	72%
Waste management	80%	90%	90%	82%	86%	100%	93%	83%
SOCIAL MATTERS								
Talent attraction and retention	70%	80%	88%	83%	80%	71%	76%	62%
Human Resource management	70%	90%	90%	88%	85%	89%	87%	66%
Diversity and equal opportunities	80%	90%	86%	87%	86%	88%	87%	48%
Occupational health and safety	80%	80%	88%	90%	85%	100%	92%	75%
Human rights	80%	90%	88%	88%	87%	90%	88%	67%
Social impact	80%	80%	84%	82%	82%	69%	75%	58%
Supplier standards	70%	80%	82%	82%	79%	86%	82%	65%

GRI 102-47

Subjects that were deemed important and included in this report, as per the dialogue held:

ECONOMIC MATTERS

- CSR management
- Corporate governance
- Risk management
- Ethics and integrity
- Corruption, bribery and transparency
- Brand management
- Financial affairs
- Operations
- Product and service development / product liability
- Customer relation management

ENVIRONMENTAL MATTERS

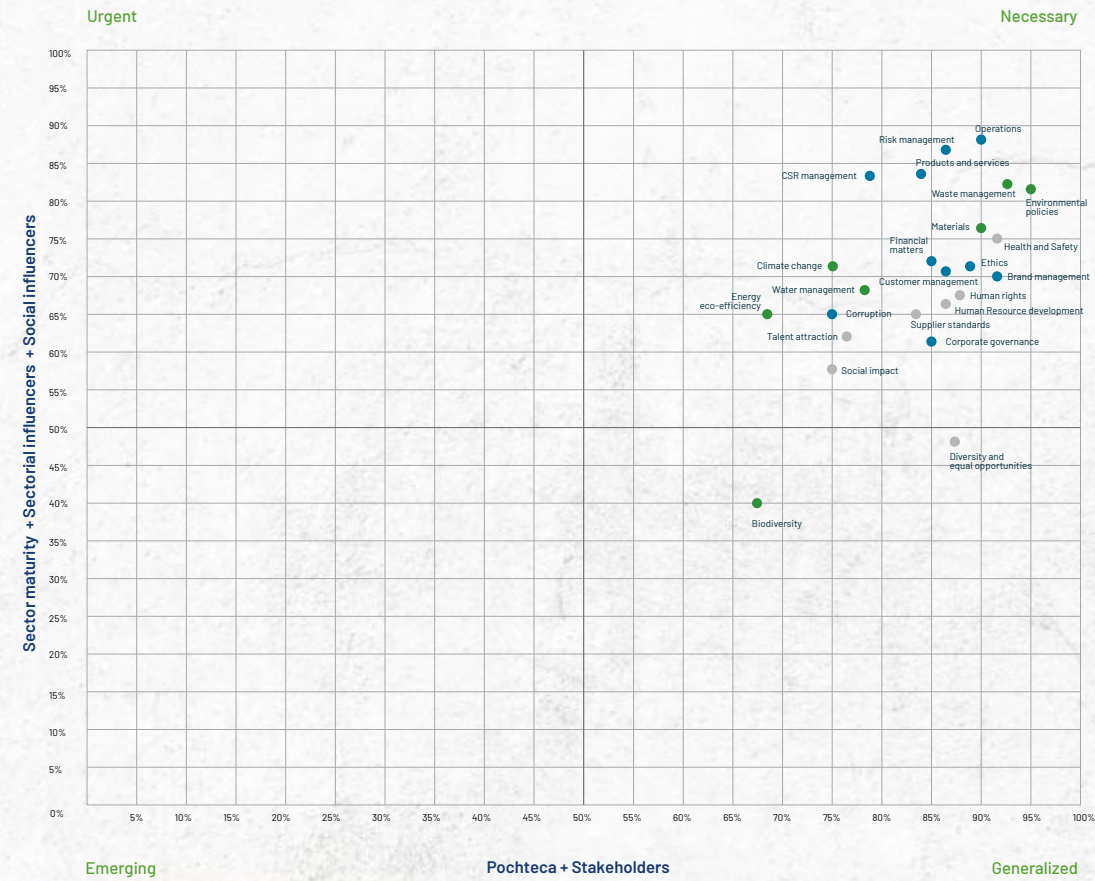
- Environmental policies
- Materials
- Energy eco-efficiency
- Water resource management
- Biodiversity
- Climate change
- Waste management

SOCIAL MATTERS

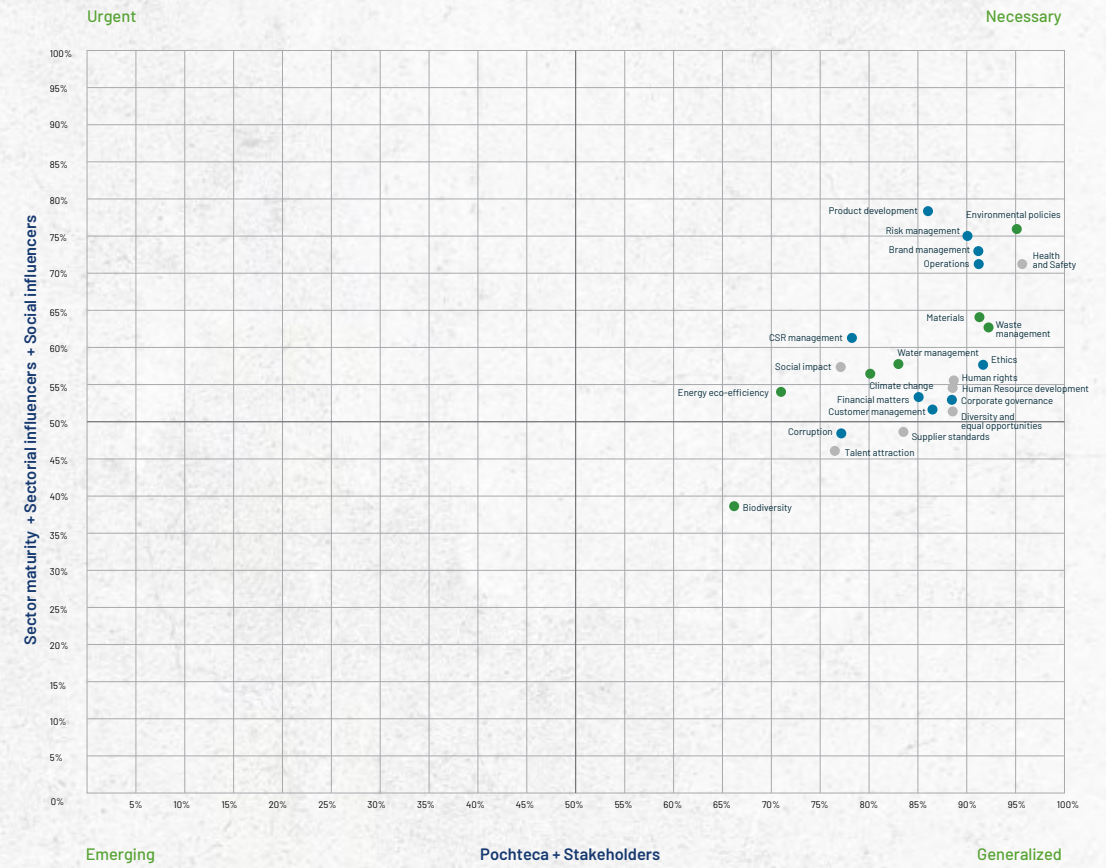
- Talent attraction and retention
- Human Resource management
- Diversity and equal opportunities
- Occupational health and safety
- Human rights
- Social impact
- Supplier standards

POCHTECA MATERIAL MATTERS

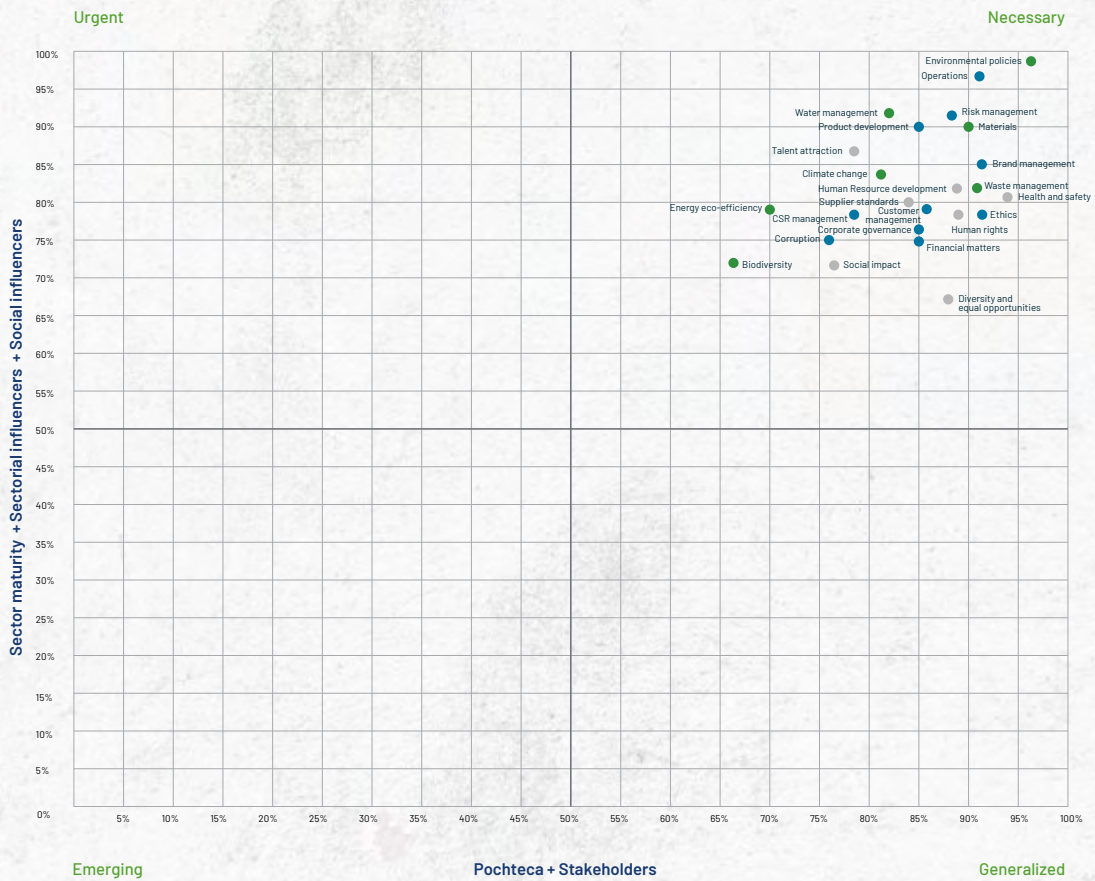
BRAZIL



CENTRAL AMERICA



MÉXICO



Stakeholders

GRI 102-21, 102-37, 102-40, 102-42, 102-43, 102-44, 417-3

We have identified our stakeholders and the commitments with each one of them. These commitments are fundamental to establishing our culture and strategies. We systematically conduct surveys with them to incorporate elements needed to meet their needs and expectations when designing our annual strategies.

Subjects	Pochteca 2019	Basic industry Factum*
Product quality	90.0	91.9
Shipping-receiving conditions	87.0	87.1
Sales / Representatives	81.0	85.2
Communication	75.9	84.5
Customer service	77.2	89.0
Administrative assistance	84.3	87.3
Technical support	82.7	88.9
Overall Satisfaction	82.7	87.7

*Factum: Company that conducts the customer satisfaction survey

Customers

We have established mechanisms with our customers to guarantee their safety, through risk evaluations in the handling of our materials; through training on risks, use, handling, regulation, and waste disposal of materials; and through surveys applied to hear their satisfaction level regarding our value proposition.

In 2019, the primary areas of opportunity detected have to do with enhancing communication and customer service; when compared to average results for the basic industry, these items ranked lower.



At Pochteca and Conjunto LAR, we distribute sodium perborate, cetyl alcohol, car-bomer, among others, which are used to make personal care products.

Among the actions undertaken, we also implemented the Salesforce Project.

SALESFORCE PROJECT

-Sales -Service <ul style="list-style-type: none">• Easy to use• 100% mobile• Collaborative• QV boards• Voice recognition• Quarterly updates	-Einstein <ul style="list-style-type: none">• Artificial Intelligence• Sales assistant• BNA-Best Next Action• SIRI/Voice recognition	-Force <ul style="list-style-type: none">• Development platform• Short cycles• Mobile apps• Sales and additional functionality	-WFs (Workflows) -CPQ (Price quoter) <ul style="list-style-type: none">• Advanced quoter• Contracts• Special customer requirements• 100% mobile• Collaborative• Flexible configuration• WF from quoters
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Collaborators

Through tools such as DDP (Pochteca Personnel Development), we evaluate the objectives and competencies of our collaborators, while UVP (Pochteca Virtual University) offers training as per their profiles.

Moreover, we assess the climate and culture, to gage their engagement and guarantee the needed talent for our headcount.

Communities

We seek the well-being of our communities through work opportunities and development, working together with foundations and associations.

We constantly interact with the authorities and we make sure to always comply with all regulatory requirements in the different countries where we operate.

Suppliers

We have sustainable criteria to select, evaluate, and develop our suppliers.

We maintain our commitment to fair and honest trade practices, sharing best practices through associations and other entities to which we belong: ANIQ, OM-NICHEM, NACD, NPTA, CANACINTRA and Club de Editores.

Shareholders

We work to offer our shareholders growth, profitability, and a return on their investment, by always being in full compliance with regulatory requirements and all applicable legislation in those places where we operate.

Authorities

We are in constant interaction with the authorities and in compliance with all regulatory requirements in the different countries where we are present.



Comprehensive Management System (SIG)

GRI 102-11, 102-15, 102-30

Our operation management and both internal and external interaction are based on documentation of our Comprehensive Management System, wherein codes, policies, manuals, procedures, instructions, and records are established.

The Management System is dynamic and undergoes constant updating, due to the following reasons:

- Business strategy
- Requirements from any of the parties interested in our business

- Complaints and claims filed by our stakeholders
- Materiality surveys and studies
- Process enhancements
- Reinforcement of ethics and business integrity requirements
- Regulatory requirements
- Corrective measures

In turn, we have the following feedback mechanisms that enable us to compile this information: service from commercial executives; customer and post-sale services; social media; suggestion boxes; transparency help desk; 800 dial in; website and interviewers.

The process for incorporating any of these needs to our System entails identifying the new requirements or standards to be implemented as well as the processes involved, making it necessary to define the team needed for implementation, consisting of processes owners and who much be duly trained for the task.

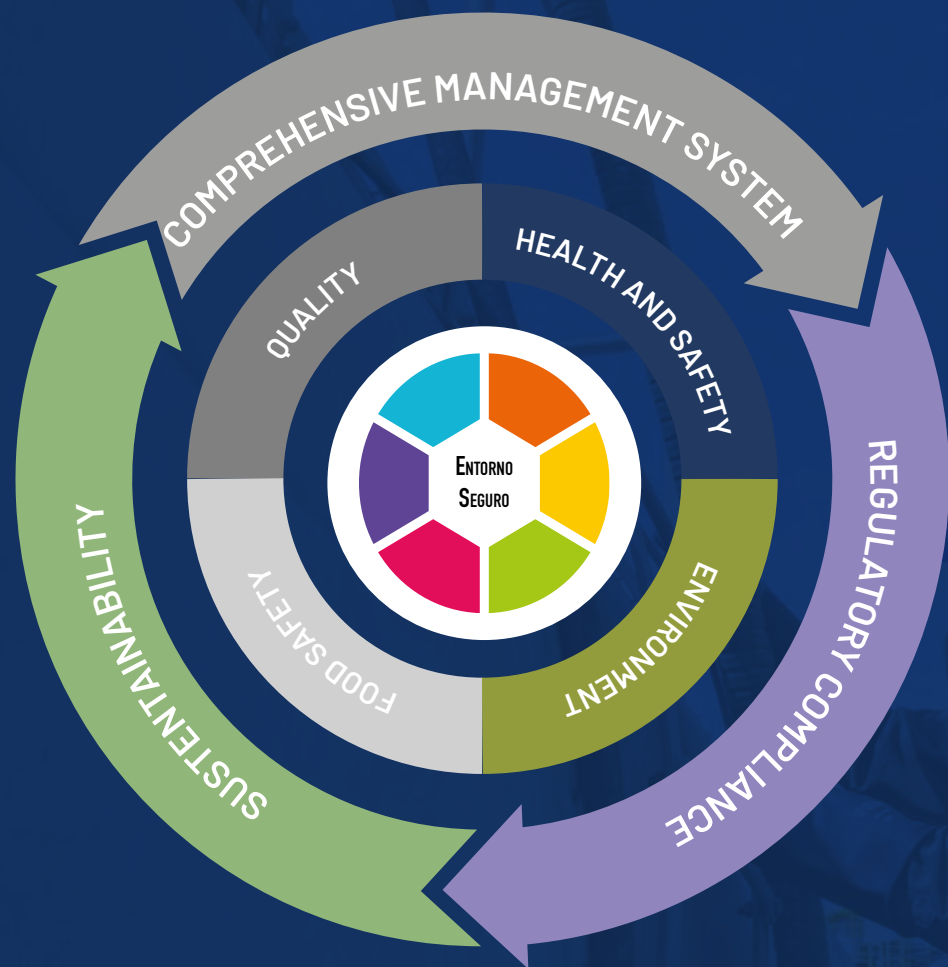
The next step is to document the operation, controls, and performance indicators; document review and issuing, together with communication, dissemination, and training for all those involved in the process changes.

Lastly, we review the indicators, and internal and external audits. Once this

has all been completed, corrections and improvements are performed.

This process has allowed us to maintain current certifications and to incorporate new ones.

Both risk reduction in all operations and continuous process enhancements continue being the foundation for our Comprehensive Management System (SIG) and its corresponding Policy. In order to accomplish all commercial and financial objectives, and meet the needs of all our customers' needs, we must work sustainably and maintain full regulatory compliance in all the countries where we are present, working in keeping with our four pillars.



GRI 413-2

According to the Comprehensive Policy for SIG, we have defined four objectives aimed at accomplishing our goals: EBITDA, sales growth, accident rate, meeting recall objectives for those products deemed a potential risk for consumer health, and maintaining current certifications.

SIG is extending its scope to include meeting requirements for ISO 22000:2018, to guarantee food safety. Within the scope of this certification are the San Juan and Guadalajara branches. This certification will be obtained during the first half of 2020, enabling us to meet the needs of our food-sector customers.

Certifications, awards, and recognitions

GRI 102-11, 102-15, 102-30

From our beginnings, we have held a vision of respect and commitment for our stakeholders and the surroundings where our operations take place, and therefore we have different certifications for social and environmental subjects.

We have ISO 9001:2015 certification for three metropolitan area plants and corporate offices, and for four plants located in Brazil.

CERTIFICATIONS

ISO 9001-2015



Responsible Distribution



This guarantees that all collaborators gross a minimum of \$6,500 pesos per month.



Responsible forestry management



CERTIFICATIONS FOR GOOD PRACTICES



OUR PEOPLE

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

Pochteca is a company concerned with the well-being of our collaborators. At all times we support diversity and gender equality, always seeking their training and development, in addition to their health and safety.

HEADCOUNT BY REGION AND GENDER

Region	Female	Male	Overall Total
Bajío	37	84	121
Central	207	419	626
South Central	35	49	84
Northeast	26	50	76
Northwest	35	47	82
West	18	32	50
Southeast	14	57	71
Guatemala	7	12	19
Costa Rica	8	9	17
El Salvador	8	12	20
Coremal, Brazil	104	149	253
Overall Total	499	920	1,419

NEW HIRES BY GENDER AND AGE

Region	Age	Women	Men	Overall Total
Bajío	18 a 30	4	39	43
	31 a 50	9	24	33
Central	18 a 30	29	79	108
	31 a 50	37	81	118
	51 a 68	7	19	26
South Central	21 a 30	7	10	17
	31 a 49	15	17	32
Northeast	19 a 30	8	20	28
	31 a 50	4	27	31
	51 a 60	10	22	32
Northwest	31 a 50	4	14	18
	51 a 60	-	2	2
West	25 a 30	2	8	10
	31 a 48	2	3	5
Southeast	20 a 30	-	11	11
	31 a 44	5	9	14
Guatemala	22 a 30	1	2	3
	31 a 47	1	3	4
Costa Rica	26 a 30	1	1	2
	31 a 47	1	7	8
El Salvador	24 a 30	2	-	2
	31 a 51	2	3	5
Brazil	17 a 30	11	11	22
	31 a 50	9	16	25
	50 a 56	-	2	2
Total		171	430	601

It should be noted that in 2019 we reinforced our headcount with area or branch managers. Moreover, the new industrial waste management business has a team of 21 collaborators, starting with the Commercial, Technical and Operations Area Director.

GRI 201-1

The benefits and opportunities for our collaborators are above those mandated by law, and they are contingent on the type of work and competencies of the personnel who fill the position. Likewise, we neither allow any type of discrimination due to gender, ethnic group, or social position of our collaborators, nor do we base our benefits on any of these factors.

In 2019 we designed a work inclusion project together with Fundación Unidos, A.C., who allowed us to train and raise

awareness of our collaborators, with the purpose of including among our people those who have disabilities. Stemming from this project, we have onboarded and now have collaborators with disabilities working alongside their fellow colleagues in the Company.

Our compensation strategy aims to compensate collaborators based on their individual competencies and the accomplishment of their goals. The primary fringe benefits include: Social Security, life insurance, and saving plans.

In the hope of having our lower-earning collaborators earn a wage level that allows them to better cover their needs, in 2019 we launched “Companies in Favor of Well-Being” (Empresas por el Bienestar), alongside a group of 100 other companies who have the same conviction.

All the companies that have joined this initiative have committed to guaranteeing that none of their collaborators –as of December 1, 2019, will gross less than \$6,500 pesos a month, plus fringe benefits.



GRI 401-3

We ensure the rights of all collaborators –both male and female alike– who will be on maternity / paternity leave, as per the Mexican Labor Law and work regulations. Any resignations related to maternity are the decision of the collaborator herself.

The organization provides the facilities needed to supplement flex time and working from the home, for proper reincorporation to work duties. With this in mind, we have invested considerably in infrastructure and voice and data equipment to ensure optimum connectivity of collaborators during their work time.

We continue investing in infrastructure so our collaborates may have the tools needed and be able to supplement their work schedules from home, when needed:

- 80% have portable computer equipment
- 60% intelligent phones
- VoIP service that enables keeping the office phone extension on the laptop

- Secure access to network (VPN) to be able to access data from anywhere
- Teams
- Data cloud access, for example, our internal communication system -Pochteca Net
- KMkey for documentation of comprehensive management system
- OneDrive, which permits online storage

Maternity	
Resignation due to pregnancy	23
Total number of women	499
Percentage	5%
Reincorporation of resignations due to pregnancy	
Pregnancy-related resignations	23
Reincorporated	22
Percentage	96%

Average monthly wages by region and gender

Region	Women	Men
	Average monthly wage	Average monthly wage
Bajío	15,134	17,208
Central	18,959	25,785
South central	14,711	18,647
Northeast	16,229	18,128
Northwest	17,118	17,967
West	14,372	20,382
Southeast	14,804	14,025
Guatemala	16,332	19,652
Costa Rica	19,738	57,187
El Salvador	24,145	13,419
Coremal, Brazil	14,541	31,284
Overall total	16,917	23,062

GRI 402-1

Notice to employees and their elected representatives regarding any practice or operational change, or which can have any sort of significant impact, is provided one month prior and union representatives are always involved in the implementation of said changes. The collective bargaining contract specifies that negotiations are to be conducted in December of each year.

GRI 401-1

The turnover rate throughout 2019 rose 5%, as compared to 2018, and therefore

we established a specific strategy to reduce this number, through the following measures:

- Review of position profiles
- Strengthening the recruitment and selection process
- Changes to orientation and training process
- Performance evaluation process and development plans
- Monthly monitoring of turnover rate, by area
- Collaborator value proposition

PERSONNEL TURNOVER

Region	Deletions			Headcount	Turnover		
	Women	Men	Total		Women	Men	Total
Bajío	13	60	73	121	1%	4%	5%
Central	76	188	264	626	5%	13%	19%
South central	16	37	53	84	1%	3%	4%
Northeast	15	47	62	76	1%	3%	4%
Northwest	7	41	48	82	0%	3%	3%
West	4	10	14	50	0%	1%	1%
Southeast	3	14	17	71	0%	1%	1%
Guatemala		7	7	19	0%	0%	0%
Costa Rica	3	5	8	17	0%	0%	1%
El Salvador	3	3	6	20	0%	0%	0%
Coremal, Brazil	28	41	69	253	2%	3%	5%
Overall Total	168	453	621	1,419	12%	32%	44%

ACTIONS FOR 2020
(Follow up)

SPECIFIC ACTION PLAN FOR THE AREA OR BRANCH

I. Identifying the root-cause for the turnover rate

a) By branch

b) By area, as per analysis of:

- Exit interview of people as they leave the Company
- Dialog with collaborators of greater seniority

II. Determining specific actions according to analysis results

Training and evaluation

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

At Pochteca we work constantly on collaborator development through a training and competencies program, which is based on applicable legislation, needs detection, and business strategies.

Our training process begins with a training needs detection (DNC) which include the following:

- Organization strategies
- Audits
- Corrective measures
- Development plans
- Changes to applicable regulations
- Changes in process and infrastructure
- Customer requirements

Stemming from the above information obtained, the annual training plan is then designed.

We conduct the effectiveness assessment for courses given, through collaborator performance. This process is performed through the Pochteca Potential Development (DPP) for staff, and in the case of operations personnel it is through the forms that accomplish the same as the DPP platform.

It should be noted that during the 4Q of 2019, we started the overall engineering of the Pochteca Virtual University (UVP), to be completed in 2020, thereby making this a cutting edge technological tool for remote training.

As part of our continuous improvement strategy, in 2019 we offered 33,792 hours of training to 279 participants of the High Performance Teams. This was accomplished through the Customer-Centric Comprehensive Transformation Initiative (TIC).

1,419
collaborators
received training

35%
women

65%
men

53.654
hours
of training

1,398,286
investment
in training



The performance evaluation training process begins with identifying and assigning objectives for the year, and entails a mid-year review to monitor progress with initial objectives, and defining actions that will guarantee that by the end of the year, the objectives have been accomplished.

The evaluation results concerning objectives, as well as competencies are graded along a scale that goes from "Does Not Meet Expectations" to "Exceeds Expectations".

GRI 401-2

As part of the benefits provided by Pochteca to its collaborators, in 2019 we implemented the "Study Program for Operators" (Programa de Estudios para Operarios), offering the operations personnel the opportunity of obtaining quality education.

This was possible thanks to the Building and Growing Institution (Institución Construyendo y Creciendo), which together with INEA allies offers open and free primary, secondary and preparatory education and courses or workshops

covering different fields; related or not to company activities and which promote formal and specialized education for collaborators through classes and remedial courses, with official certificates; and computer courses, vocational workshops, personal finance training, personal development, and others.

Workshops include subjects pertaining to computer science and technology, and training in different trades such as: typing, computer software, computers, spelling

and composition; and trades such as carpentry, electricity, plumbing, and others.

To accomplish this, the Pochteca Classroom (Aula Pochteca) was set up in our San Juan Plant, and it was opened on February 11, 2019 with educational material and equipment such as computers, internet, and all the supplies needed for learning activities, there making it possible for collaborators to attend classes during flexible schedules.

POCHTECA CLASSROOM (AULA POCHTECA)

GENDER	NUMBER	%
Men	22	71%
Women	9	29%
%		100%

Educational levels and courses completed

Online courses *	19
Financial education	5
Workshops	48
Total	72

*Any individual is allowed to complete more than one online course

31
global students

Educational levels and global courses

Literacy classes	1
Secondary level	3
Preparatory level	14
Online courses	16
Financial training	5
Workshops	48
Total	87

TRAINING HOURS IN POCHTECA CLASSROOM (AULA POCHTECA)

Month	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Hours per month	56	76	76	84	76	76	76	76	76	76	64	812



It should be noted that Pochteca supports sustainable development objectives and with the Pochteca Classroom we have contributed with the following:



Developing Youth (Jóvenes en desarrollo)

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

Regarding youth development in 2019, the strategy adopted was not to add new collaborators to the program, but rather to consolidate and develop those that completed this stage in the different positions to which they were assigned.

We have currently hired graduates of this program and placed them as: 10 commercial executives, 5 on the commercial team for divisions in different positions (line coordinators, technical representatives, and projects), in addition to one person on the operations team. The development of young talent has brought about having two collaborators that now have management positions, and one them holds a positions of area supervisor. Stemming from this initiative we now have one Manager and one Supervisor.

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

SAFETY

The health and safety of our collaborators is a priority for us at Pochteca, and therefore since we first defined our culture and strategy, these items are considered and reflected in the duties and objectives of each and every collaborator, as well as in all documentation governing the operation of our Comprehensive Management System, which is under the responsibility of Corporate Management.

Our responsibility to all business stakeholders demands having operation standards that do not endanger the safety of customers, suppliers, or neighboring communities where we operate; as a result, our protocols for emergency response are validated through scheduled drills.

Communication Solutions

GRI 102-33

We hold frequent communication with state and federal level Civil Protection, where we present our internal programs for verification, inspection, and any observations stemming from the same; we also participate in events and drills upon request by the corresponding authorities.

At Pochteca we are convinced that open and frank communication with Civil Protection authorities will guarantee accomplishing our strategies, objectives and commitments to society.



Our Overall Responsibility area has the goal of meeting the objectives of our Safe Surroundings strategy, through which we pursue the goal of reducing injuries, accidents, and unsafe conditions by :

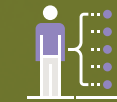
Monterrey



Raising awareness among our collaborators



Training



Establishing controls and procedures



Investigating injuries and accidents



Communicating corrective measures and lessons learned



Disseminating performance achieved in safety issues



Holding events to involve collaborators and their families

616

man-hours of training
for customers and
suppliers

We have set aside a place on our communications platform -PochtecaNet- for our Safe Surroundings program, allowing for the publishing of any information on this strategy, and which we share with our customers and suppliers through training in basic safety measures and material handling.

In our Management System, we have 30 documents exclusively devoted to safety and which establish activities and controls for compliance. In addition, all operating procedures set forth the controls for each activity, including emergency response actions.

Moreover, our SIG is audited continuously, and we keep our facilities certified under SARI and RD protocols, pursuant to ANIQ and NACD standards, respectively. The scope of these certifications focus on safety, environmental protection, and compliance with all applicable legislation.

We linked the Entorno Seguro (Safe Surroundings) initiative in 2019, with the one launched in 2018 - Yo hago lo correcto (I Do What is Right)- which was designed to reinforce our culture of proper service and transparency, holding the annual children's drawing contest for our collaborators' families. The purpose of the contest was to promote parent-children conversations on our Company values and the importance they have in all our lives, encouraging their children to depict them through drawings. The majority of the children identified safety as a value.

In 2020 we created a calendar that included these drawings, as well as the branches certified in SARI throughout 2019.

¡Participa!

Concurso infantil
"YO HAGO LO CORRECTO"

Bases

- El concurso está dirigido a los hijos de los colaboradores Pochteca y Conjunto LAR.
- Participan todas las sedes de la República Mexicana y Centroamérica.
- Habrà dos categorías para los participantes:
 - Menores de 6 años.
 - De 7 a 12 años.
- Platica con tus hijos acerca de cómo vives nuestros valores y nuestra política del SIG
- Los participantes deberán realizar un dibujo de lo que para ellos es hacer lo correcto y deberán colocar como título de su trabajo el valor o el pilar de la política del SIG que están dibujando
- El dibujo debe realizarse a mano en una hoja tamaño carta.
- La técnica y el material a usar es libre.
- Únicamente un dibujo por participante.
- Al reverso de la hoja debes colocar:
 - Título del dibujo.
 - Nombre del participante.
 - Edad.
 - Nombre del padre o madre.
 - Sucursal donde trabaja.
- Envía los dibujos originales a sucursal San Juan en atención a: Nieves Ochoa.
- Fecha límite para recepción de dibujos 26 de abril de 2019.
- Anuncio de ganadores 30 de abril de 2019.

Premios

1º lugar: Laptop
2º lugar: Tablet
3º lugar: Bicicleta

Premios para cada categoría.

Yo hago
lo CORRECTO



In order to announce to our collaborators the development, implementation and evaluation of the management system in terms of occupational health and safety, we used different media:

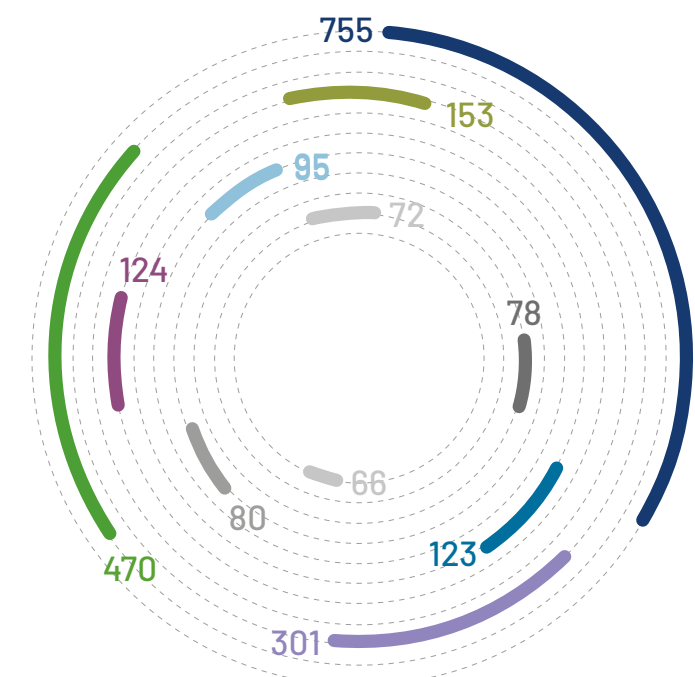
- Daily meeting before the start of operations, and on Entorno Seguro (Safe Surroundings)
- Information published in the Entorno Seguro (Safe Surroundings) group
- Activities involving collaborators and their families

GRI 102-32

We have an incident monitoring system called MASH reports, whose purpose is to prevent the occurrence of safety-related risks, which is located on a reporting and follow-up platform, available to all in charge at each site; centrally we can conduct event analysis, enabling us to focus efforts on common subjects or whatever generates greater risk.

At the monthly directors meeting we present the performance for each site in the system follow-up.

REGION/BRANCH 2,317 TOTAL INCIDENTS



- México-San Jose
- México-San Juan
- Central America-Costa Rica
- México-Monterrey
- México-Vallejo
- México-Leon
- Others
- México-Cuernavaca
- Central America-Guatemala
- México-Morelia
- México-San Luis Potosi

CERTIFICATION SCOPE

MÉXICO

60%
of operations
for ISO 9001

9 sites
certified in the
SARI system of
ANIQ

7 sites
with Responsible
Distribution from
NACD

BRAZIL

100%
of operations for
ISO 9001 and for
PRODIR system



Likewise, the management system is audited internally and independently, with the following results for 2019:

México and Central America

- 33 independent audits and 12 internal (45 audits)
- 48 independent audit days and 17 internal audit days (65 days)

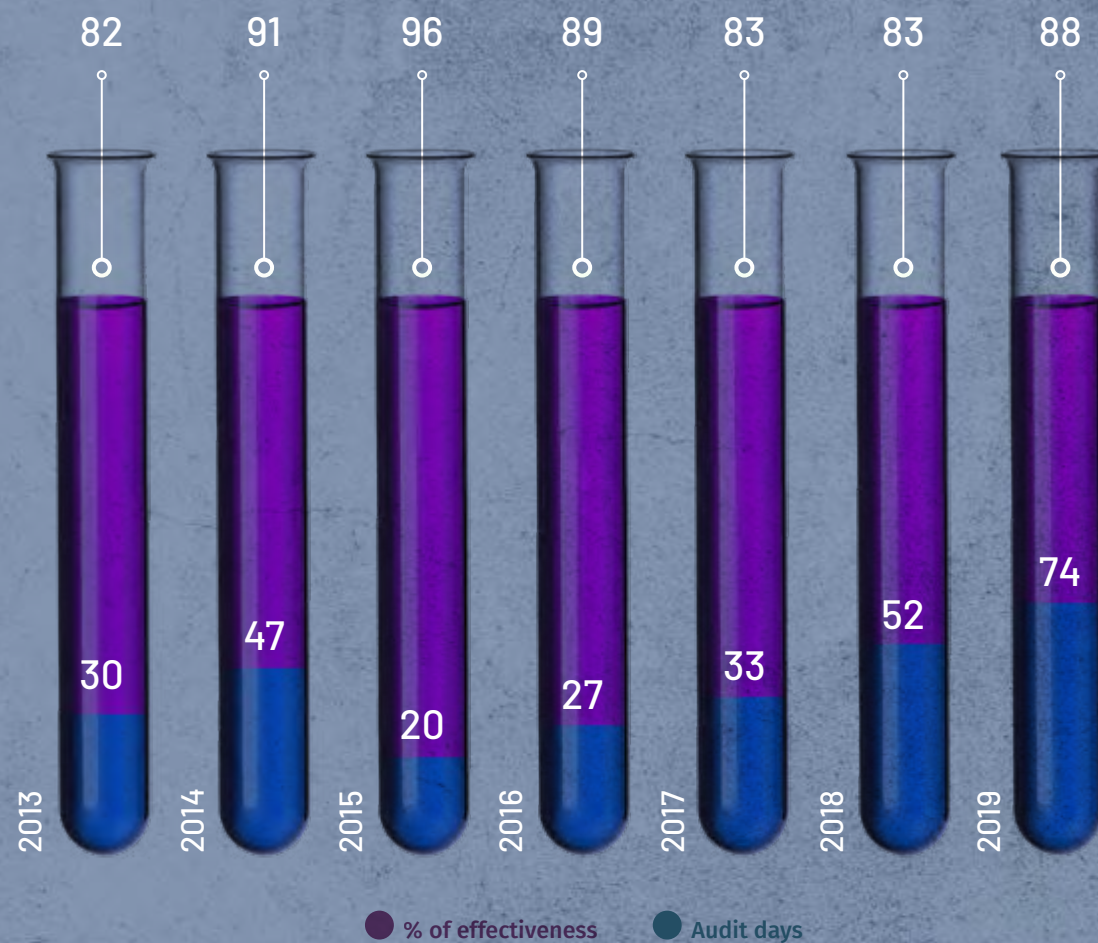
Brazil

- 7 independent audits and 2 internal (9 audits)
- 9 audit days



León, Guanajuato

MANAGEMENT SYSTEM AUDIT



With the purpose of identifying work-related risks or hazards and being able to evaluate them on a daily basis, we conducted risk matrixes by site, according to the process conducted in each one and the existing infrastructure. Once identified, we establish the controls to be applied and document them in a matrix known as Occupational Health and Safety Risks, which are evaluated during the audits to verify their effectiveness.

Each week we check the performance at each site, regarding accidents. Safety meetings are held as well as updates on MASH reports. Based on the results for each site, we hold sessions with the leaders to establish the necessary measures

for each case. In addition, each month at the directors meeting we present a summary of global performance, so that necessary resources may be allocated to each site, if needed, to deal with the requirements identified.

Occupational health and safety training is of paramount importance. Each year, quality and comprehensive liability teams, together with the training team, review the courses needed by personnel in health and safety matters, which are defined taking into account the risk matrixes, regulatory requirements, new products and processes, and investigation into accidents and incidents.

Based on previous information, we establish the yearly training plan. The Training department, together with those in charge of human resources and each site manager execute and follow up on said plan.

We also have a tool named JIRA, through which any company collaborator may report any unsafe condition or action online. In the case of operational personnel, they can do it directly with supervisors or during the daily operations startup meetings.

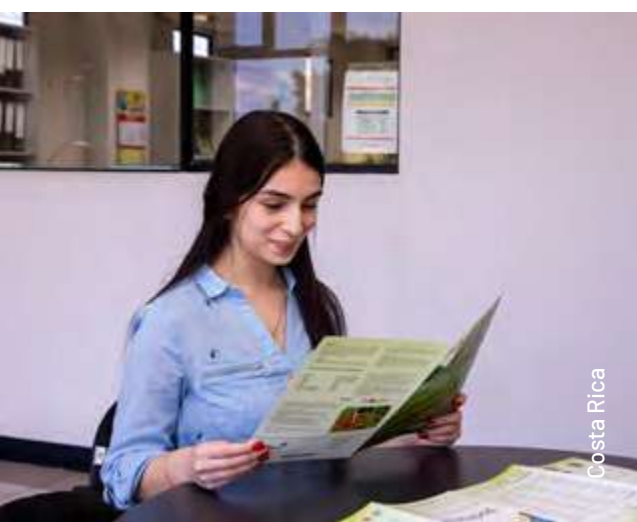
Our accident investigation process employs an investigation and analysis form, which includes a section on causes, another for required actions and lastly, one on control standardization. This guarantees that controls are standardized through changes to any document related to the process in which the accident occurred and so it does not happen again.

Communicating accidents to everyone in the Company is crucial to avoiding a repeat case. This is accomplished through our Safe Surroundings tool, whereby the collaborator can explain the causes of the accident and how to avoid it in the future.





San Juan



Costa Rica



Guatemala

Civil Protection

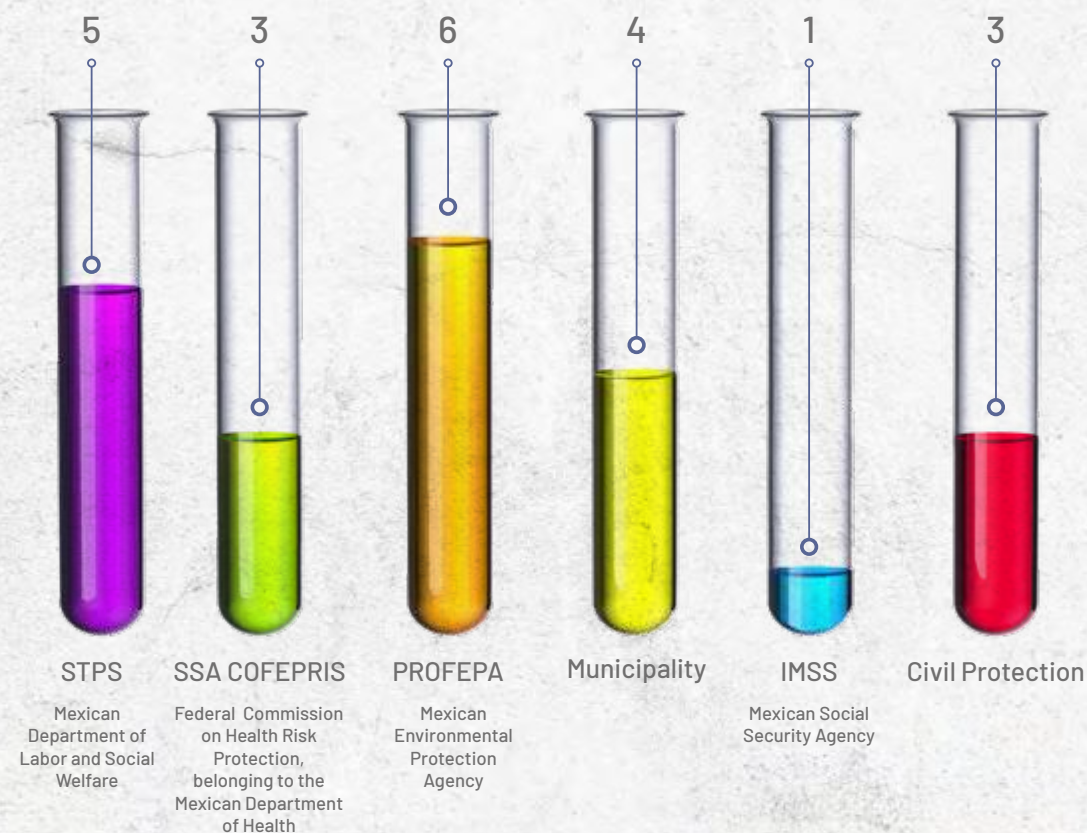
GRI 403: 103-1, 103-2, 103-3, 307-1, 403-1

There was no material non-compliance in terms of regulations, that could be attributed to Civil Protection inspections. However, due to changes to the General Law, we have modified budget allocation for each site, increasing it by an average of four percent. In addition, we reinforced our training plans through the purchase of video streaming system, and we have increased the amount of drills conducted throughout the year. On the average, we conduct three drills per site.

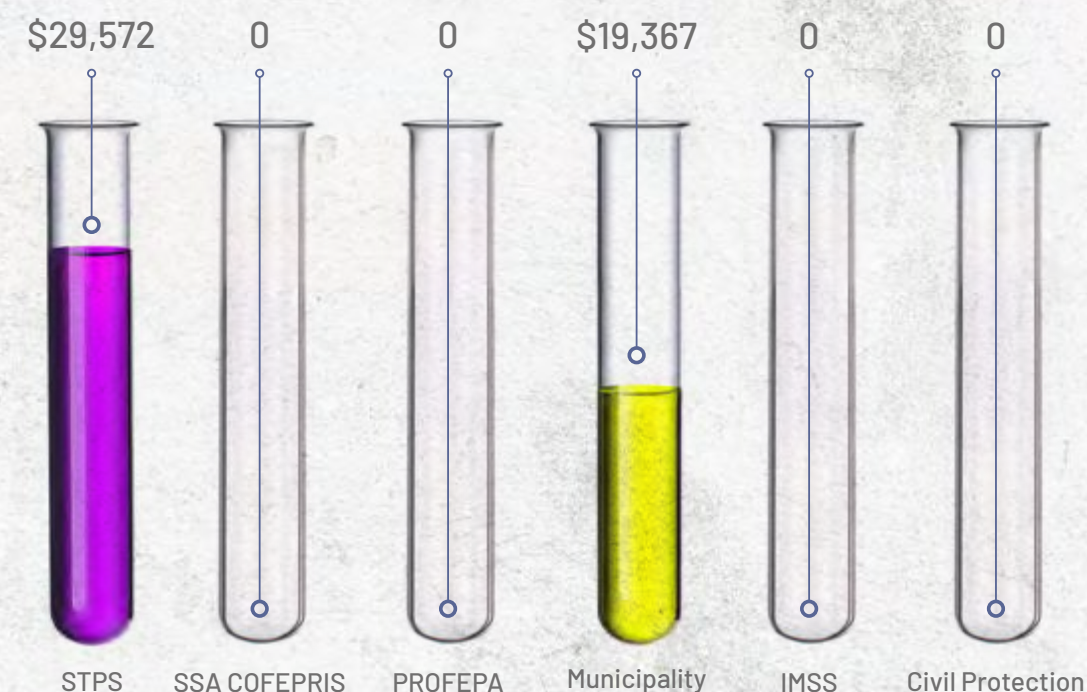
We have an annual activities schedule for all sites to centrally ensure compliance with requirements, coordinating with those in charge, to evaluate local supplier proposals and guarantee compliance with the plan.

Civil protection evaluates information during inspections and again later during the tour of the facilities; verifies conditions and knowledge of personnel as demonstrated in documentation on internal programs and operation records.

INSPECTIONS BY AGENCY



FINES BY AGENCY



Disabling injuries

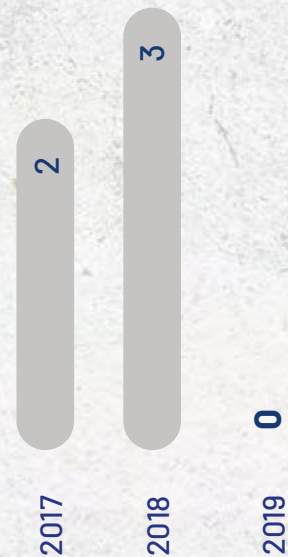


Accidents without sick leave



During 2019, we improve safety performance as compared to 2018, with 21 disabling injuries going down to 11; and a reduction in sick leave, from 210

Accidents in route home

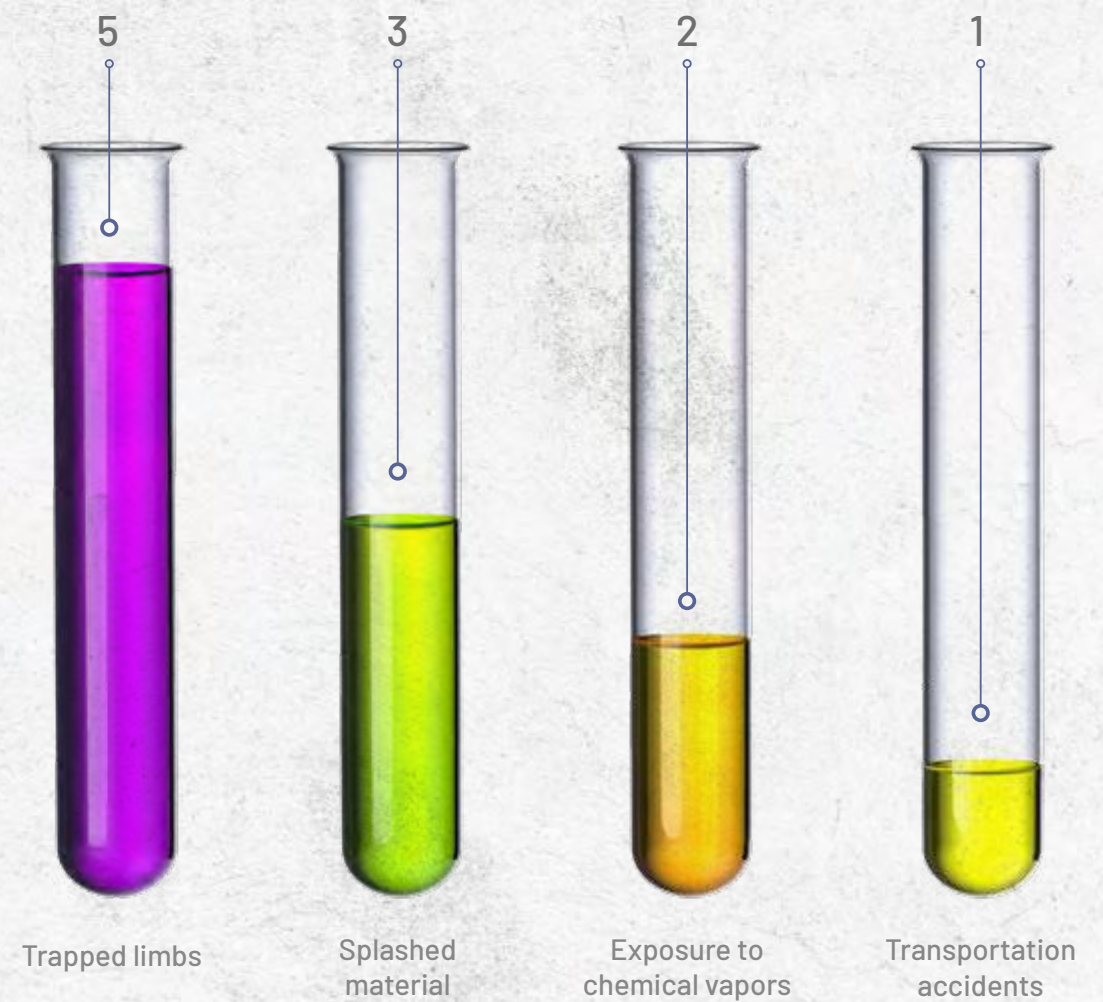


days to 172. Our incident rate goal per 200,000 working hours dropped from 1.19 to 0.7.

Incident rate



TYPES OF INCIDENTS



Cybersecurity / eCommerce

ONLINE STORE CONJUNTO LAR

In 2018, we launched our online store for Conjunto LAR, but was not operational until 2019, with its own service and a more extensive product catalog.

In 2019, we received over 3,500 monthly visits to the store, and served over 100 customers, in addition to selling 450 fragrances here.

The online Conjunto LAR store has been able to serve those who are far from our branches, providing them with top quality materials to make their products, without having to travel to obtain them. This opens up new opportunities for creating small companies or for producing personal care items and household cleaning products for the consumer sector.

We developed a cybersecurity strategy that consists of reinforcing data backup schemes for virtual environments and the cloud; migrating all email users and document services to the cloud. Moreover, we have created general policies,

such as Data Center Management and Operation; Backup; User Controls; Asset Controls; Navigation and Internet Service Controls; Blocking USB Ports; and External Email.

In 2020, we expect to automate the online store through connection to our ERP, continue adding products to better serve our remote customers, and attracting new customers who can benefit from our products and workshops.

Health

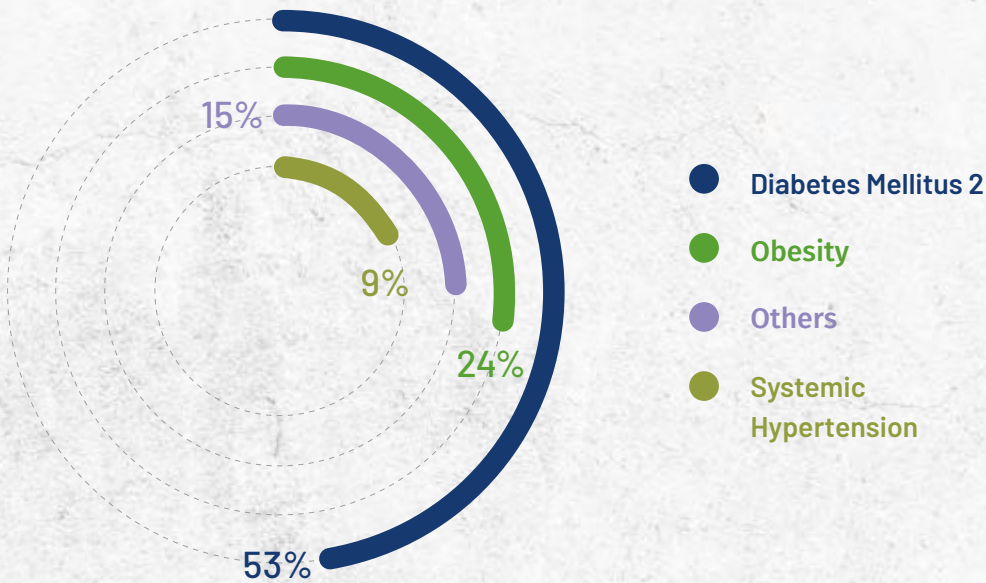


Regarding health care, in 2019 we created a program called Pochteca and I Care for My Health. With this we established monthly activities focusing on collaborator health issues and which stem from our analysis of the Orienta PAE (PAE Guidance System), which is available 24/7 for the whole Company, also from medical exams that are part of the General Health Plan that focuses on health conditions identified in the general health diagnosis.

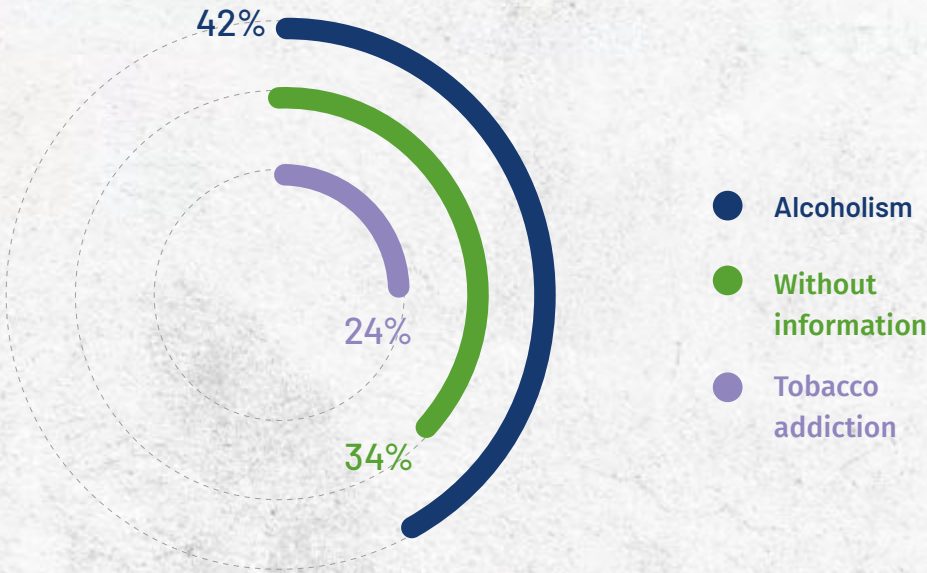
We distribute several raw materials for the food industry, such as lactose, sodium benzoate, dextrose and starch, cocoa and alkaline cocoa, sodium bicarbonate USP, among others.



CHRONIC DEGENERATIVE DISEASES

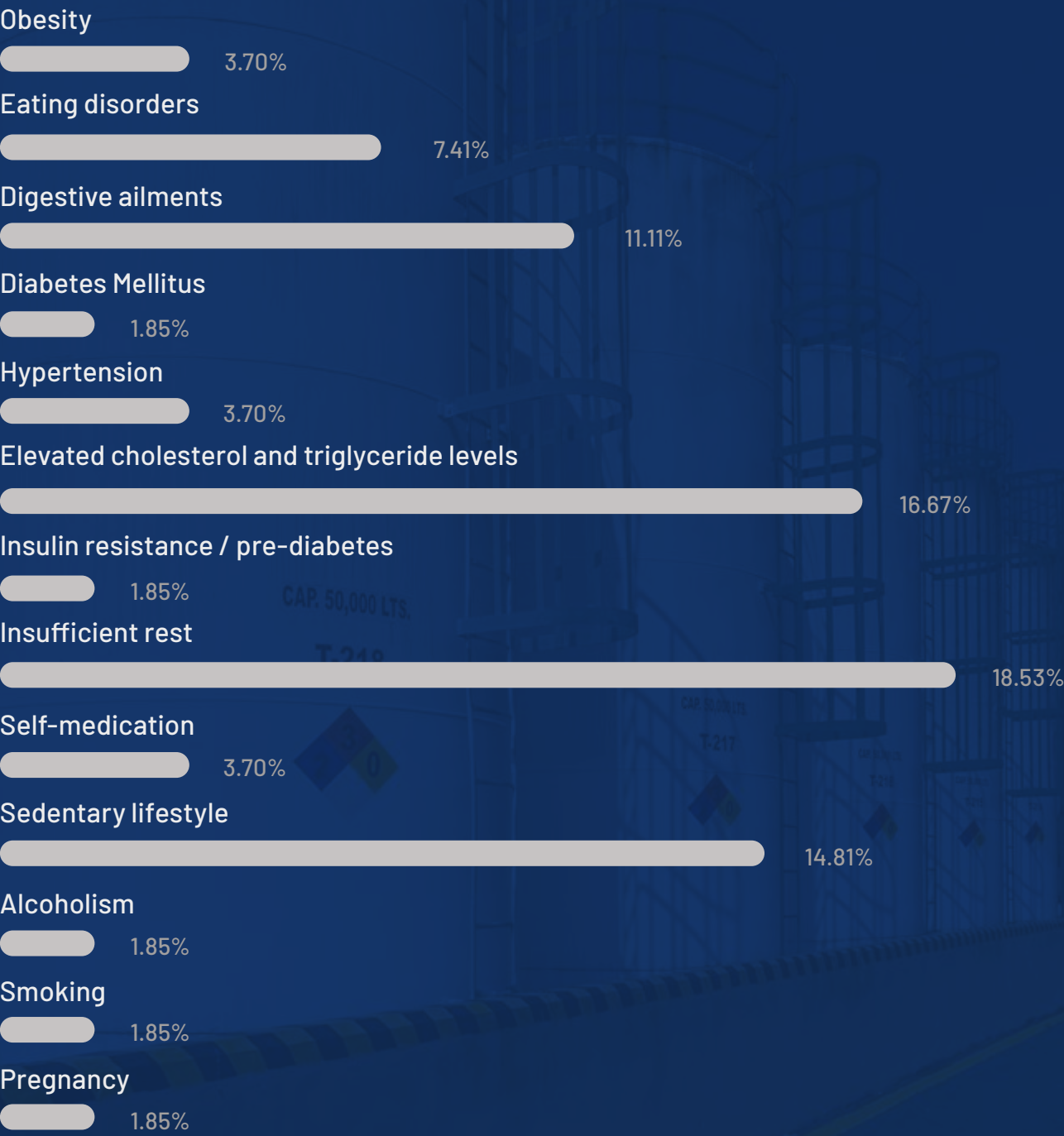


ADDICTIONS



ORIENTA PAE GUIDANCE SYSTEM

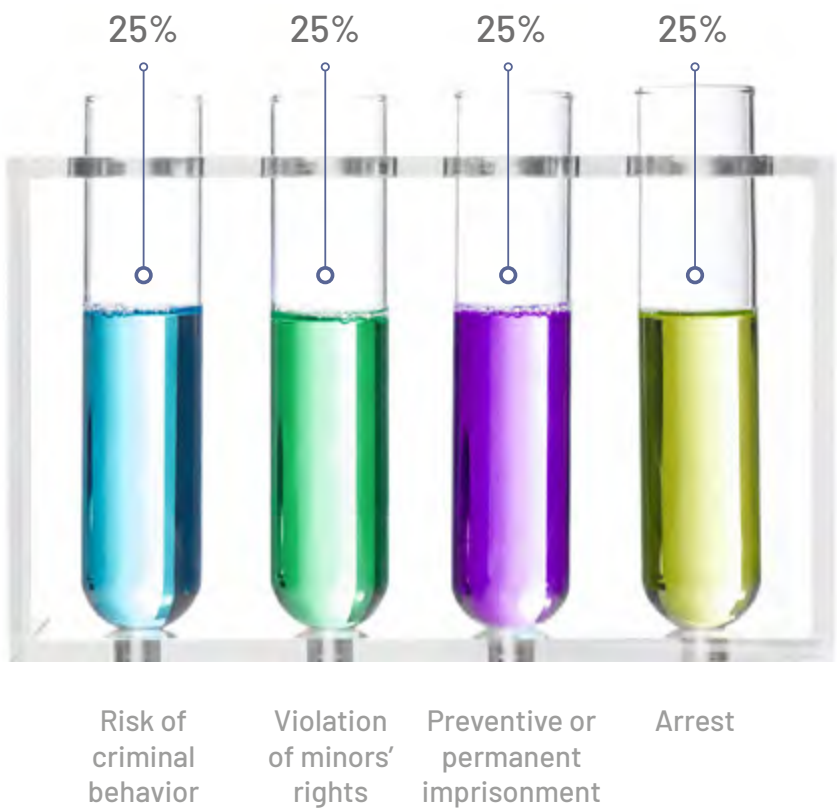
Personal Risk Factors



PHYSICAL



LEGAL



Psychosocial Factors

GENERAL

Working environment conditions



Insufficient feeling of belonging and instability



Performance recognition



On-the-job relationships



Leadership



Interference in work-life balance



Work shifts



Lack of control over work

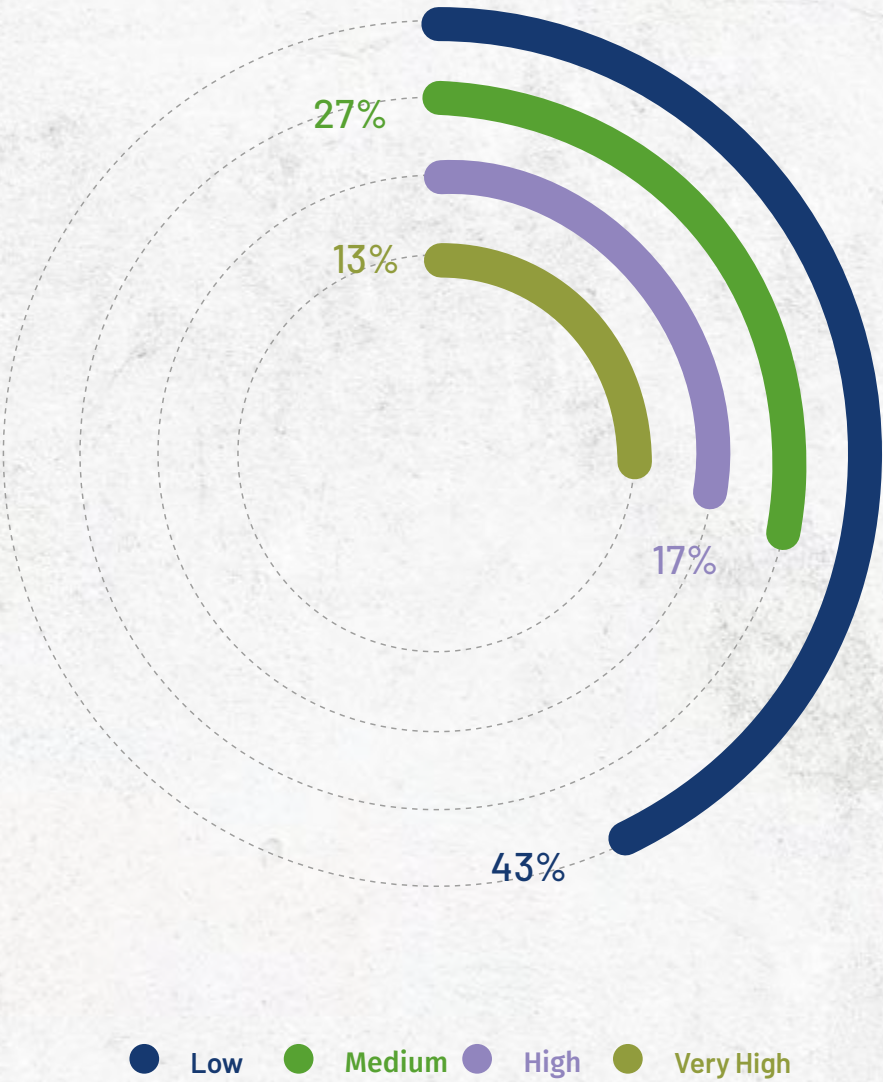


Stemming from these results and based on the health diagnostic information and the Orienta PAE Guidance System helpdesk, a health and communication program was defined for application in 2020.

At Pochteca we distribute raw materials for water treatment, such as aluminum trichloride and sulphate, among others.



RISK LEVEL ACCORDING TO PSYCHOSOCIAL FACTORS



In addition, during the last quarter of 2019, for the first time, we conducted a diagnosis of psychosocial risk factors for collaborators, and we developed a policy and a committee to identify, follow up, and provide attention for such factors.

EMOTIONAL

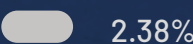
Addictions



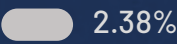
Emotional conflicts



Discrimination



School



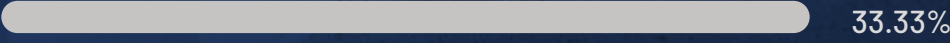
Family



Emotional relationships



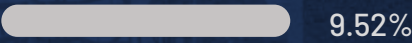
Spouse / partner



Suicide prevention



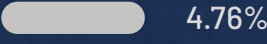
Interpersonal relationships



Sexuality



Work



One of the most important achievements for 2019 in safety was receiving an award for excellence due to the results obtained with SARI system verifications. Our average result was 92.1, with the national average for distributors being 87.7.

Our goal is to certify 4 more sites per year in SARI and RD standards, as per ANIQ and NACD, respectively. We also set the goal of maintaining our incident rate below international averages.



Health Alliances

GRI 403: 103-1, 103-2, 103-3, 403-1, 102-13, 403-1

Our different branches seek to belong to mutual assistance groups or drive such incorporation.

Our metropolitan area plants continue belonging to PAMI, an industrial support group comprised by 13 companies located within the Ecatepec-Tlalnepantla polygon. The purpose is to prevent, manage, and control industrial risks stemming from the nature of the activities of its collaborators, and which could affect their safety or income, as well as the

neighboring community, its facilities and the surroundings.

Likewise, we are partners of the Integrated Regional Security Committee (CRIS) since 2012, covering the Minatitlán / Cosoleacaque, Veracruz, industrial area, which provides the material and human resources needed for attention and control of major emergencies; minimizing personal injuries and property damage; and reducing the impact on the environment and community.

SUSTAINABLE OPERATION

GRI 306, 307: 103-1, 103-2, 103-3, 102-11, 102-15, 201-3, 307-1

Through commitments and efforts helping to reduce our footprint we are able to mitigate the impact of our operations.

With our commitment to environmental protection, we adhere to different regulations that help us to reach our goal of caring for and preserving the environment where we operate. Our SIG is in line with all domestic and international standards, as per applicable legislation.

Due to the nature of the products we market, it is crucial to consider environmental and safety issues for each product we handle.

We have a risk analysis method that enables us to detail each activity within each process, as well as the environmental impact of the same. Moreover, all our systems, manuals and operation regulations have control elements included.

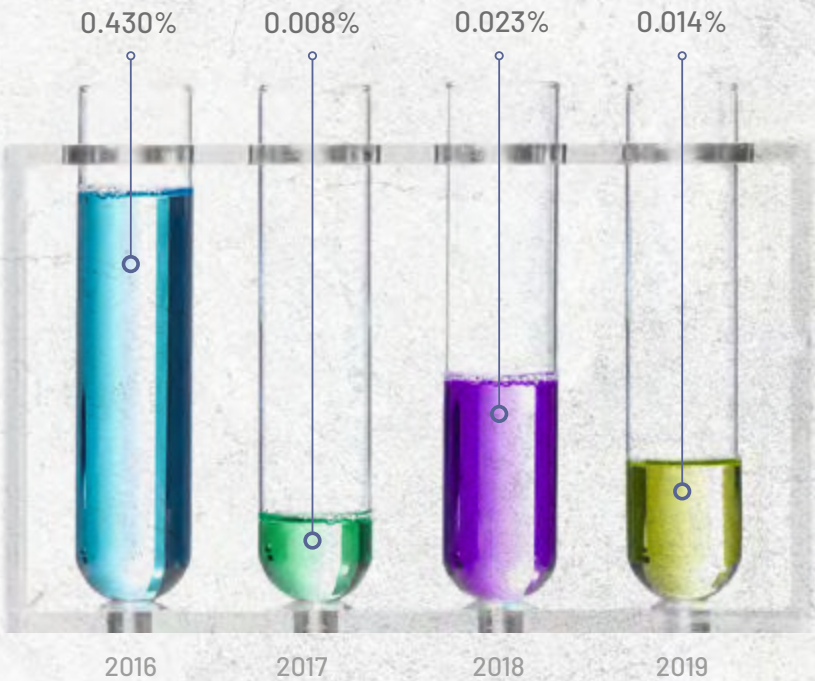
Risk evaluations by operation and by product type are conducted, thus identifying the viability of safe material handling and establishing the controls, equipment and emergency response needed for operation.

Our operational risks focus on leaks, spills, and material transfer, so we conduct monthly monitoring and investigations to identify any causes and establish controls.



% OF KILOS SPILLED VS. SOLD

GRI 306-3

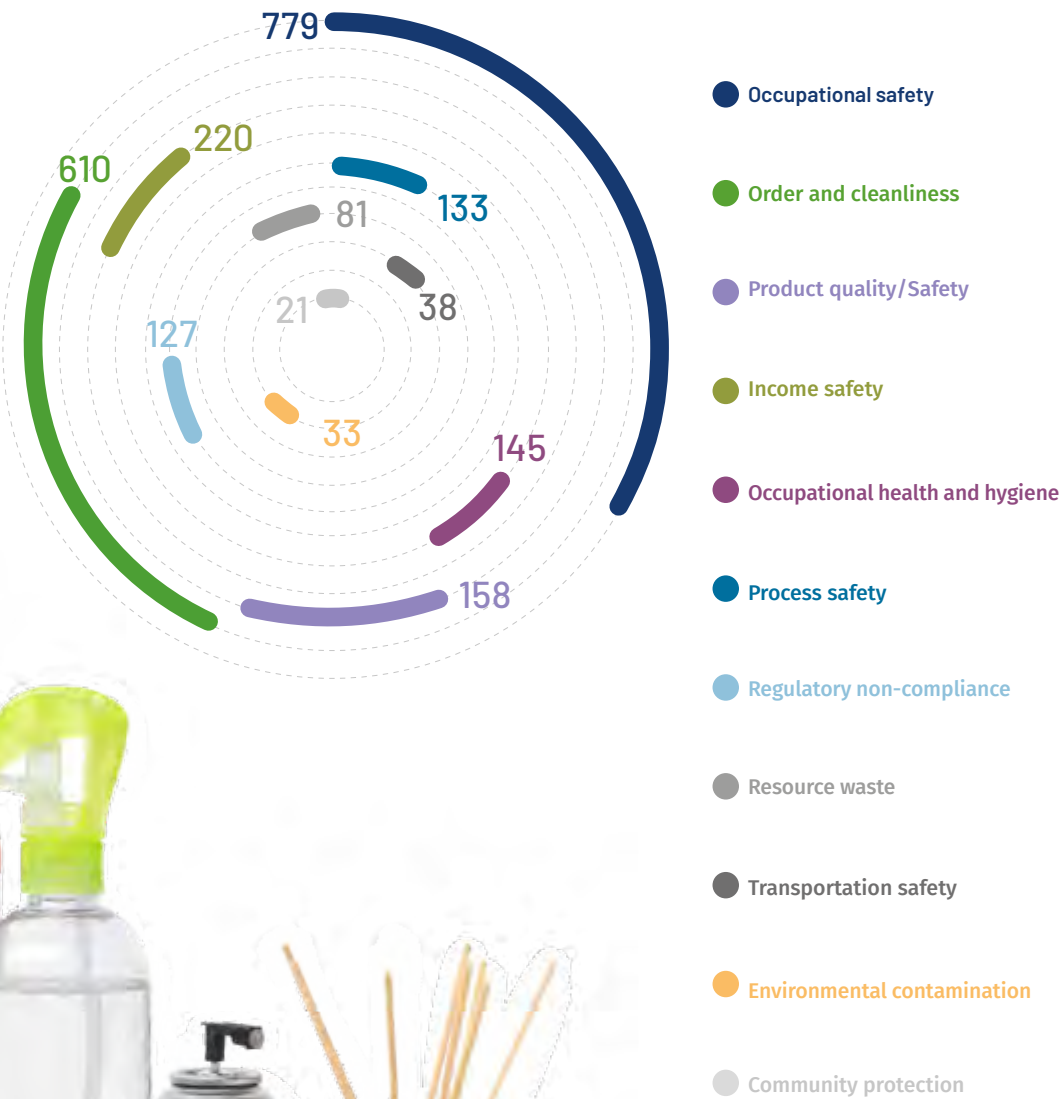


When a change in facilities is needed, as was the case in 2019 of our new Distribution Center in Guadalajara, the project, safety and regulation teams work together to guarantee project execution in keeping with environmental requirements set forth under applicable legislation.

We have 19 safety and environmental procedures to handle waste materials without affecting the environment, together with JIRA tools that help us record potential risk situations.



ELEMENTS (TOTAL INCIDENTS: 2,345)



PRIMARY ENVIRONMENTAL MANAGEMENT MEASURES IN 2019:

GRI 302-4, 303-3, 305-5

Emissions

In 2019, and due to the leaks during the previous year, we purchased 12 chemical storage tanks that are more resistant and with greater useful life, allowing us to reducing the risk of storage leaks.

In addition, we installed 19 flame arresters in our tanks to reduce vapor emissions to the atmosphere; total investment for all this amounted to more than \$270,000 USD.

Wastes

There was a 2% increase in solvent recovery volumes through the recovery equipment installed in Leon. In addition, a \$14 million-peso investment

was approved for an additional piece of equipment -a fractional distillation column- that will increase current volumes by 20%.

Our drum recovery process is maintained at a rate of four turns per unit, which reduces the creation of impregnated waste with hazardous materials.

Energy

A project was designed to place solar panels in sites with greater consumption. This project will entail an investment of \$297,700 USD and enable direct reductions of 1,133 tons of CO₂ per year.

In 2019 we received proposals from different suppliers to design the project that meets our needs and allocate the resources required for execution from the CAPEX of 2020.

Water

A water-use reduction project has been put into effect, enabling savings of up to 1,423,000 liters, entailing the installation of dry urinals and connecting water eliminated from the ionization process to a water softener for reuse; this water is currently eliminated, and it could be used in WCs (an average of 40 m³ per day).

In keeping with our culture and business strategy, we identify and evaluate environment-friendly products in all our

segments to include them in our product catalog; however, since this process needs evaluation by our customers, the addition of each new product are medium and long term endeavors.

For paper we adhere to the Forest Stewardship Council (FSC) standard, which is accomplished by annual audits of our Vallejo and Cancún warehouses. Thanks to our full compliance with this standard, we are able to sell paper made from sustainable forests.



Materials

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

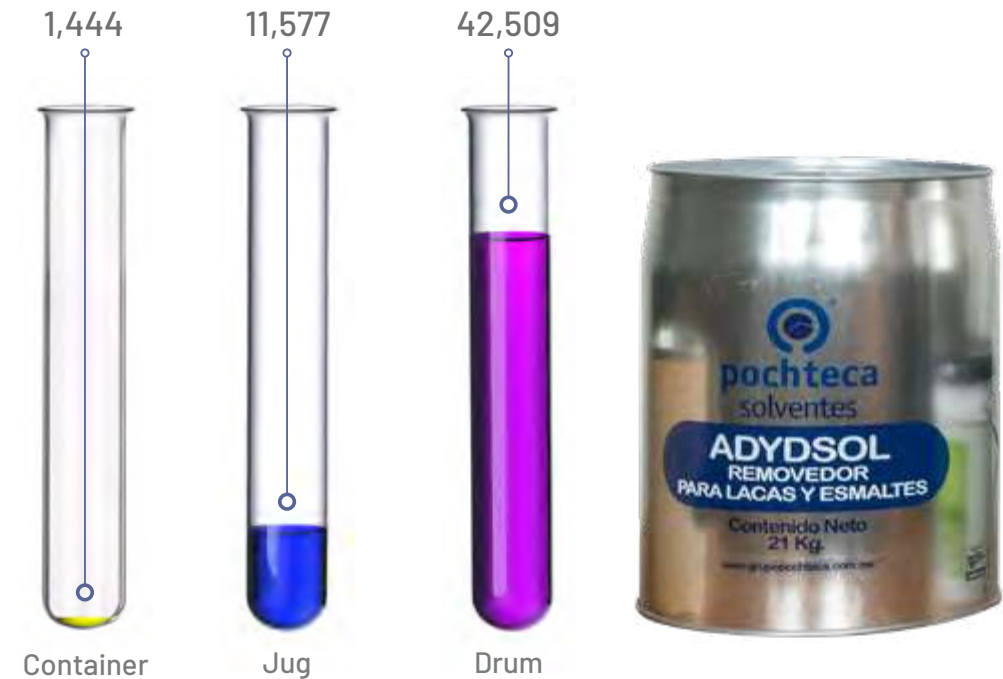
Our container and pallet recycling tasks continue being of great importance to the recovery of materials we use. This is done within the plants, through quality controls and water treated for container cleaning; and externally through the use of specialized vendors who receive the pallets for recycling and reuse. All are audited with the purpose of guaranteeing compliance with corresponding authorizations. With this task, we have been able to reuse a single container up to five times.

Also, we keep a record of materials handled, with controls, to avoid spills and leaks, and the ensuing contamination of our ecosystems.

During the year, 105,017 containers were acquired, and 5,806 units were recycled; 100,000 remained in our operations through recovery processes.

Our drum recovery process remains within a rate of four turns per unit, thus reducing the production of waste impregnated with hazardous materials.

SALE OF SCRAP CONTAINERS
2019



Energy

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

We continue seeking uses and reduction alternatives for energy efficiency, which in turn implies a decrease in greenhouse gases in our operations, in addition to of-

fering greater profitability for our shareholders and investors.

Pochteca has opted for the use of renewable energy sources, as it is essential to combating climate change and reducing the overall footprint of the organization.



Gasoline

We have a fleet of 279 service vehicles, of which we have renewed 104 (37% of total) with the purpose of using enhanced technologies that increase yield and reduce emission of pollutants.

2,162-liter reduction, with 14 more units than last year.

In addition we have a fleet of 96 transportation units, with 1,744 tons in total capacity. The average yield for these units is 1.5 Km / liter.

The annual consumption for these vehicles was 525,417 liters; that is, a

Water

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

We have no water catchment system in our facilities. Our supply comes the municipal network and by purchasing water tankers; we conduct wastewater analysis, in compliance with regulatory parameters.

Our Cancún distribution and storage center has a well, for the priority of use in sanitization facilities.

During 2019, we remained within authorized use limits, as set forth under concession rights issued by the National Water Commission (CONAGUA).

GRI 102-48	2018	2019
Total water use (millions of m ³)	17.4	221*

*The difference between results for 2018 and 2019 are because last year only sanitization facility water was considered but not that of processes; for 2020 we will report total water use as recorded throughout 2019.

Direct emissions
(Scope 2)
16.78 ton CO₂e

Total emissions
1.86 ton CO
693 ton CO₂



Wastewater

Due to the nature of our operations, we have two types of wastewater:

Sanitization facility, and service water, whose discharge is through the municipal network.

After washing containers, the resulting water is sent to treatment plants and periodically analyzed to obtain samples and verify if discharges meet parameters issued by the Mexican Department of the Environment and Natural Resources -SEMARNAT.

Emissions

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

The CO₂ emissions from our operations are primarily due to the use of electricity, fuel, and mobile sources corresponding to transportation units, and are evaluated through the Emissions Calculator from each site for the National Emissions Registry (RENE).

We have also identified emissions from paint shacks, and in 2019 we conducted different analysis to ensure they are within permissible limits. Despite being within these limits, we increased maintenance and changed to activated carbon filters and screens to trap solid particles, thus further lowering emissions and Volatile Organic Compounds (VOCs), total solid particles, and carbon monoxide and dioxide. This in turn produced a 13% reduction in the emission of VOCs and solid particles.

Another important action that reduced emissions has been to increase the number of business trips done by land instead of traveling by airplane.

697 AIRLINE TICKETS, VS. 844 BUS TICKETS

DIRECT EMISSIONS (SCOPE 1) TON CO₂e



Effluents and waste

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

The production of waste from our operations is due to maintenance processes, machinery and equipment assistance, non-conforming products, packing and packaging material, and general services; disposal is in keeping with Mexican Official Standard NOM-052-SEMARNAT-2005, which establishes the characteristics, procedure and identification, classification and lists of hazardous wastes, and the General Law for Prevention and Integrated Waste Management.

We have 3 sites recorded as major generators of these wastes:

- León
- Minatitlán
- San Luis Potosí

Mindful of how important it is for Pochteca to meet the needs of diverse stakeholders, in 2019 we kicked-off operation of the industrial waste business.

This comes from the need to offer our customers an integrated waste management system because of waste resulting from production processes, in full compliance with legal requirements. With this service and our sustainable process for solvent recovery (RSS) and drum treatment, we are contributing to the reduction of environmental impact and fostering a circular economy.

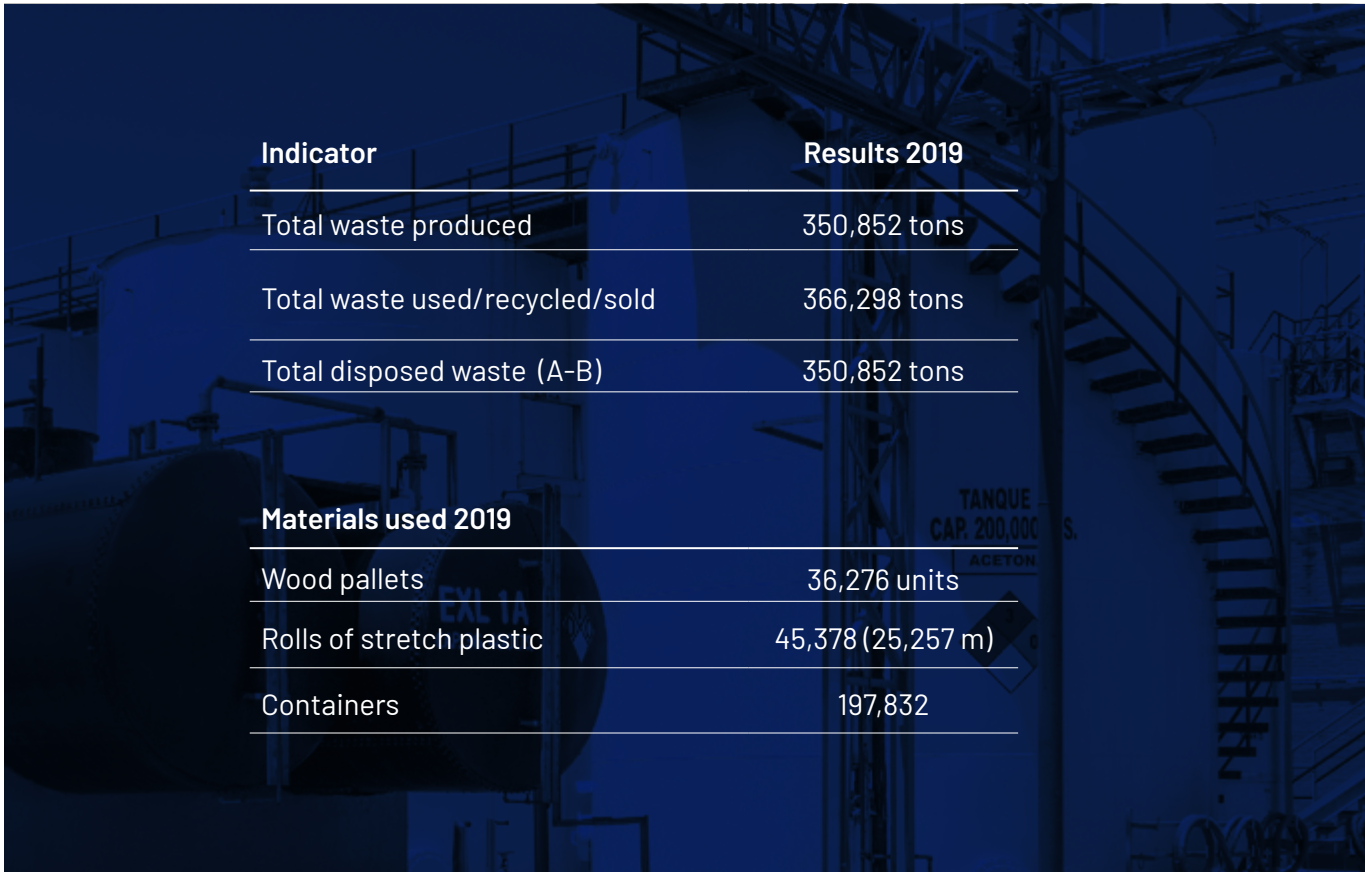
As of 2019, we offer management and disposal of hazardous industrial waste, including collection, transportation, pickup, storage, and disposal.

- + 500 cities nationwide
- Own collection centers
- Specialized and certified transportation and operators
- Technical assistance
- Experience in handling chemicals

Hazardous waste 2019
1,088 tons



Indicator	Results 2019
Total waste produced	350,852 tons
Total waste used/recycled/sold	366,298 tons
Total disposed waste (A-B)	350,852 tons
Materials used 2019	
Wood pallets	36,276 units
Rolls of stretch plastic	45,378 (25,257 m)
Containers	197,832





Sustainable Solvent Recovery System “RSS”

GRI 306

Green services

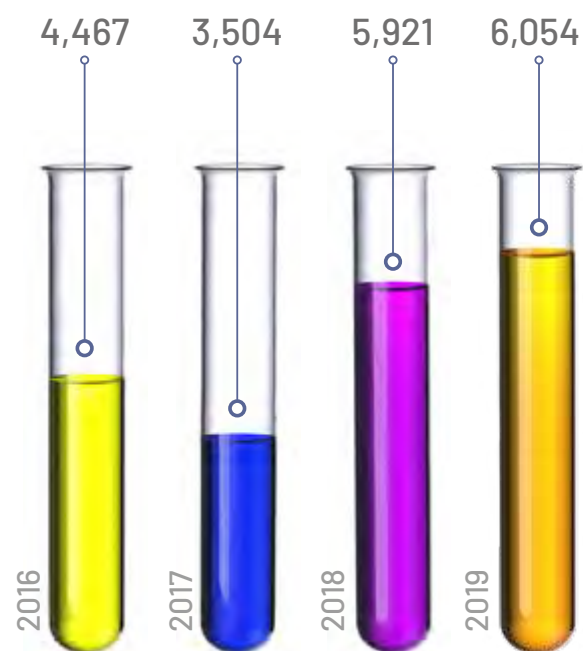
Our RSS allows us to optimize costs by returning materials to the value chain for reuse in the manufacturing of new products, but without sacrificing quality.

Production through RSS contributes with ecological quality for the industrial cycle, reduction in environmental impact, greater productivity, efficiency and sustainability.

In 2019, we acquired new solvent recovery equipment, thus ensuring an increasingly efficient and clean operation in our value chain.

RECOVERED SOLVENT

millions of liters



Biodiversity

304: 103-1, 103-2, 103-3,

Our operation centers are located in industrial parks or areas with the right land use permits, seeking above all else to prevent any footprint that we could impose on biodiversity. In this regard, we have established a series of controls meant to this:

- Environmental risk studies (ERA). Whenever we include new products and with environmental impact for new projects and/or change in location for warehouses and plants.
- Periodic training for our brigades, to provide response to emergencies.
- Identifying the risk of leaks, spills or wasted resources during review visits by MASH.
- Civil liability insurance for \$10 million USD.

Logistics services

Specialized Third-Party Logistics -3PL

We have the necessary experience to transport any type of product either hazardous, food grade, or general cargo.

In 2019, we started operations in our new plant and Distribution Center in El Salto, Jalisco, México at an investment of \$37 million pesos, having an installed capacity to store 22,000 tons of dry merchandise, 1.7 liters of solvents and chemicals,

and 20 railroad car positions, all which supplement our specialized logistics services for storing products and handling industrial wastes. This Distribution Center will also serve Guadalajara as well as customers on the Pacific Coast, further supporting our Bajío operations.

Our service includes:

- Cross-docking
- Container rentals for products
- Liquids
- Merchandise insurance
- Imports and international shipping
- Outsourced transportation
- Safe handling of hazardous products

Transportation services

We have our own transportation fleet with 96 units of differing capacities, all with a total of 1,744 tons, which is certified to handle hazardous products. Our drivers are constantly receiving training and have all the required documentation.

Specialized production services, minor operations, and manufacturing that includes decanting, labeling, drums, jugs, bottling, and lab analysis.

Blends and milling: solvents, inorganic chemicals, general cargo, and dilutions.

Other services: recycling and sustainable solvent recovery, containerization, and general cargo.



Costa Rica



Monterrey



Brazil

Environmental Compliance

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

To achieve environmental compliance in all our work centers, we have a Regulatory Coordination through which we conduct the following process:

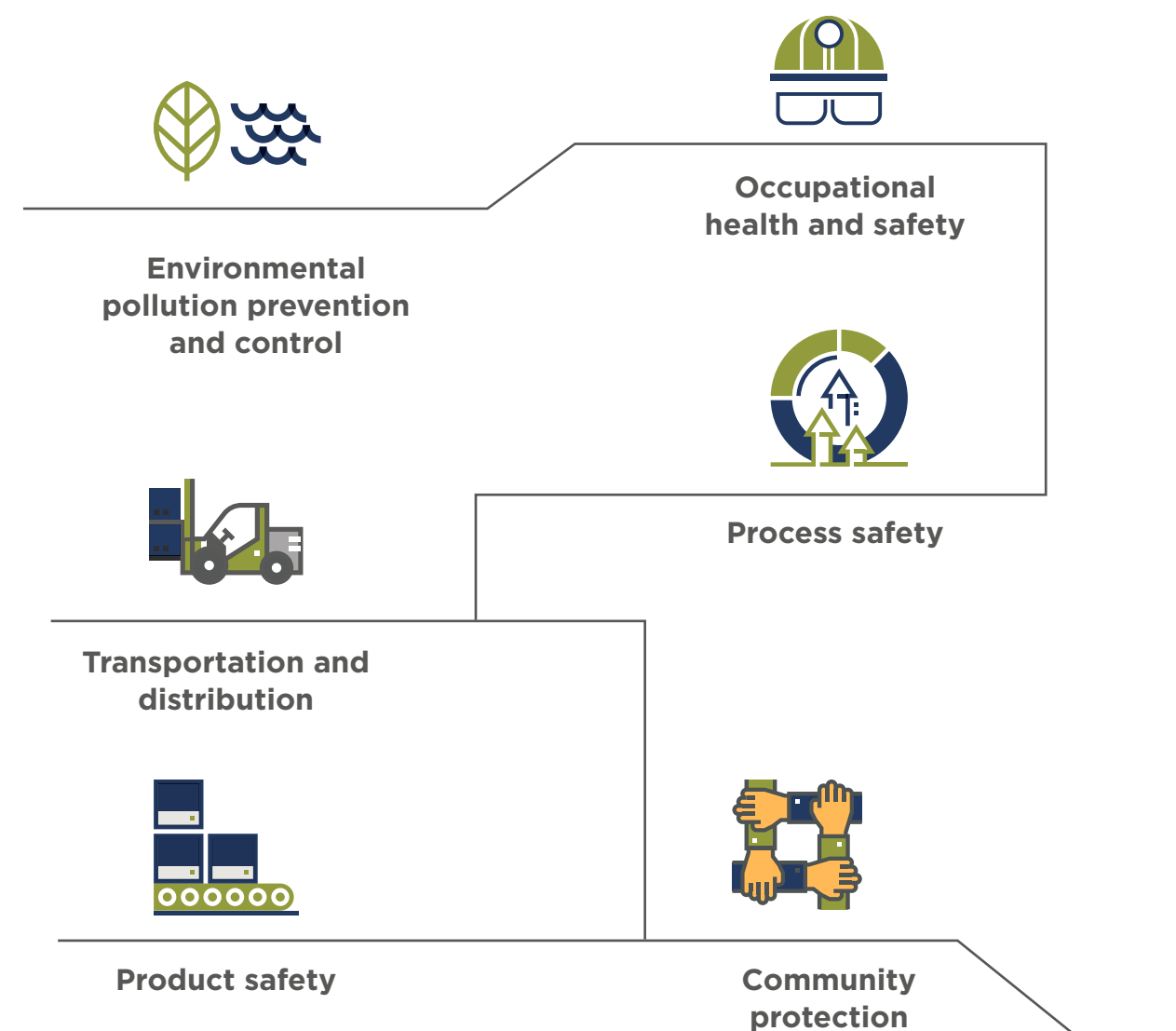
- Identifying changes to legislation by consulting official sources and participating in associations, committees, and groups related to our business activities.
- Identifying applicable regulations for each new product that is added to our portfolio.
- Coordinating with all involved, regarding the proper documentation, controls, reports, and records within our Comprehensive Management System to ensure regulatory compliance.
- Monitoring performance through reports on regulatory compliance per site.
- Reporting compliance, inspections, and fines.
- Reporting any important event related to compliance or non-compliance with regulations in general.

At Pochteca we conduct environmental risk studies (ERA) and accident prevention program (PPA) within our facilities to comply with guidelines set forth by SEMARNAT, and we follow requirements established by state municipal authorities, as required. In the case of new projects, the environmental authorities validate the applicability of environmental impact studies.

We conduct internal corporate audits of management systems where customers, suppliers and certified agencies perform independent environmental audits. They are based on ISO 14000 and the Comprehensive Responsibility Management System SARI. SARI is a way to manage the businesses of the worldwide chemi-

cal industry, allowing companies to voluntarily adopt the necessary measures for responsibly solving environmental, health, and safety issues stemming from their operations.

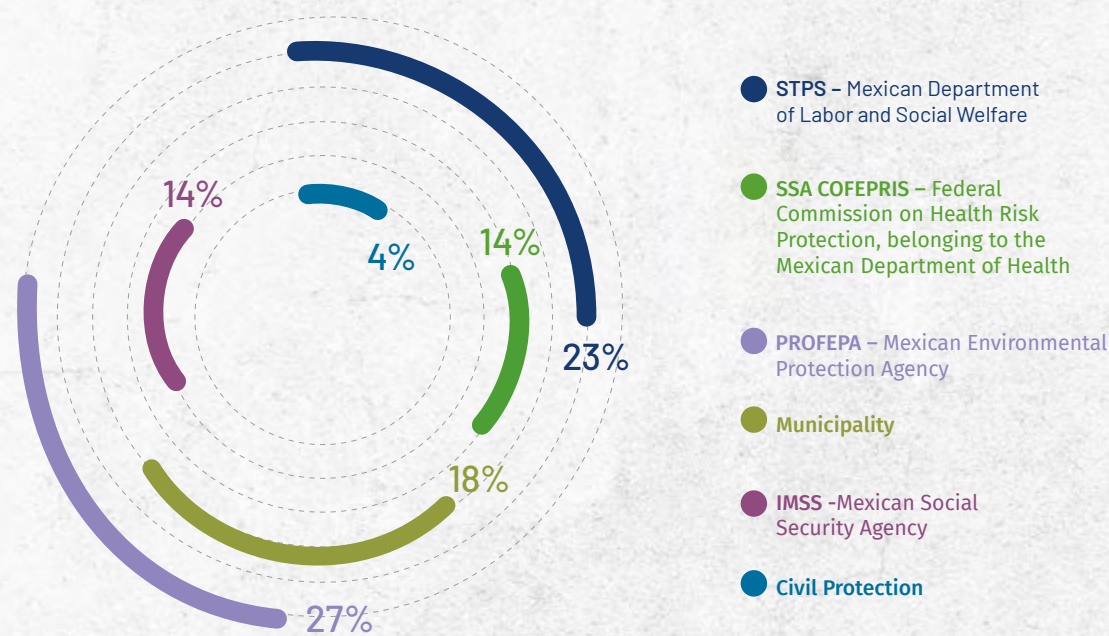
Their management practices include:



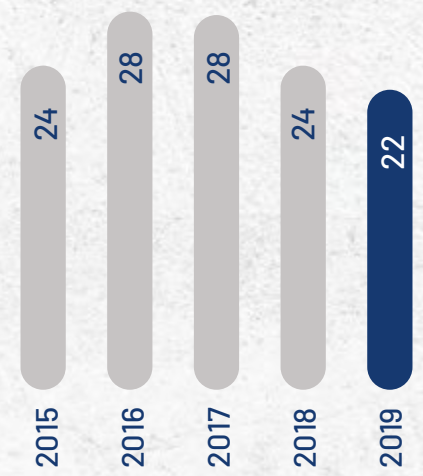
SARI results for all sites have been above 90% compliance, and we have

been approved regarding ISO 14000 audits.

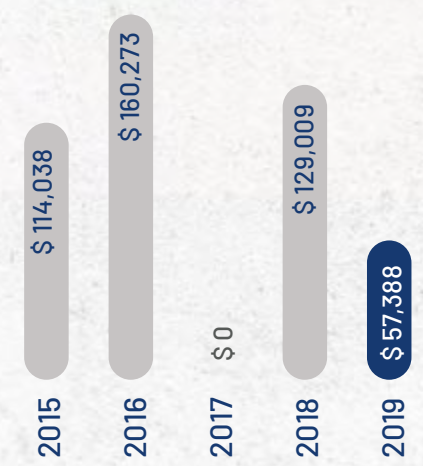
INSPECTION AGENCIES



Number of inspections



Fines



Our environmental goals for 2020 entail maintaining emissions, wastewater, and hazardous materials parameters within the limits set forth by the authorities, in addition to implementing plans for handling, reducing the use of electricity in all our plants, as well as the continued measurement and proper recording of impact indicators for the environment in non-operational processes.

Social Impact

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

Our impact on the communities where we operate is of paramount importance to us.

Year after year we cooperate with different foundations, our collaborators and their families, and the communities neighboring our work centers through different activities that include becoming familiar with our processes, risks, controls and emergency guidelines to ensure their safety; we also sponsor recreational and family outings such as the 8th Kardias Race in México City, where we exceeded the goal for support and donations and where 74 people participated (including collaborators and their families).



SUPPLY SOLUTIONS

102-9, 102-10

We have a comprehensive logistics supply chain that has contributed to helping meet our commitment to supply and quality, key elements for success and scope through a circular economy.

Our strategy for the chain includes all areas that are part of Pochteca. We set common objectives like accomplishing the sales budget and generating EBITDA, based on a Sales & Operation Planning (S&OP) process.

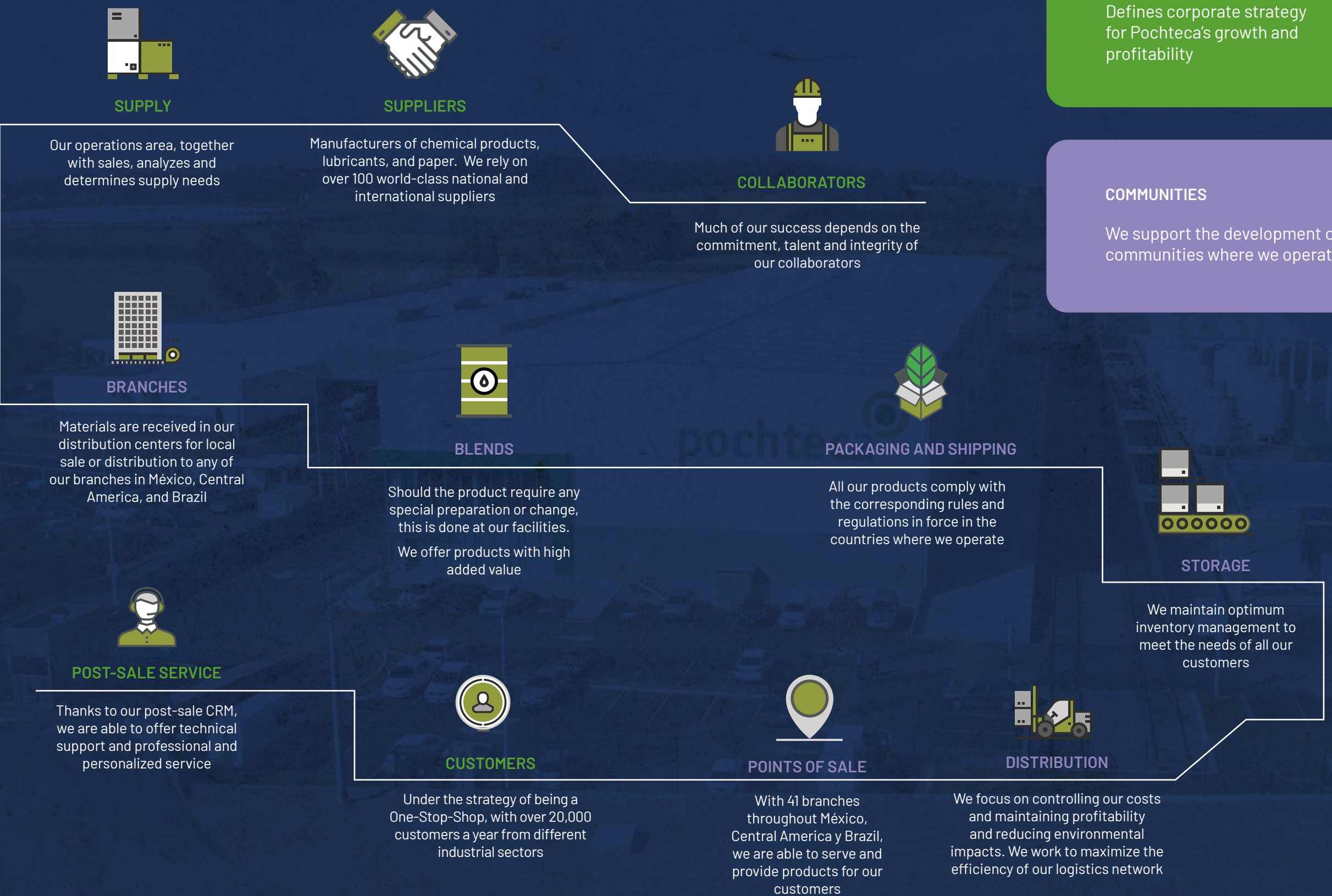
For our customers, there are responsible handling solutions through:

1. Statistical information provided by sales, to determine supply needs.
2. The requests for material from local and foreign suppliers are covered through a series of requisitions, with lead time and any eventuality that could affect product demand deemed as priorities.
3. Materials are received in the supplying branches (distribution centers) either for local sale or for distribution to any of our branches in México, Central America and Brazil.
4. Should the product require any special preparation or change, this is done in our facilities prior to delivery to the customer.
5. We are constantly working to improve our logistics network, with the purpose of controlling costs and reducing environmental impact caused by transportation.
6. Distribution areas are: North, West, Bajío, and Southeast, each one having a supply branch capable of distributing any type of material needed. Final delivery to our customers is accomplished via internal transportation or through qualified third parties, to meet our commitment to a safe chain of custody.

Year after year we work to maximize the efficiency of our supply chain and comprehensive logistics



SECURE CUSTODY CHAIN



Responsible Procurement

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

Supplier operations are in keeping with the requirements set forth in our Comprehensive Management Policy, through which we meet our objective of maintaining a sustainable value chain.

To guarantee that this culture is adopted along the entire chain, we request proof of compliance from our suppliers.



100% of our suppliers (drums, labels, covers, etc.)

80% of those who provide us with supplies and services, and the remaining 20% are raw material suppliers.



NUMBER OF SUPPLIERS

	2018	2019
Brazil	172	261
México	499	507
Central America (w/o including intercompany sales)	91	78

PROCUREMENT FROM DOMESTIC SUPPLIERS

	2019
México	30%
Brazil	65%
Central America	20%

OUR SUPPLIERS

	2019
México	115
Brazil	115
Central America	25

León, Guanajuato

Due to the restructuring of the Procurement area, in 2019 we made many changes to position profiles within the area and to supply lines and chain, all with the purpose of eliminating confusion or any duplicated functions.

The primary duties for Procurement include evaluating raw material suppliers every six months; ensuring that purchase orders are no older than 30 days, with the exception of those requiring partial deliveries, and which must be completed within a maximum of 90 days; making sure that 100% of purchasing agreements for products arriving by ship and/or marine transportation services are duly signed; measuring the timely delivery by suppliers; and ensuring zero delays for product delivery for any business line.

We have achieved satisfactory results in complying with all product collection and storage programs, covering 100% of volume granted by key suppliers, however there is still room for improvement to the claims portal to involve all participants in the procurement, and receiving processes, as well as admitting product to warehouses.

Principal actions 2019

- Strengthening commercial relations with suppliers for food ingredients, oil and gas, specialization products, inorganic chemicals, solvents and blends.
- Developing a commercial agreement with Castrol that ended when Pochteca was officially designated an exclusive distributor in México, to market its industrial line products and lubricants for heavy transportation within the large fleet segment.

Efforts made in the oil and gas segment focus on developing green chemical suppliers, as is the case of modified hydrochloride acid, which is no longer deemed hazardous because health and environmental risks dropped considerably. In addition, organic sealants (skin from organic products) whose function is to control fluid loss within a well because they temporarily plug the wall cracks of the well. The use of this product prevents polluting the subsoil and aquifers.



Goals for 2020

- Improve commercial conditions with raw materials suppliers and services.
- Achieve 100% compliance with product collection programs that are verified by purchase orders and requests made by branches in coordination with the planning/transfer team.
- Complete implementation of supplier claim platform, to obtain 100% of them and create action plans for corrective measures.
- Close 100% of open purchase orders in 90 days or less.
- Evaluate 100% of suppliers twice a year.
- We are implementing a tool called COUPA for supplier development, procurement processes, supplier selection, and comprehensive procurement management; this tool is currently being built and estimated launch is during the second half of 2020.



León, Guanajuato



Costa Rica



Brazil

Supplier Evaluation

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

Our supplier selection and evaluation process include a pre-evaluation, through which we can verify compliance with quality, safety, environmental protection, food safety, and corporate social responsibility guidelines.

We have manuals and procedures that govern our supplier relations and management. These establish mechanisms for reaching commercial agreements, standardizing our safety, integrity, ethics and business sustainability guidelines, taking into account the elements needed to select, evaluate, and reevaluate. Likewise, by making sure our strategic partners share our business values and ethics, we can commit to the needs of our customers.

Through the use of monthly reports, we record each purchase order -either domestic or imported products- and we are currently using a complaint platform for suppliers so they can register and enable identifying the root cause of any issue, and decide if it involves the raw material supplier, the transportation, or the operation itself regarding improper product handling. Moreover, it will enable documenting and tracing complaints, thereby improving product control and also minimizing shrink.

Evaluation results have been satisfactory because we have detected those suppliers who have improved in material delivery and are recurrent, and those having improvement plans with corrective measures.

With some of them we have support from collections because they have not followed through on the service offering previously negotiated, and there are corrective measures to prevent it from occurring again.



+80%
of suppliers
qualified as
being reliable;
the remainder as
conditional

It is important to Pochteca's strategy to have business partners who view us as a global company with commercial ties on the major continents. By working with multinationals that favor safety, we are able to position our Company as an appealing strategic partner who seeks sustainable growth through time, caring for its people, the environment, and the communities where we operate.

Social Evaluation of Suppliers

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

We have a suppliers manual that includes our Code of Ethics. By signing this document, our suppliers commit to operating in compliance with Pochteca culture and values. <https://www.pochteca.com.mx/empresa/proveedores/>

To guarantee compliance in things pertaining to Human Rights, all suppliers who visit our operation centers to provide any type of service must present an official ID to show proof of age, as well as the registration sheet for any social security agency.

Our suppliers receive our manual to introduce them to our culture, Code of Ethics, evaluation criteria, and transparency help desk. In this way we seek to share a common philosophy, and thereby create long-term business relationships.



Minatitlán



Monterrey



Brazil

Environmental Evaluation of Suppliers

GRI 308-1, 308-2

Pochteca has an environmental commitment that all our suppliers must meet, and which we make evident by implementing and certifying the Responsible Distribution and Comprehensive Responsibility Management System. Both systems evaluate the existence of controls and evaluations, and therefore any non-compliance runs counter to Pochteca strategy and culture.

Within the supplier selection criteria we identify those who have certified environmental management or social responsibility systems. Performance evaluations include an environmental risk element that constitutes one third of the score for the period under evaluation.

In addition, we ensure compliance with all regulatory and legal provisions, in keeping with the type of product or service being supplied.

+90%
of suppliers evaluated,
and 100% of new suppliers
comply with environmental
and social criteria

Sales and Distribution

GRI 416, 417: 103-1, 103-2, 103-3, 102-9, 102-21, 416-1, 102-9, 102-12, 413-2, 417-1, 417-2, 417-3

Committed as we are to the safety of all those involved in our sales processes, all our customers receive safety sheets, technical sheets, and application data for each product, as well as material handling conditions for all materials we supply, with prior approval from the commercial team.

Should the customer require a more specialized visit to make recommendations on handling, storage and infrastructure, it would be conducted by safety personnel.

We also have the advice given by our application labs and post-sale service, with which we guarantee the safety of those involved and of the products; and advice on the most suitable application for customer processes.

All our sales operations adhere to Mexican standard NOM-018-STPS-2015, making it mandatory for all our products to have a label with health and environmental risks. We also work in compliance with the risk communication system known as GHS. It is globally standardized and requires having safety sheets.

Our sales policies are public and may be consulted at our website: <https://www.pochteca.com.mx/empresa/procedimientos-de-ventas/>

PHYSICAL RISKS



GHS01:
Explosive substances (EX)



GH02:
Flammable substances (IN)



GHS03:
Comburent substances (CB)



GHS04:
Gas under pressure (GZ)



GHS05:
Corrosives (CR)

RISKS FOR THE ENVIRONMENT



GHS06:
Acute toxicity, category
1, 2, 3 (TO)



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



GHS08:
Carcinogen, mutagen (MU)



GHS09:
Harmful to aquatic
environment (EN).



Customer Privacy

GRI 418: 103-1, 103-2, 103-3, 418-1

We have a privacy committee in charge of guaranteeing full compliance with the Federal Law on the Protection of Personal Data Held by Private Parties (LFTDPPP). Among its duties includes verifying that privacy warning are available for customers, and that the personnel safeguarding said information must be aware of the importance of full adherence to this Law. Should any complaint stem from non-compliance, this committee must

then conduct the appropriate investigation and coordinate implementation of necessary measures to correct the cause for said complaint.

The Director for Human Resources and the Director of Finance are in charge of establishing controls and monitoring compliance to this Law and any applicable legislation regarding social and economic requirements.

<https://www.pochteca.com.mx/aviso-de-privacidad/>

In 2019 we had no report stemming from non-compliance with the Federal Law on the Protection of Personal Data Held by Private Parties



CORPORATE GOVERNANCE

GRI 102-18, 102-19, 102-20, 102-22, 102-23, 102-24, 102-26, 102-27, 202-2

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 9 proprietary members are independent, there by exceeding the legal requirement. In addition, the Board of Directors designates a Board Secretary who is not a member of the Board.

The Board of Directors is supported by an Audit and a Corporate Practices

93% of Pochteca senior executives are Mexican

BOARD OF DIRECTORS

Proprietary Members	Alternate Members
Armando Santacruz González (CHAIRMAN)	Federico Santacruz González
Margarita Hugues Vélez*	
Eugenio Santiago Clariond Reyes*	
Eugenio Gerardo Manzano Alba	
Francisco Javier Moguel Gloria*	
Francisco Javier Ruiz Galindo y Terrazas*	
Ernesto Moya Pedrola*	
José Antonio Vértiz Pani*	
Fernando Benjamín Ruiz Sahagún*	
Juan Pablo del Río Benítez (SECRETARY, NON-MEMBER)	

*Independent Board Members

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)

Breakdown of executive positions by gender



ETHICS AND INTEGRITY

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



CODE OF ETHICS

At Pochteca we have a clear commitment to equal opportunities. This condition is supported by our Code of Ethics, which is published on a regular basis among all personnel and is part of the onboarding and reinforced continuously.

In addition, we share this information with our customers and suppliers to request full compliance.

Our values define our position regarding the way of acting and doing business in our Company.

We always foster full compliance with all applicable laws and regulations for our business and integrity and respect for all stakeholders.

Our Transparency help desk is available for collaborators, customers, suppliers, and neighboring community, so anyone may report any non-compliance with our policies and this Code of Ethics, either by email, telephone, or via our website.

These claims are managed by an independent entity to ensure anonymity and information confidentiality, and the ensuing follow-up is conducted by the Ethics Committee.



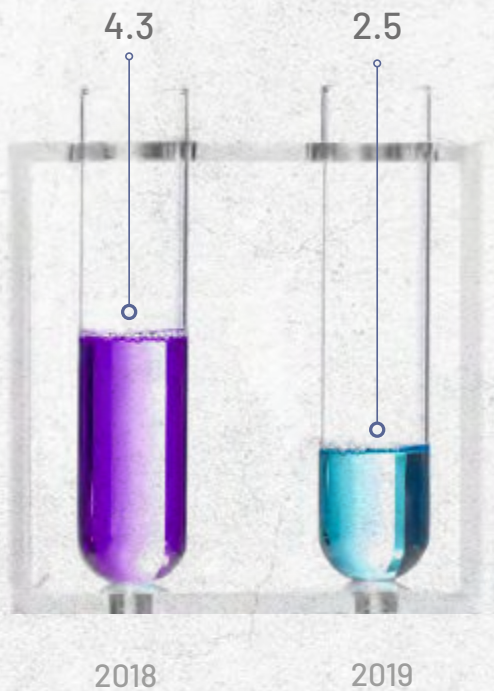
Within our section on “Transparency-Anticorruption”, found on our website, all information stemming from revisions of our Code of Ethics is available for consultation at any time. <https://www.pochteca.com.mx/empresa/transparencia-anticorrupcion/>

As part of the good results obtained from our best practices in 2019, there were no reported violations to the Code of Ethics, nor any claims filed for unfair trade practices.

The use of this mechanism produced the following results for 2019:



CASES REPORTED



Additionally, in 2019 we used the second stage of the Yo hago lo correcto (Culture of Legality) program to help reinforce reporting claims and communicating the change to the tool, with the implemented improvements.

As part of our Culture of Legality, we continue working on our strategy of “I Do the Right Thing” which is people-based, aimed at treating others as we wish to be treated, in keeping with values of responsibility, respect, commitment, honesty, and frugality.

Striving to take the Culture of Legality to other countries, we trained a team of in-house instructors in Central America (3 in Guatemala, 4 in Costa Rica, and 3 in El Salvador) holding them responsible of conveying the message to their respective work teams, from August to October 2019.



DOING THE RIGHT THING MEANS:

- Caring for our safety and that of others
- Caring for the environment
- Complying with applicable standards
- Fulfilling our responsibilities
- Ensuring ethics and integrity in our business
- Cooperating with the authorities



GRI 406-1, 407-1, 408-1, 409-1, 412-1

Our Code of Ethics establishes the commitment of respecting the ban on child labor, forced labor, and the compliance evaluation of Human Rights, whose guidelines are shared with our suppliers in the manual produced for them.

The Code includes non-discrimination, equal opportunities, the ban on child labor, forced labor, anti-bribery, anti-corruption, and conflict of interests.

Pochteca, promotes free assembly and collective bargaining in our operations, principles that are also found in the Code.

Collaborators who are covered under collective bargaining agreements

Company	Women	Men	Total
Servicios Administrativos Argostal	3	85	88
Asesoría en Lubricantes Pochteca		42	42
Total	1419		
Percentage covered	9%		

GRI 205-1, 205-2, 205-3, 206-1

In 2019, there was no record of any confirmed corruption. When there is any suspicion of corruption, audit is notified to validate the processes in which the suspicions exist, and a report on these audits is then presented to the CEO for evaluation. Likewise, we have no process or record regarding legal action stemming from unfair trade practices.

It should be noted that in the IC500 (Corporate Integrity 500) study there is noticeable improvement to results over 2018, going from 349th place to 314th, with a score of 58.82, as compared to 27.5 in 2018.

<https://www.pochteca.com.mx/empresa/mision-vision-valores/>



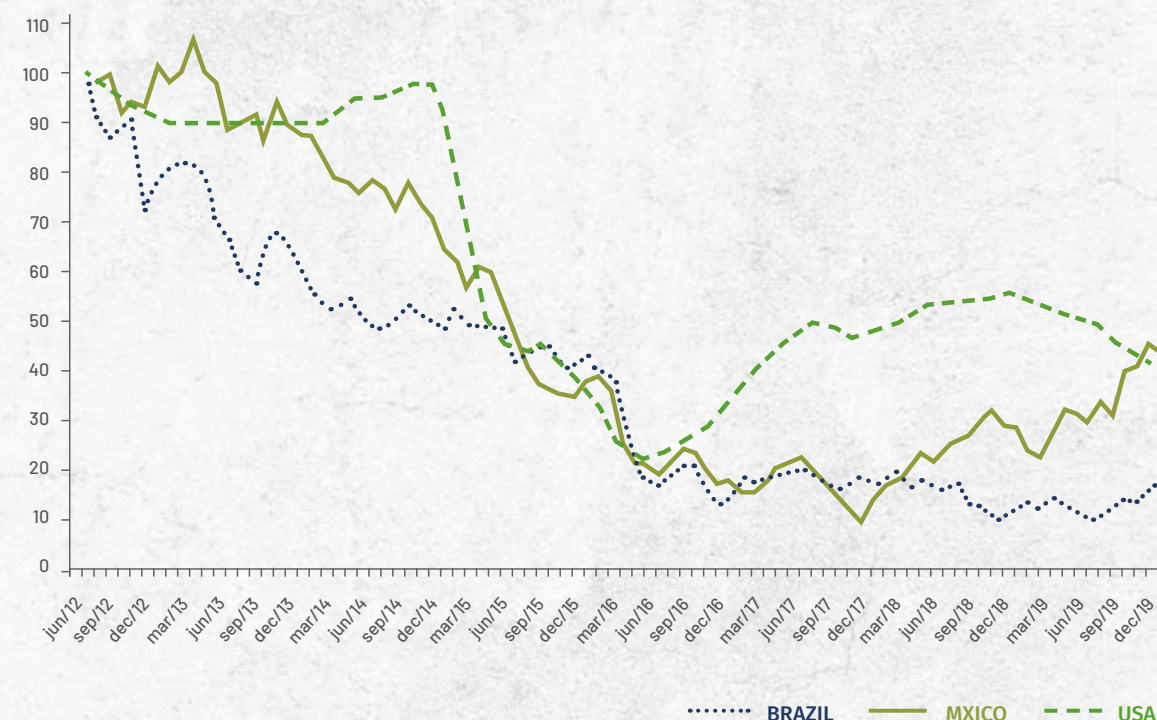
FINANCIAL PERFORMANCE

GRI 102-18, 102-19, 102-20, 102-22, 102-23, 102-24, 102-26, 202-2

2019 consolidated sales dropped 1.8% compared with 2018, primarily due to drops in key product prices, the revaluation of the dollar- Mexican peso exchange and of the Brazilian real, uncertainty in the Mexican business environment, the shrinking of the GDP and industrial sector in México, the delays in the oil drilling and exploration sectors, and the termination of the commercial relationship with Shell as of September 30, 2019, which represents a loss of approximately 25 million pesos per month during the fourth quarter.

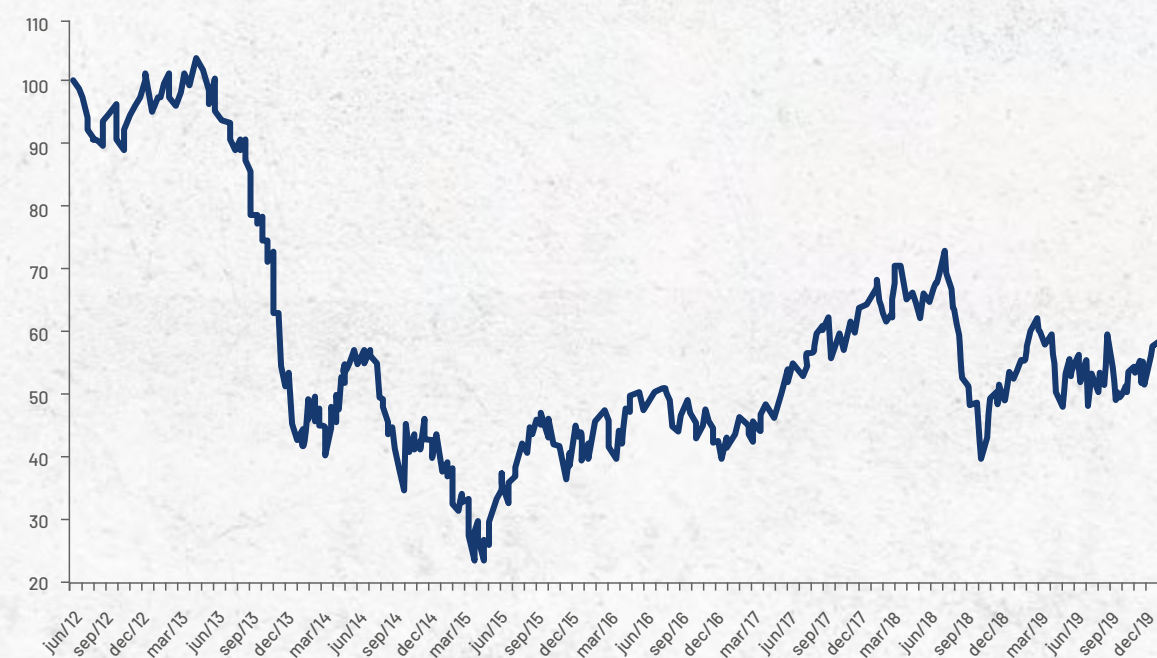
ACTIVE OIL RIGS AND PLATFORMS

(june 2012 = 100)



WEST TEXAS INTERNATIONAL (WTI) OIL PRICES

(SEPTEMBER 2013 = 100)



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



Likewise, Coremal sales in Mexican pesos decreased 2.7%, mainly due to the 7.6% devaluation of the Mexican peso (average) against the Brazilian real, despite the fact that in reais, sales increased 5.1% during the period.

Gross profit decreased 3.7%, from \$1,207 million in 2018, to \$1,163 million pesos, against an 18.3% margin that reflects a 40 basis point reduction compared to the previous year because of a reduction in key product prices in México; in addition to the revaluation of the Mexican peso vs. the US dollar. All this was partially mitigated through a consistent approach of prioritizing the sale of higher-margin products, with greater unit value, and with a better service and quality component and higher added value.

Operating income decreased 42%, from 267 million pesos in 2018 to 155 million pesos in 2019, including the effect of by the IFRS 16. Operating margin was 2.4%, 170 basis points less than 2018.

Operating expenses (excluding depreciation) increases 2.6% compared to 2018. Expenses as a percentage of sales increased from 12.7% in 2018 to 13.3% in 2019, mainly by IFRS 16 effect throughout the year. The opening of the plant in El Salto, Jalisco, in México, and developing added value business to protect margins, generates an increase in expenses beyond inflation for 2019.

Consolidated EBITDA decreased 17.1%, from \$385 million pesos in 2018, to \$319 million in 2019; EBITDA margin was 5% over sales, 100 basis point lower, including IFRS 16 effect in 2019. Financial expenses increased 8.8% year over year in 2019, primarily by IFRS 16 effect for the year. Excluding this effect, financial expenses increased by 0.1%.

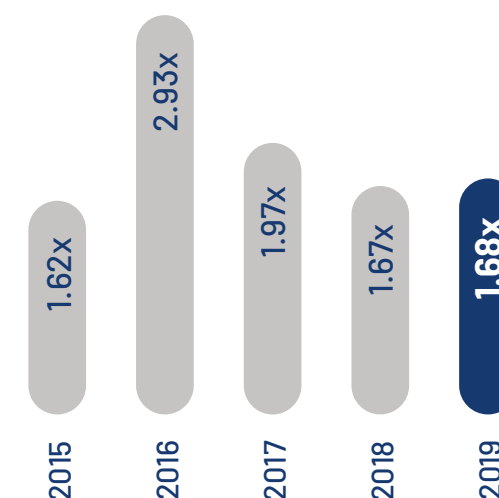
In 2019, net loss was \$15 million Mexican pesos, compared to a net earnings of \$64 million of Mexican pesos in 2018, impacted by a reduction in gross profits and supported by exchange earnings in the year.

Gross debt as of December 2019 was \$663 million pesos, 15.3% lower than in 2018, when we had a total debt of 781 million.

Net debt as of December 2019 was \$537 million pesos, \$106 million pesos lower (or -16.5%) compared to 2018. Net debt reduction is largely explained by amortization of bank debt during 2019.

The Net Debt/EBITDA ratio was practically the same, that is, 1.67 times in 2018, to 1.68 times in 2019. This level is below our internal policy of no more than 2.0x times, explained mainly because of the amortization of the bank debt during 2018 and 2019.

Net Debt – EBITDA ratio



	2019	2018
Gross debt (MxP millions)	663	781
Net Debt (MxP millions)	537	643
Net Debt / EBITDA 12 M	1.68x	1.67x
Interest coverage	2.13x	2.78x
Outstanding shares	130,522,049	130,522,049

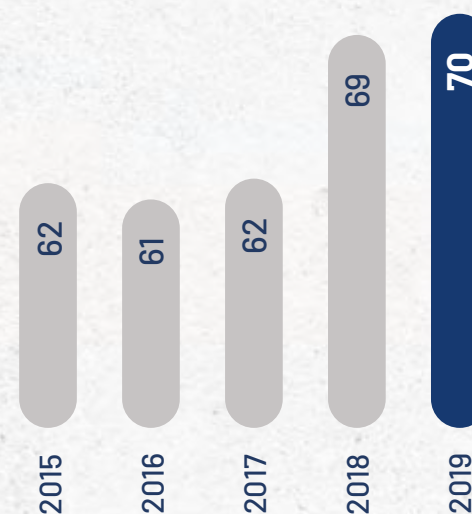




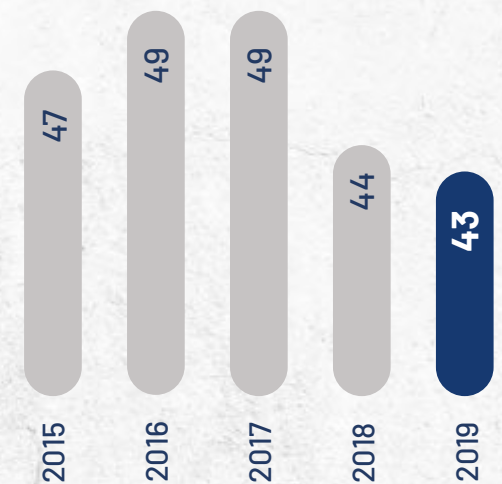
GENERATING CASH FLOW, AND CONVERSION FROM EBITDA TO CASH ON HAND .

As of December 2019, cash flow after taxes and CAPEX was generated; and before interests, debt amortization and expenditures in the fund to repurchase own shares, for 118 million of Mexican pesos: a conversion of 1.0 to 0.87 of EBITDA to cashflow. Cash on hand at the close of 2019 dropped by 13 million of Mexican pesos, as compared to 2018 owing to the amortization of bank debt, interest payments, and resources applied to the repurchase of own shares with the repurchase fund during 2019.

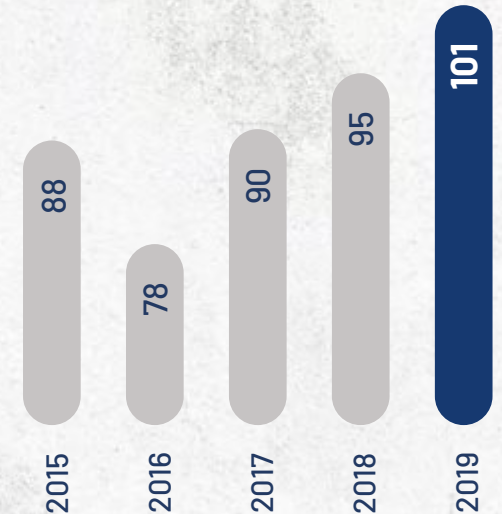
Inventory days



Accounts Receivable days



Accountable Payable days



GRI INDEX



GRI Standards	Disclosure	Page / Direct Response
GRI 102: General Disclosures		
Organizational profile		
102-1	Name of the organization	Contact
102-2	Activities, brands, products, and services	3, 14, 16
102-3	Location of headquarters	Contact
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102-5	Ownership and legal form	Contact
102-6	Markets served	14, 16, 24
102-7	Scale of the organization	5, 6, 14, 16-17, 20-23, 40
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102-9	Supply chain	88-91, 92, 99
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102-13	Membership of associations	50, 69
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102-14	Statement from senior decision-maker	6
102-15	Key impacts, risks, and opportunities	26, 36, 39, 70
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102-16	Values, principles, standards, and norms of behavior	14
102-17	Mechanisms for advice and concerns about ethics	104
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102-18	Governance structure	102, 110
102-19	Delegating authority	102, 110
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102-21	Consulting stakeholders on economic, environmental, and social topics	34
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102-23	Chair of the highest governance body	102, 110
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GRI 102: General Disclosures 2017

GRI Standards	Disclosure	Page / Direct Response
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102-30	Effectiveness of risk management processes	36, 39
102-31	Review of economic, environmental, and social topics	10-13
102-32	Highest governance body's role in sustainability reporting	53
102-33	Communicating critical concerns	26, 28, 50
102-34	Remuneration policies	10-13
102-35	Process for determining remuneration	40
102-36	Process for determining remuneration	40
102-37	Stakeholders' involvement in remuneration	34
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102-40	List of stakeholder groups	34
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102-42	Identifying and selecting stakeholders	34
102-43	Approach to stakeholder engagement	28, 34
102-44	Key topics and concerns raised	28, 34
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102-45	Entities included in the consolidated financial statements	Financial Statements
102-46	Defining report content and topic Boundaries	28, 134
102-47	List of material topics	31
102-48	Restatements of information	78
102-49	Changes in reporting	78, 134
102-50	Reporting period	134
102-51	Date of most recent report	2018
102-52	Reporting cycle	Annual
102-53	Contact point for questions regarding the report	Contact
102-54	Claims of reporting in accordance with the GRI Standards	134
102-55	GRI content index	146-156
102-56	External assurance	This report has no external assurance

GRI 102: General Disclosures 2017

GRI Standards	Disclosure		Page / Direct Response	GRI Standards
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	103-2	The management approach and its components	37, 97	
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GRI 201: Economic Performance	201-1	Direct economic value generated and distributed	42	
	201-2	Financial implications and other risks and opportunities due to climate change	70	
	201-3	Defined benefit plan obligations and other retirement plans	40	
	201-4	Financial assistance received from government	N/A	
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GRI 103: Management Approach	103-1	Explanation of the material topic and its Boundary	40	
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GRI 203: Indirect Economic Impacts	203-1	Infrastructure investments and services supported	87	
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GRI 103: Management Approach	103-1	Explanation of the material topic and its Boundary	92	
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GRI Standards	Disclosure		Page / Direct Response	GRI Standards
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GRI Standards	Disclosure		Page / Direct Response	GRI Standards
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	103-3	Evaluation of the management approach	78	
GRI 303:Water	303-1	Interactions with water as a shared resource	78	
	303-2	Management of water discharge-related impacts	78	
	303-3	Water withdrawal	74, 78	
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GRI 103: Management Approach	103-1	Explanation of the material topic and its Boundary	83	
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GRI 304: Biodiversity	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	83	
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	305-6	Emissions of ozone-depleting substances (ODS)	79	
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GRI Standards	Disclosure		Page / Direct Response	GRI Standards
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	103-3	Evaluation of the management approach	10-13, 70, 84	
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	103-2	The management approach and its components	10-13, 50, 58, 69	
	103-3	Evaluation of the management approach	10-13, 50, 58, 69	
GRI 403: Occupational Health and Safety	403-1	Occupational Health and Safety Management System	58, 69	
	403-2	Hazard identification, risk assessment and incident investigation	50	
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GRI 103: Management Approach	103-1	Explanation of the material topic and its Boundary	104	
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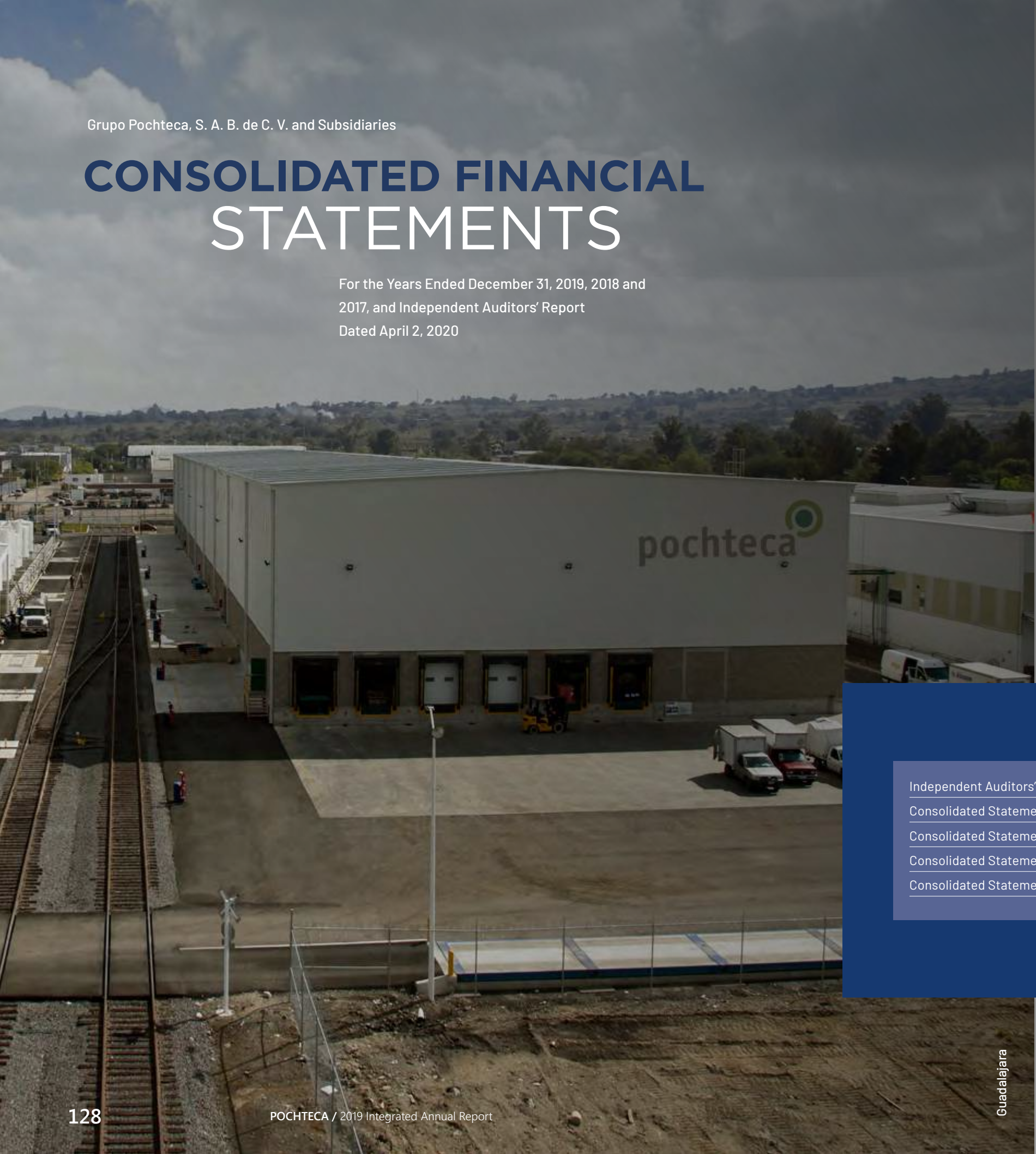
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	103-3	Evaluation of the management approach	104	
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GRI 103: Management Approach	103-1	Explanation of the material topic and its Boundary	99	
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GRI Standards		Disclosure	Page / Direct Response	GRI Standards
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Grupo Pochteca, S. A. B. de C. V. and Subsidiaries

CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2019, 2018 and 2017, and Independent Auditors' Report
Dated April 2, 2020



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Independent Auditors' Report

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

Opinion

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

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

Basis for Opinion

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

Others Matters

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

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

Key Audit Matters

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

Impairment of long-lived assets

The consolidated financial statements as of December 31, 2019 include balances of properties, plant and equipment, other assets, intangible assets and Goodwill, which come from acquisition business. Those long-lived

assets have been identified as Cash-Generating units ("UGEs" for its acronym in Spanish). Management performs an impairment analysis on annual basis and these assets previously mentioned are included.

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

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

Our audit procedures included, among others:

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

The results of our audit procedures were reasonable and we have not identified that adjustments for impairment in the value of goodwill from the

acquisition of the UGEs are required as of December 31, 2019.

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

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the additional information identified above when it becomes available and, doing so, consider whether the other information is materially inconsistent with

the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If based on the work we do, we conclude that there is a material misstatement in the additional information; we would have to report this matter. When we read the annual report, we will issue the conclusion about its reading, as required by Article 33, Section I, paragraph b) numeral 1.2. of the Provisions.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the

Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

- Identify and assess the risks of material misstatement of the

consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's

ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these

matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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



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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

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

Assets	Notes	2019	2018	2017
Current assets:				
Cash and cash equivalents	5	\$ 125,787	\$ 138,253	\$ 254,628
Accounts receivable and recoverable taxes - Net	6	963,103	996,398	1,130,964
Due from related parties	21	5,033	7,234	7,785
Inventories - Net	7	911,843	950,019	888,009
Right-of-use assets	13	48,811	-	-
Prepaid expenses		43,555	45,650	34,576
Total current assets		2,098,132	2,137,554	2,315,962
Non-current assets				
Properties, plant and equipment - Net	9	716,824	690,737	743,232
Other investments		4,381	4,381	4,381
Investment properties	8	15,060	15,060	15,060
Other assets		68,129	79,696	110,264
Deferred income taxes	25	54,926	52,464	59,026
Intangible assets - Net	11	195,315	203,903	212,490
Right-of-use assets	13	275,214	-	-
Goodwill	12	294,217	349,570	419,596
Total non-current assets		1,624,066	1,395,811	1,564,049
Total		\$ 3,722,198	\$ 3,533,365	\$ 3,880,011

The accompanying notes are part of the consolidated financial statements.

Liabilities and stockholders' equity	Notes	2019	2018	2017
Current liabilities:				
Bank loans and current portion of long-term debt	16	\$ 560,243	\$ 405,414	\$ 300,292
Trade accounts payable		1,366,700	1,331,709	1,313,877
Other accounts payable and accrued expenses	15	252,142	238,698	173,050
Due to related parties	21	6,834	8,561	8,120
Short-term lease liability	14	44,947	-	-
Income taxes and statutory employee profit sharing		23,719	32,234	47,788
Total current liabilities		2,254,585	2,016,616	1,843,127
Long-term liabilities:				
Long-term other accounts payable and accrued expenses	15	2,044	2,003	210,019
Long-term debt	16	102,619	375,993	666,250
Long-term lease liability	14	283,519	-	-
Employee benefits	17	10,898	8,019	7,457
Total long-term liabilities		399,080	386,015	883,726
Total liabilities		2,653,665	2,402,631	2,726,853
Stockholders' equity:				
Contributed capital-				
Capital stock	18	1,096,837	1,096,837	1,096,837
Premium on sale of repurchased stock		58,176	58,176	58,176
(Deficiency) earned capital -		-	-	-
Retained earnings		(1,264)	24,477	18,233
Reserve for repurchase of shares		10,311	13,169	3,257
Translation effects of foreign operations		(93,603)	(61,407)	(22,723)
Remeasurement of defined benefit obligation		(1,924)	(518)	(622)
		(86,480)	(24,279)	(1,855)
Total stockholders' equity		1,068,533	1,130,734	1,153,158
Total		\$ 3,722,198	\$ 3,533,365	\$ 3,880,011

CONSOLIDATED STATEMENTS

OF INCOME AND OTHER COMPREHENSIVE INCOME

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

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

	Notes	2019	2018	2017
Net sales	22	\$ 6,345,505	\$ 6,463,342	\$ 6,332,988
Cost of sales	23	(5,182,573)	(5,256,146)	(5,182,656)
Gross profit		1,162,932	1,207,196	1,150,332
Profit in business acquisition	10	–	–	5,040
Operating expenses	24	(1,008,060)	(940,110)	(921,455)
Income from operations		154,872	267,086	233,917
Financing costs:				
Interest income		7,599	8,560	13,433
Interest expense		(157,363)	(146,883)	(147,471)
Exchange gain (loss)		7,086	(12,498)	(54,343)
		(142,678)	(150,821)	(188,381)
Income before income taxes		12,194	116,265	45,536
Income taxes expense	25	27,104	52,027	99,341
Consolidated net (loss) income		\$ (14,910)	\$ 64,238	\$ (53,805)

The accompanying notes are part of the consolidated financial statements.

	Notes	2019	2018	2017
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		(1,406)	104	3,123
Exchange differences on translating foreign operations		(32,196)	(38,684)	(10,553)
Total comprehensive (loss) income for the year		\$ (48,512)	\$ 25,658	\$ (61,235)
Earnings per share:				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		\$ (0.1142)	\$ 0.4922	\$ (0.4122)
Weighted average shares outstanding		130,522,049	130,522,049	130,522,049

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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

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

The accompanying notes are part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

(In thousands of Mexican pesos)

(Indirect method)

	Notes	2019	2018	2017
Cash flows from operating activities:				
Consolidated net (loss) income		\$ (14,910)	\$ 64,238	\$ (53,805)
Adjustments for:				
Income taxes expense	25	27,104	52,027	99,341
Depreciation and amortization	24	163,941	117,647	127,063
Gain on sale of property and equipment		(10,324)	(14,059)	(4,988)
Amortization of commissions paid		3,406	3,498	10,921
Interest paid		153,957	143,385	136,550
Interest income		(7,598)	(8,560)	(13,433)
Unrealized exchange loss (gain)		4,447	(13,178)	(11,836)
		320,023	344,998	289,813
Changes in working capital:				
Accounts receivable and recoverable taxes	6	35,496	135,117	(17,707)
Inventories	7	38,176	(62,010)	(26,627)
Prepaid expenses		2,095	(11,074)	7,760
Other assets		(5,009)	10,358	(17,420)
(Decrease) increase in:				
Trade accounts payable		34,991	17,832	213,236
Other accounts payable and accrued expenses	15	(27,139)	(45,369)	(53,100)
Due to related parties	21	(1,727)	441	1,249
Income taxes paid		(63,006)	(62,911)	(38,362)
Net cash provided by operating activities		333,900	327,382	358,842
Cash flows from investing activities:				
Purchase of machinery and equipment		(86,102)	(121,507)	(41,379)
Sale of machinery and equipment		9,395	101,009	14,501
Acquisition of subsidiaries		-	-	(176,577)
Interest collected		7,598	8,560	13,433
Net cash used in investing activities		(69,109)	(11,938)	(190,022)
Cash flows from financing activities:				
Borrowings	16	1,649,029	160,000	1,096,105
Repayment of loans received	16	(1,791,129)	(344,122)	(964,436)
Payment of leasing		(75,072)	(15,114)	(33,099)
Purchase of own common shares		(13,689)	(48,082)	(16,743)
Interest and commissions paid		(120,357)	(128,589)	(128,908)
Net cash used in financing activities		(351,218)	(375,907)	(47,081)
Effects of changes in exchange rates on cash held in foreign currency		73,961	(55,912)	(11,910)
Net (decrease) increase in cash and cash equivalents		(12,466)	(116,375)	109,829
Cash and cash equivalents at beginning of year		138,253	254,628	144,799
Cash and cash equivalents at end of year		\$ 125,787	\$ 138,253	\$ 254,628

The accompanying notes are part of the consolidated financial statements.

ABOUT THIS REPORT

GRI 102-46, 102-49, 102-50, 102-51, 102-52, 102-54, 102-56

We present the sixth sustainability report and the fifth integrated report. This report is prepared annually and pursuant to GRI Standards: Essential option established by the Global Reporting Initiative (GRI). It includes performance results and economic, social, environmental and corporate governance events that took place from January 1st to December 31, 2019.

This report complies with GRI principles for determining content and quality of the report, and does not contain outside verification.

We present a digital report for our readers' convenience, and a section on social responsibility where pertinent information can be found, in addition to financial and sustainability results.

Stakeholder Inclusion

The report herein presents qualitative and quantitative data, including charts, photos, links, and clear working with the purpose of better communicating our performance to all stakeholders.

Accuracy

Sustainability Context

There are positive aspects and areas of opportunity mentioned, to openly present clear and transparent information.

Balance

All information is presented clearly, concisely, and is available to all stakeholder groups.

Clarity

Materiality

The data and figures presented in this report allow stakeholder groups to identify existing changes in the following years, as compared to the previous ones.

Comparability

Comprehensiveness

Under the principles of ethics and transparency for which we are known, we have presented relevant and reliable data for the convenience of our stakeholder groups.

Reliability

Just like other years, we present timely and relevant information on the results of our operations in México, Brazil, and Central America.

Punctuality

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