

pochteca<sup>®</sup>

**MORE THAN  
DISTRIBUTION**

2013 ANNUAL REPORT



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**In Grupo Pochteca we are more than just distributors.**

We are the preferred company of suppliers and customers in terms of adding value to their production chains and driving their growth. We work closely with them to understand their processes and propose creative, efficient and effective solutions.





Acquisition

**Productos  
Químicos  
Mardupol,  
S.A. de C.V.**

We grew

**15%** and **14%**

in sales and EBITDA,

respectively, mainly due to a 40% increase in volume sold and better gross margins.

## Key milestones

Despite the acquisitions completed in 2013,

**our balance sheet remained strong,**

due to a conservative leverage policy.

**HR AAA and mx AAA ratings by S&P**

were obtained in two successful accounts receivable portfolio securitizations.

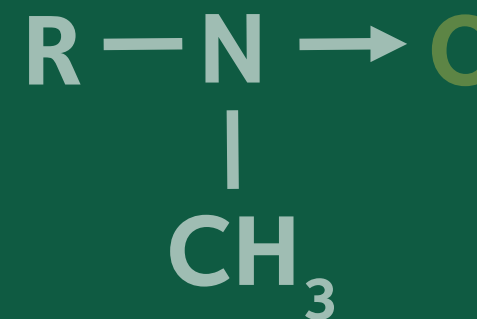
In December, 2013,

**the COREMAL acquisition was completed.**

The firm is a leading chemical distributor that covers most of the Brazilian market.

**Our Net Debt-to-EBITDA**

**ratio was 2.20** times at the end of the year.



## Financial highlights

Consolidated Millions of Pesos	2013	2012
Net sales	4,473	3,896
Net income	40	51
EBITDA**	216	190
Net Debt**	623	55
Net Debt-to-LTM EBITDA	2.20	0.29
Interest coverage	2.61	2.61
Outstanding shares	130,522,049*	621,891,141

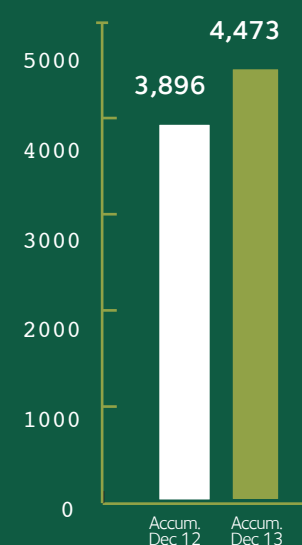
\*After reverse stock split (5-to-1)

\*\* Debt includes Coremal's debt

\*\* EBITDA does not include Coremal's EBITDA for 2013, as the transaction was closed on December 31, 2013

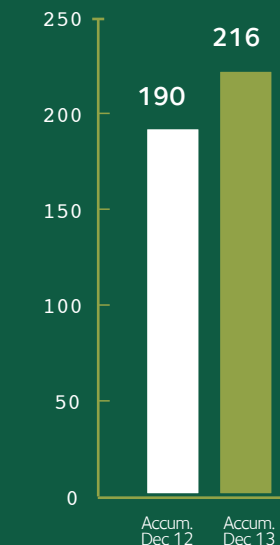
### Sales

Millions of Pesos



### EBITDA

Millions of Pesos



# Message from the CHAIRMAN OF THE BOARD OF DIRECTORS



Dear shareholders,

In 2013 Pochteca achieved solid results despite the challenges that we faced, such as the marginal growth of the Mexican economy that affected the demand, as well as the fall in the prices of most raw materials, jointly with the continued volatility in the exchange rate market.

**Our Company registered sales of Ps. 4.5 billion, an increase of 15% against the previous year. EBITDA rose to Ps. 216 million, 14% more than in the previous year. In addition, Pochteca recorded Ps. 40 million as net income, in comparison with the Ps. 51 million obtained in 2012.**

Many factors contributed to these positive results. The diverse and extensive portfolio of products, the customers and markets that we serve, and the focus on customer service, including the development of tailor-made products in benefit of our clients, together with a 42% increase in our sales volume (tons and liters), allowed us to grow our sales despite the more than 15% decrease in the prices of the Company's product portfolio throughout the year. The growth in volume allowed the Company to partially offset the impact on sales of the deflation of the prices of raw materials. Another important factor was the cost reduction program we implemented, which included merging several of Pochteca's facilities with Mardupol's facilities.

#### EXPANSION STRATEGY

On general terms, the distribution business is constructed on an adequate purchasing practice, an aggressive working capital management, critical mass expansion organically or through acquisitions, as well as impeccable management of distribution logistics, among other practices recognized worldwide.

A crucial piece in our strategy has been the acquisition of competitors, from which our company has obtained expertise and critical mass, for a better competitive interaction in the industry.



We acquired *Productos Químicos Mardupol* and *Coremal*, a Brazilian company, in February and December, 2013, respectively. Through these transactions we gained critical mass, improved our product portfolio and expanded our market reach.

#### FINANCIAL POSITION

Due to the solid results obtained in the year and a well-managed indebtedness policy, our net debt equaled 2.20 times the Company's last twelve months EBITDA (including Coremal on a pro-forma basis). Cash flow projections for 2014 indicate that our expansion strategy will take this ratio towards 2.0 times by the end of 2014.

#### 2014 OUTLOOK

We do not expect the Mexican economy to improve significantly in the next year. However, Pochteca will take advantage of the Coremal acquisition, as well as of the adjustments implemented at the organizational level, along with synergies and operating improvements implemented during 2013.

At the same time, the Company will continue exploring expansion opportunities in Mexico and Latin America for an aggressive growth in the region.

Operating efficiencies, sale force training, and a better customer service will continue to be strategic for the business. Through these we consider that the Company's Administration will continue to deliver sustained value to our shareholders.

Finally, I wish to thank all our associates for their drive and dedication demonstrated to the business along the year.

**RICARDO GUTIÉRREZ MUÑOZ**  
Chairman of the Board of Directors



**322,000 m<sup>2</sup>**  
in logistics capacity

Over **25 years**  
of experience

Over  
**5,500 products**

**13 quality control**  
and **4 research**  
& development  
laboratories

Deliveries  
in over  
**500 cities**  
in Latin America

**300,000**  
**tons**  
sold annually

Over **27,000**  
clients served  
per year

Liquid storage capacity:  
**20.2 million**

**109,000 m<sup>2</sup>**  
for storage of dry goods

## POCHTECA Highlights





# Evolution

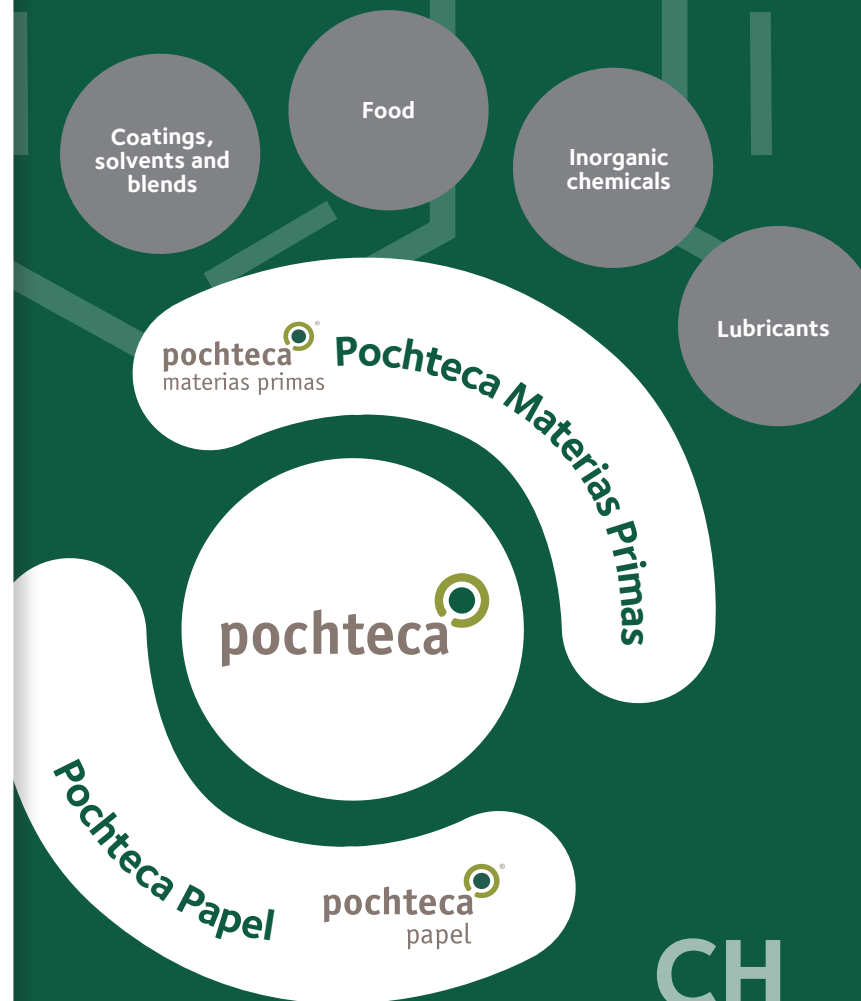


2014  
Our story continues...

**Sales**  
Millions of Pesos

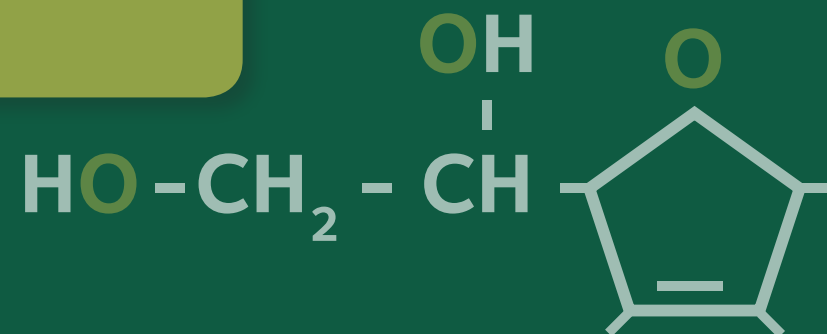
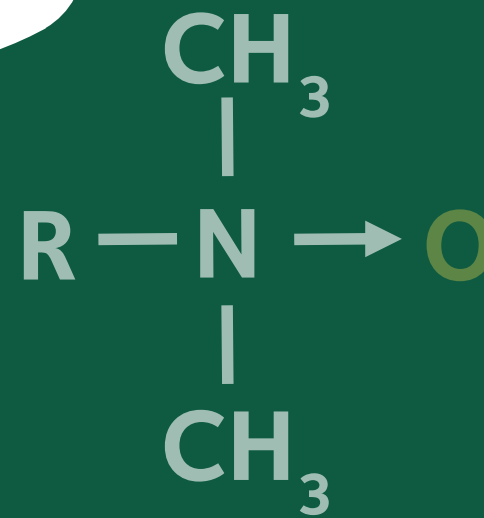


## Organizational Structure



## About POCHTECA

Grupo Pochteca, S.A.B. de C.V. "Pochteca" is a Mexican group with international scope, which specializes in the sale and distribution of a great array of industrial raw materials. Our product portfolio includes paper and board, chemicals and lubricants, as well as integrated solutions. We have become the preferred partner of our customers by covering their specific needs in a timely and reliable manner.





# Pochteca MATERIAS PRIMAS

The range of our portfolio of industrial raw materials provides inputs for the manufacture of the products that are consumed daily by homes, industries and offices.

In Pochteca we have the ability to warehouse, manage and deliver the products we offer our customers with world class health, safety, security and environment standards (HSSE), endorsed by our NACD (National Association of Chemical Distributors) Responsible Distribution Process certification as well as and by our SARI compliance certified by ANIQ (*Asociación Nacional de la Industria Química*) as well as with timely service, supported by our nationwide distribution center network.

The aforementioned, along with relationships we have established with our world-class suppliers, allow us to offer the most attractive product portfolio and value proposition available in the market.

Every area within Pochteca operates with the highest HSSE standards, fully complying with existing regulations and respecting the environment.



Pigments Laboratory

**SOCIAL**  
Responsibility

## Sustainability Strategy

In Grupo Pochteca we recognize the importance of protecting the environment, therefore we maintain a high commitment to its preservation.

As a result, we regard it as one of the key elements of Pochteca's culture and our sustainability strategy, under which we will begin to operate in an integrated way in 2014.

Our sustainability strategy is founded on four pillars: people, community, environment and supply chain.

Our strategic goal is to stay on the vanguard of safety, sustainability, environmental and social responsibility, based on two main lines of action:

- Continually improving and updating our comprehensive management systems to assure maximum compliance with sustainability, social responsibility, and environmental goals.
- Performing our business operations following world class health, safety, security, and environment standards.

### OUR COMMITMENTS

- To society. Respect the environment, operate under world-class safety standards and respect applicable regulation.
- To our personnel. Promote a healthy and challenging environment for their personal and professional development.



We have an extensive catalog of products and services, including generic and specialties in the following categories:

Food

Inorganic  
chemicals

Coatings,  
solvents  
and blends

Lubricants

Paper

## Our BUSINESS SEGMENTS

In Pochteca we guarantee a secure chain of custody that starts at the manufacturing level and ends at the final customer. This practice allows us to protect every participant and material along the value chain, as well as to take care of the environment.

### Food

We provide ingredients and additives for the food industry. In addition, the Company supplies logistic solutions, application techniques and prototyping of different food products to our customers, which are supported by our quality control and application development laboratory.

We serve the confectionery, bakery, dairy, beverage, meat and sausages, sauces and dressings, soups and pasta, snacks and canned goods industries, among other sectors.



Food laboratory





Pochteca San Juan



Cleaning and personal care laboratory

## Inorganic Chemicals

We distribute inorganic chemicals, both generic and specialties, which are used in applications for water treatment, agrochemicals, textiles, cleaning and personal care, mining and oil services, among other industrial activities.

Our application development laboratory for cleaning and personal care products allows us to develop tailor-made solutions in benefit of our customers.



Personal care

Water treatment

Oil services

Mining

Agrochemicals

Textiles

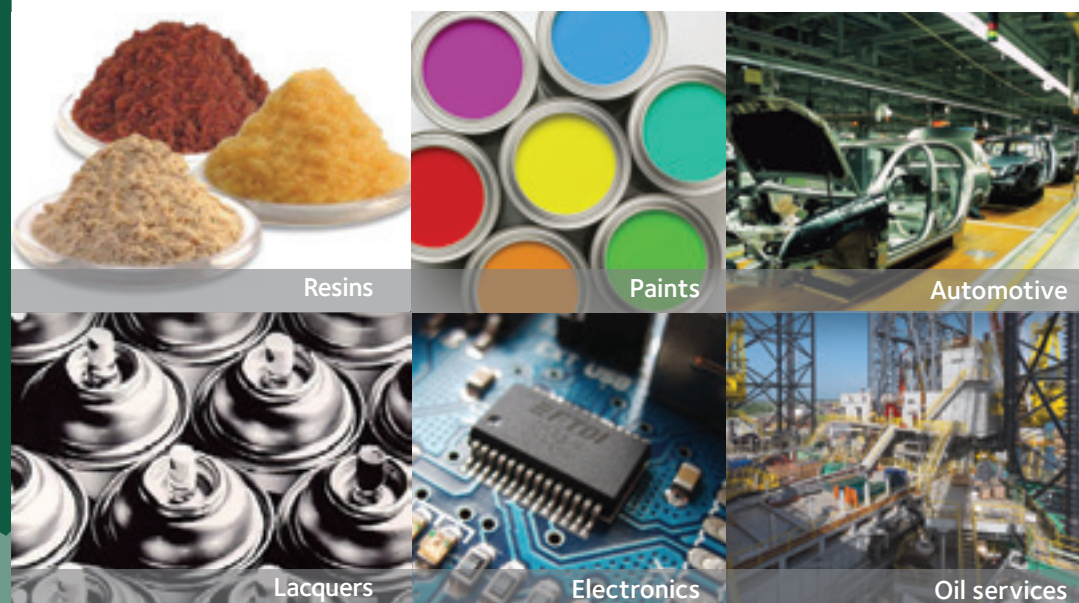


## Coatings, solvents and blends

We distribute high performance solvents and blends for small and large businesses.

Moreover, we market coatings, pigments, additives, resins and specialty chemicals for various industries, such as oil exploration and drilling, construction, paints, lacquers, adhesives, automotive, electronics and resins, among others.

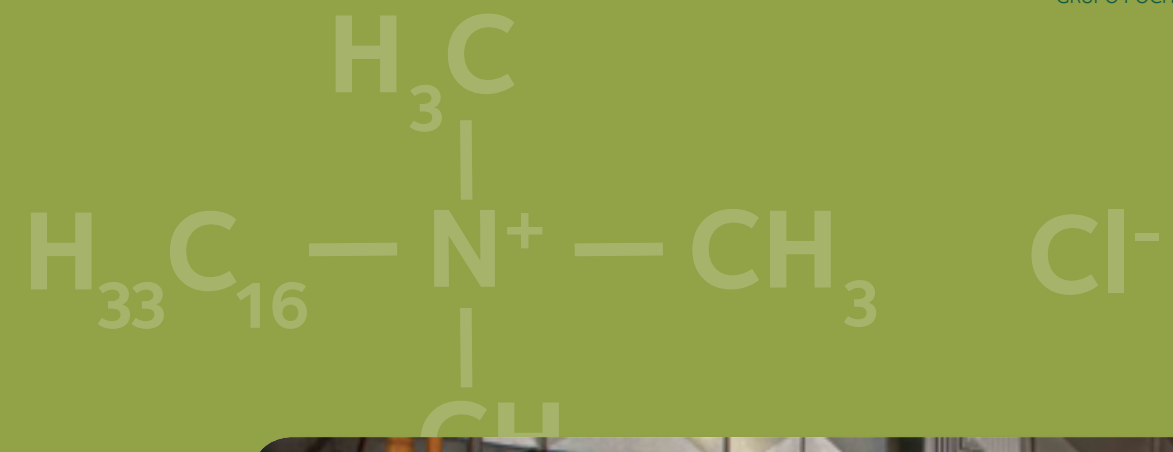
- At our blend development laboratory we produce solvents and blends which are designed to meet the high performing unique specifications required by our customers.
- We operate a recycling solvent plant. This capacity allows us to offer our customers the closed loop manufacturing service. We collect dirty solvents, clean and return them for a later reuse, thus eliminating the need for disposal and containment of solvent used by the client, thereby reducing their ecological footprint.







White room, Pochteca San José

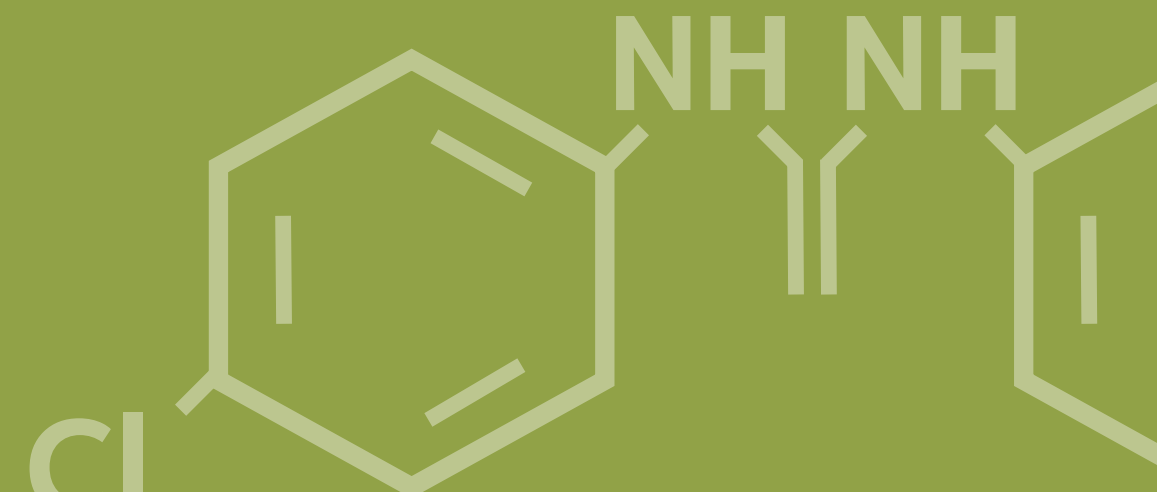


## Specialty Blends and Solvents

The closed loop manufacturing chain concept is based on keeping minimal waste generation and a high efficiency level in order to increase productivity and competitiveness.

The “closed loop” process implies a new approach in the manufacturing of goods and services. In Grupo Pochteca we have adopted this practice by carrying out the recovery of dirty solvent generated by industries, which is processed for cleaning and reuse, making rational use of materials and resources, and saving costs. That way we deliver a product that meets the specifications demanded by the strictest processes in the automotive industry.

With the implementation of this practice in Pochteca, we guarantee the suitability of the solvent to be reinserted in the production process, thus contributing to the sustainability of various segments such as automotive, paints, pharmaceutical, printing, metalworking and paint industries.





## Lubricants

As of December, 2010, we were appointed B2B (business-to-business) Master Distributor by Shell Lubricants in Mexico, and in El Salvador in 2011.

We currently distribute its greases and lubricants for industrial and transportation sectors.

By means of Shell's lubricants, greases and specialties products, we serve, among others, the transportation, mining, oil and gas, food, construction, automotive, power generation, aviation, agriculture and marine sectors.



Cargo and transportation



Energy generation



Aviation



Agriculture



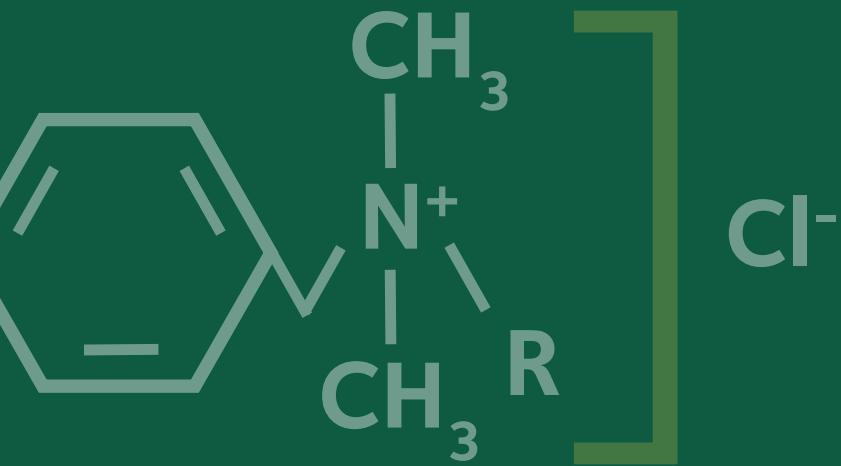
Construction



Marine







Printing

Publishing

## Paper

We distribute, sell and convert paper products for publishing, design, printing, packaging and advertising.

- We offer the industry a wide range of high quality paper and board, whether domestic or imported, in different varieties and formats for printing and packaging.
- We rely on world class suppliers. Among the companies we have held long term relationships with are: *StoraEnso*, *Mead Westvaco*, *Mohawk Fine Paper*, *Torras Papel*, *UMP Raflatac*, *Cartieri Fedrigoni* and *Central National Gottesman*.



Pochteca Vallejo

## SOCIAL Responsibility



## People

### SAFETY AND RESPONSE TO EMERGENCIES

According to our prevention procedures, we conducted the assessment of emergency response teams. The initiative has been spread along our domestic operation to deal with the contingencies that might take place in our facilities.

Thus, we have introduced the following measures:

- Built a 250,000-liter water based fire fighting system in our plant in Monterrey, backed up by a water tank with 1 million-liter capacity.
- In order to strengthen our cyanide handling capability, we acquired special clothing, conducted proper training, built a special warehouse in Torreon, installed gas detecting equipment and purchased safe breathing emergency equipment for our employees.



Pochteca Vallejo



## GEOGRAPHIC Dispersion

Thousands of products in hundreds of industries for thousands of customers located in many regions.



Pochteca San Juan

Throughout our extensive logistics and distribution network, we serve more than 27,000 customers in over 500 cities in Mexico and four Latin American countries (Brazil, Guatemala, El Salvador and Costa Rica).

Our broad customer base and wide product portfolio, coupled with our geographic coverage, allow us to maximize channel utilization, making it feasible to serve industries in remote locations or in complex supply conditions. Moreover, additional benefits include efficiencies attained in transportation and storage, as well as meeting applicable regulation and international standards on the secure chain of custody.

Sourcing technically complex products demands important technical and administrative resources from the procurement team in companies who consume industrial raw materials. In Pochteca, as a reliable supplier with full world class HSSE certifications, we provide a broad portfolio in a single channel through our "one-stop shop" and a full technical support value proposition, simplifying the supply chain of our customers and allowing them to meet a significant portion of their needs through a single channel.

At the end of 2013, we have 35 full-fledged distribution centers and four sales offices in Mexico, three distribution centers in Central America, and five distribution centers in Brazil. This allows us to keep our inventories, laboratories and technical support team close to our clients, enabling them to optimize and rationalize their inventories and operate with full flexibility of their processes.

Since 2008 we are partners of Omnichem, a strategic alliance integrated by 13 distributors in the U.S. and Canada. The association provides us access to 74 distribution centers in North America, and enables us to have employees in China, India and Korea, which are focused on procuring highly competitive products in those countries. Omnichem has allowed us to achieve economies of scale through the purchase of large volumes (by the ship load) at competitive prices.







Monterrey



Queretaro

San Jose



Minatitlan

## MEXICO

- Distribution centers and plants
- ▼ Sales offices



San Luis Potosi



Merida



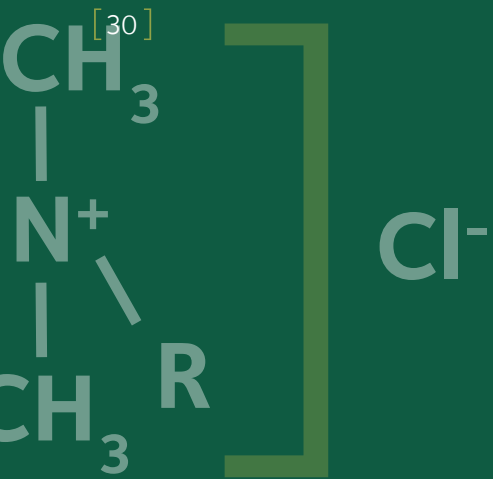
## CENTRAL AMERICA



## BRAZIL

- Units
- Agents
- Customers
- Associates





People

SECURITY IN OUR OPERATIONS

In Grupo Pochteca, we work with the “INTEGRATED MANAGENT SYSTEM” (IMS), which allows the Company to focus our efforts towards the human being as a primary source of the business’ objective, in addition to ensure continuity of our Company.

During 2013, Pochteca’s Responsible Distribution Certification (RDP), from the National Association of Chemical Distributors (NACD), was renewed through a multi-plant on-site audit.



We have always gone beyond the strictly necessary regulatory compliance procedures, distinguishing ourselves by having world class HSSE standards, which have been validated both by the continuous audits of the “Responsible Distribution Process” system (RDP) of the National Association of Chemical Distributors (NACD), the umbrella organization for chemical distributors in the U.S. and Canada as well as by the SARI compliance audits of the ANIQ (the Mexican Association of the Chemical Industry). Both of these are voluntary compliance programs to which Pochteca has subscribed for years. We are the only Latin American company to have the RDP certification from NACD.



On a regular basis we train our personnel in handling hazardous products in order to adhere to the standards of the NACD and ANIQ.



With 322,000 m<sup>2</sup> of logistics capacity, 109,000 m<sup>2</sup> for storage of dry products and 20.2 million liters, we are able to deliver more than 300,000 tons of products per year, positioning us as one of the leading companies in the distribution and marketing of raw materials in Latin America. Currently, we deliver 5,500 different products to over 27,000 customers annually.

We have 17 laboratories: 13 for quality control and four for the research and development of applications. Through this capacity, we offer advice to our thousands of customers, and train clients and suppliers on analytical techniques and development of new formulations and applications for their products. Some of the services provided include:

- Verification of product specifications.
- Validation of the formulations of blends produced.
- Formulation based on competitive costs.
- Evaluation of competitors’ products.
- Product design for new businesses.
- Preparation and delivery of samples.
- Technical service and training.
- Emission and control of data sheets, certificates of analysis and safety data sheets of products.
- Assessment of recoverable products for recycling.





# The Key to Success: DIVERSIFICATION

During 2013, we continue working on our strategy of diversifying **customers, products, markets** and **regions** in order to avoid risk concentration.

This diversification allows us to protect the creditworthiness of our receivable portfolio as well as our gross margin levels, to reduce the impact of price reductions in certain products, and the demand contractions in specific industries or geographic regions and the scarcity, obsolescence or regulatory obstacles that might affect a particular product.

We are convinced that this strategy enhances the adaptation capacity of our business, allowing us to minimize the impact of falling prices, recessions in certain industries or regions, obsolescence or product shortage, bankruptcy or defaults of customers and other fluctuations in the market. Our sales growth and sustained improvement in margins in recent years, in spite of weak demand and falling prices, validate this strategy. During 2013, our sales grew 15% due to a 40% increase in tons sold.

## CUSTOMERS

We maintain a business relationships with over 27,000 active customers operating on a broadly diversified range of markets.

We continued to consolidate our model of risk diversification during 2013. Our top five customers went from 11.6% of sales in 2012 to 9.4% in 2013, with none reaching 3% of sales.

	Part % 2013	Part % 2012
Customer 1	2.84%	3.96%
Customer 2	2.05%	2.33%
Customer 3	1.78%	2.07%
Customer 4	1.46%	1.82%
Customer 5	1.24%	1.43%
TOTAL	9.38%	11.61%

## PRODUCT

In addition to strengthening our proposed "one-stop shop" offer, our portfolio of over 5,500 products allows us to minimize reliance on any item individually. Our most important product represents 2.3% of the sales and, in total, the top five represent 8.3%, which enable us to moderate the impact of certain vicissitudes such as price fluctuations, shortages or obsolescence of products.

	Part % 2013	Part % 2012
Product 1	2.36%	1.79%
Product 2	1.75%	1.56%
Product 3	1.60%	1.16%
Product 4	1.37%	1.03%
Product 5	1.23%	0.90%
TOTAL	8.32%	6.43%

## SOCIAL Responsibility



## Supply Chain

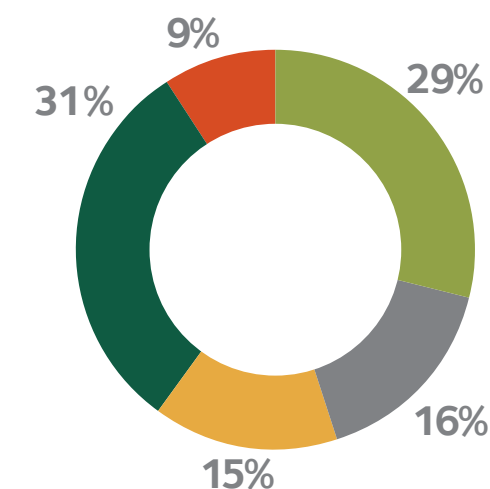
Diffusion of Pochteca's culture into our value chain

We extend our safety and environment culture to our customers and suppliers through training, communications, evaluations and audits at their own facilities.

**304**  
courses given to  
customers and  
suppliers

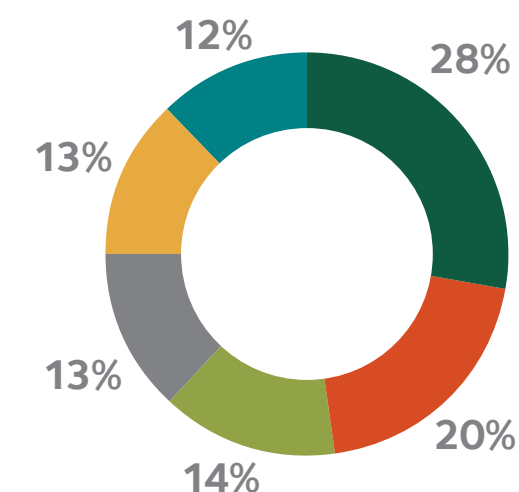
**6,402**  
man-hours  
of training  
provided

## Sales by segment



- Coatings, solvents and blends
- Lubricants
- Paper
- Chemicals
- Food

## Sales by region (Raw materials and paper)



- Central
- Southeastern
- Western
- Northeastern
- Bajío
- Pochteca Lubricants



## Supply Chain

### EXTERNAL AUDITS

Every year, our Company receives multiple audits by customers, suppliers and other external agencies.

Aspects evaluated during the audits include product traceability, state of our facilities, quality, safety, environment, security and social responsibility. The findings detected are addressed according to the preventive and corrective action procedures in our continuous improvement system in order to continually improve our operational processes and controls. This constant inspection of our operating practices by world class companies guarantees our abidance to the best in its class management practices.

**Grupo Pochteca is a “reliable supplier”** in accordance with the results of the 16 audits conducted by customers and suppliers in our facilities during 2013.



## Markets and regions

**Our industry and geographic diversification initiative has proven to be efficient. Our Company minimizes risks associated with customer concentration and can move nimbly from regions or market niches that suffer contraction to more dynamic regions or markets. We are continuously reviewing our product portfolio, emphasizing higher value and higher margin products over low value, non-differentiated products. This has allowed us to maintain an increasing trend in our gross margin as well as to grow in a recessionary environment.**







In 2013, we continued to consolidate our diversification model by buying COREMAL (Coremal – Comercio e Representações Maia Ltda., Mercotrans Transportes e Logística Ltda. and Coremal Química Ltda.).

Coremal is one of the ten largest chemical distributors in Brazil. It has five distribution centers across the country and an infrastructure that allows it to provide packaged and bulk products to over 8,600 customers in all 27 states, through the support of its subsidiary *Mercotrans Transporte e Logística Ltda.*

The *Coremal* acquisition enables us to have a highly recognized partner in that country, with a domestic distribution structure, chain of custody standards and world-class suppliers. It also offers a diversified base of customers, products, markets and regions in line with our diversification strategy.



Cotia-SP



Fortaleza-CE



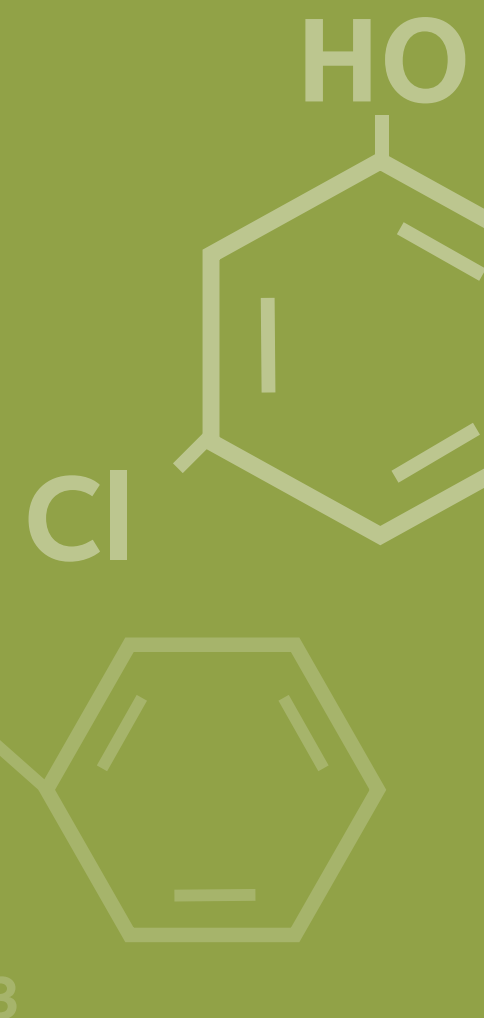
Home Office PE



Cotia-SP

The acquisition allows us to:

- **Consolidate our presence in Latin America.**
- **Penetrate the Brazilian chemical and lubricant distribution market.**
- **Transfer know-how and exchange products between Pochteca and Coremal.**





# Our VALUE PROPOSITION

## INTELLECTUAL AND GEOGRAPHICAL PROXIMITY TO CUSTOMERS

Our national coverage, sales experience, good knowledge of our products and customers, technical support, and our storage capabilities for dry and liquid products and our laboratories have enabled us to maintain both geographic proximity with our customers and a deep understanding of their needs. We are able to supply products to both large and small companies as well as to provide tailor-made solutions that fit their particular requirements.

Our long and successful experience providing credit to both large and small companies has allowed us to finance the working capital needs of the industry. The Company's receivable portfolio has been securitized twice, both times with AAA rating by S&P and HR Ratings.

## TAILOR-MADE SOLUTIONS, TECHNICAL SUPPORT AND "ONE-STOP SHOP" CAPABILITIES

We offer the best combination of price, quality and service to satisfy our customers' needs. Our strategy is based on selling generics, specialties and tailor-made products to all participants in the industry, along with the best technical support provided before and after the sale process occurs with the support of our application laboratories. This, coupled with our "one-stop shop" capabilities, simplifies the purchasing experience of our customers and optimizes the use of resources in order to reduce operating costs and delivery times.





## SAFE CUSTODY CHAIN OPERATING UNDER THE HIGHEST STANDARDS OF INTERNATIONAL SAFETY

Industry leaders worldwide are currently integrating high standards of health, safety, security and environment (HSSE) into their processes. Respecting the environment increases brand value and reduces corporate risk. Grupo Pochteca is a leader in its sector in HSSE:

- We are the only company in Latin America bearing the RDP (Responsible Distribution Process) certification of the National Association of Chemical Distributors (NACD), the association of chemical distributors of the U.S. In 2008, we were awarded the excellence award for responsible distribution by this association, which positions us at the same level of chemical manufacturing and distribution standards followed by leading firms in the United States.
- We are authorized to use the logo of "SARI" (Integral Management System and Responsibility) by the National Association of Chemical Industry (ANIQ). Adherence to the "SARI" methodology allows us to maintain a secure chain of custody in order to ensure the safety of our operations, the health of our employees and the community, and respect the environment.
- Grupo Pochteca was the first paper distributor certified in Mexico by the Forest Stewardship Council (FSC). As of today, only 15% of all participants in the industry bear such certification.
- Our main plants have been certified by PROFEPA (Federal Office for Environmental Protection) as Clean Industry.
- ISO 9001:2008 Germanischer Lloyd Certification (GLC).
- Our warehouses and service facilities are continuously audited by world class suppliers, who want to be sure that their customers operate under the same high standards that they follow. Our leading multinational customers also audit our operations, as part of their goal to have suppliers that are certified as fully reliable and HSSE compliant. This continuous process of audit and scrutiny of Pochteca's operations by third parties guarantees that we operate under the most exacting world class standards.
- We belong to the SEDEX database that includes responsible and ethical suppliers in the supply chain of our line of business.



The only company in Latin America with RDP certification by the NACD.

SOCIAL  
Responsibility

## Environment RISK MANAGEMENT

In Grupo Pochteca, we work with an Integrated Management System, which aims to ensure that our customers' needs and expectations are properly covered. This is achieved through the identification of risks, monitoring of

operations and regulatory compliance through the constant review of our performance indicators.

The system's objective is to eliminate spills to reduce emissions and to lower the consumption of water and electricity, and to bring down the generation of hazardous and non-hazardous waste to the minimum possible level.





# Financial Summary

Thanks to our successful business model based on product, customer, industry and region diversification, we were able to minimize the effect of adverse factors in 2013 achieving double-digit growth in revenue while increasing gross margins and maintaining a healthy balance of accounts receivable.

Among the most significant adverse effects were:

- The generalized drop in prices of the raw materials which are part of the Company's portfolio. A generally depressed world economy resulted in lower prices for a large number of raw materials throughout the world. High-volume products for Grupo Pochteca, such as sodium cyanide or titanium dioxide, suffered double-digit price declines during the year. These price contractions resulted in significant losses from holding inventories, coupled to increasingly lower sales per ton sold. Fortunately, we were able to increase the volume of tons sold by 42%, offsetting a portion of the price reductions, thus being able to attain a 15% growth in total sales. Likewise, despite the considerable losses from declining value of inventories, gross profit as percentage of sales increased to 16.8% from the 16.1% margin observed in the previous year.
- The decline in construction activity severely affected manufacturers of paints, lacquers, coatings and other construction materials. These sectors are an important part of the solvent, blends and coating segment's sales. This segment, by itself, is the most important revenue generator for Pochteca. Similarly, the weakness in construction and infrastructure projects impacted negatively on the sale of lubricants and greases. The government's underspending on construction and infrastructure projects affected these sectors in particular and industry in general, thus affecting demand.
- The drop in prices for minerals affected both the prices of raw materials used in mining processes (i.e. cyanide) as well as the volumes sold of those materials, as the lower prices of minerals resulted in many mines reducing the production volumes.

- The slowdown of the oil exploration and drilling sectors, along with generalized delays in collections throughout this industry, resulted in lower than expected sales and in increased days outstanding in our receivables with the industry. This inevitably affected our revenues, given that oil and gas represent in excess of 7% of Grupo Pochteca's sales.

This diversified model will allow Pochteca to capture significant benefits once the energy reform is consolidated and the economy resumes its growth. The positive impact will be seen not only in the oil exploration and drilling industries, the most important markets for Grupo Pochteca, but in over 30 industrial activities that rely on energy and/or basic petrochemicals for their processes. All these industries are served by Grupo Pochteca and therefore their growth will result in an increase in the demand of the Company's portfolio of products.



Chromatograph, Pochteca San José

**Ps.4,473** million in sales  
**15%** growth against 2012

**Ps.40** million Net Income

**Ps.216** million EBITDA  
**14%** increase

**Ps.623** million Net Debt

**SOCIAL**  
Responsibility

## People

OCCUPATIONAL HEALTH AND SAFETY

In accordance with our sustainability strategy, in 2013 we implemented an internal medical service, an initiative that seeks to provide health benefits for our personnel.

Through this initiative, the Company pursues the professional development, welfare and personal well-being of our employees. In accordance with this project's objectives, we have made an initial assessment of our employees' health. The information and data obtained will allow us to design a more comprehensive health and safety program for implementation during 2014.

The Company strives to know the status of our employees' health, in order to be able to implement actions that will address the most important health issues faced by our team members, focusing on prevention of disease or detection in the earliest possible stage.

**505** medical reviews  
conducted between May and  
September, 2013

In addition to this initiative, we have executed complementary medical activities and services.

- Two vaccination campaigns, through which 878 doses were applied to 703 employees and 175 contractors.
- A campaign of visual acuity, through which 480 people were benefited.
- Implementation of ambulance service.



# Corporate GOVERNANCE

In Pochteca we adhere to the best international corporate governance practices as well as to the Mexican legislation and the Securities Market Law in the country.

Similarly, we observe the principles established in the Code of Best Corporate Practices of the Business Coordination Council (CCE) in Mexico.

The Company's Board of Directors is the governing body responsible for establishing our long-term strategy, approving the major business decisions, monitoring the Company's management, managing risk, and ensuring regulatory compliance. In addition, the Board selects, evaluates and removes the Chief Executive Officer and executive officers of the business.

Our Board is comprised by a maximum of 21 directors, as determined by the Ordinary General Shareholders' Meeting, of which at least 25% must be independent. As of today, eight of 12 members are independent directors, thus exceeding this legal requirement. In addition, a non-member Secretary will be appointed to the Board of Directors.

The Audit Committee and the Corporate Practices Committee are part of the Board of Directors. The entities are integrated by independent directors, including their respective chairman.

## AUDIT COMMITTEE

The Company's Audit Committee is the entity responsible for conducting the following functions:

- Advise the Board of Directors on matters regarding the Mexican Securities Market Law.
- Assess the performance of the independent auditor, as well as analyzing the opinion and reports on the Company prepared by the auditor. To this purpose, the Committee may require the presence of the independent auditor when appropriate, notwithstanding that the latter should meet with the Committee at least once a year.
- Discuss and review the financial statements of the Company with the persons responsible for their preparation, and then recommend their approval or not to the Board of Directors.
- Report to the Board of Directors on the current conditions of the internal control system and of internal audit of the Company and the entities it controls, including the irregularities, if any, that were detected.
- Prepare an opinion according to Article 28, section IV, paragraph c) of the Stock Market Law and submit it to the Board of Directors, which will be subsequently submitted to the Shareholders' Meeting for its approval, jointly with the independent auditor's report and other documents.

## CORPORATE PRACTICES COMMITTEE

The Company's Corporate Practices Committee is the entity responsible for conducting the following functions:

- Advise the Board of Directors on matters regarding the Mexican Securities Market Law.
- Request the opinion of independent experts in the cases it deems appropriate for the adequate performance of the committee's duties, including the cases provided in the Mexican Securities Market Law and the general provisions applicable to participants in the securities market.
- Summon shareholders' meetings and order the inclusion into the agenda of aspects that the committee deem relevant for discussion and approval in the corporate act.
- Assist the Board of Directors in the preparation of the reports referred to in Article 28, section IV, paragraphs d) and e) of the Mexican Securities Market Law.
- Assess the performance of the executive officers of the Company and review their compensation packages.



# Board of DIRECTORS

## BOARD MEMBERS

**Jorge Ricardo Gutiérrez Muñoz** – CHAIRMAN  
**Tomás Acuña Begné\***  
**Eugenio Santiago Clariond Reyes\***  
**Antonio del Valle Ruiz**  
**Francisco Javier del Valle Perochena**  
**Francisco Javier Moguel Gloria\***  
**Ernesto Moya Pedrola\***  
**Luis Rebollar Corona\***  
**Francisco Javier Ruiz Galindo y Terrazas\***  
**Armando Santacruz González**  
**José Antonio Vértiz Pani\***

\* Independent directors

## ALTERNATE DIRECTORS

**Juan Pablo del Valle Perochena**  
**Antonio del Valle Perochena**

**Eugenio Gerardo Manzano Alba**  
**Federico Santacruz González**

**Juan Pablo del Río Benítez** – SECRETARY  
**Almaquío Basurto Rosas** – ALTERNATE SECRETARY

## EXECUTIVE COMMITTEE

**Jorge Ricardo Gutiérrez Muñoz** – CHAIRMAN  
**Armando Santacruz González** – MEMBER  
**Eugenio Gerardo Manzano Alba** – MEMBER



**SOCIAL**  
 Responsibility

## Engagement with the sector

We belong to various sectorial chambers as ANIQ, CANACAR, ANAFAPYT, AIVAC, and CANACINTRA.

We participate in the monthly meetings of ANIQ for review of Mexican legislation, as well as official Mexican standards projects regarding safety, health, security and environment matters.

We actively participate in audits of the SARI program to chemical companies that are part of the association. We seek thereby to help improve the standards of safety, health, security and environment of our guild.

Pochteca San José





Collecting for victims



Collecting for victims

## SOCIAL Responsibility

# Community

## INTEGRATED MANAGEMENT SYSTEM POLICY

We are committed to the community, so we strive to improve the health, safety, security and environment's protection in the areas surrounding our facilities.

We train the most vulnerable groups in civil protection on matters such as preventive, corrective and reactive measures in cases of emergency. Through the promotion of Mutual Aid Groups, our peers within the chemical industry and the Company protect communities. In addition, we have established continuous communication with them.

During 2013, we carried out the following actions in benefit of communities:

Support to nearby clinics providing them healing material.

Donation of blankets to underprivileged families, via the Julian Foundation A.C.

Fundraising to benefit the Kardias Foundation A.C., in order to provide access to heart surgery to underprivileged children with congenital heart disease.

Support hurricane victims through the collection of food from our associates for its distribution by the Red Cross.

Donation in kind to Tlalnepantla's Civil Protection Agency and Fire Station for its facilities maintenance.

Donation in kind to educational institutions in the eastern part of Tlalnepantla, through the City government.

Provided lectures to 70 students in the Metropolitan Technological University of Merida on HSSE Issues.

Participation in the San Juan Ixhuatpec fire drill.



Delivery of blankets by Julian Foundation A.C.



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

## C.E.O. Report on the 2013 RESULTS

### HIGHLIGHTS FOR THE YEAR 2013 INCLUDED:

- **Increase in sales and EBITDA.** Despite the overall fall of raw material prices and the contraction of the construction sector, sales and EBITDA grew 15% and 14%, respectively, mainly as a result of a 40% growth in sales volume and an increase in gross margins. This growth is significantly higher than the 1.06% growth in domestic GDP, than the 4.5% decrease observed in the manufacturing sector and the 0.6% contraction registered in the chemical industry.
- **Acquisition of Productos Químicos Mardupol, a leading firm in inorganic chemical products.** The company was acquired on February 1, 2013. By February 5, 2013, redundant operations were closed or merged and the product portfolio, jointly with inventories and suppliers base, were integrated into Pochteca's SAP system, in order for both Companies operations to operate seamlessly as a single entity.
- **Brazil.** The acquisition of *Coremal* was completed on December 31, 2013. The Brazilian company is a chemical distributor with extensive coverage in the country. Impact in the profit and loss statement will only be felt in 2014, although, from a balance sheet standpoint, the full impact is reflected on Pochteca's 2013 closing balance sheet.
- **Solid financial position.** Despite the acquisitions made in 2013, our balance sheet remains solid. We respected the financial guidelines ordered by the Company's Board of Directors. Under that assumption, we recorded a Net Debt-to-EBITDA ratio of 2.2 times (considering pro-forma 2013 EBITDA for *Coremal*).
- **Risk Diversification.** Our strategy to diversify customers, geographic markets, industries and products has been consolidated. The top five clients represented 9% of total sales. Similarly, our top five products represented 8% of total revenue and no customer or product represents more than 3% of sales while geographic and industry dispersion provides protection to the Company from industry or region specific problems.

### 2014 OUTLOOK

- **Mexico's energy reform will benefit our business.**
  - We expect the oil and gas exploration and drilling sectors to grow importantly in the following 18 to 24 months, as a result of energy reform. These niches represent more than 7% of our total sales, so we expect a rising demand for our products in these sectors.
  - We expect that the reduction in the uncertainty of the supply of basic chemicals, gas and electricity and the gradual drop in the price of energy that will derive from energy reform will result in a sustained growth in investments in the chemical industry in particular and in general, in the manufacturing sector. This will generate growing demand for Pochteca's products.

- **Double-digit growth.** The *Coremal* acquisition along with our organic growth, will enable the Company to grow in excess of 25% during 2013, not considering potential acquisitions that could be completed before the end of 2014.
- **Other potential catalysts.** The environment in 2013 for Pochteca was adverse in all major external variables: commodity prices going down, paralyzed public works, generalized contraction in construction and mining, among others. Any positive change in these variables will result in additional sales for the Company.
- We will continue evaluating potential mergers or acquisitions in the future. As we have been doing in the last two years, we will continually evaluate companies that could provide value to our shareholders our financial strength and a suitable risk profile.

### CONSOLIDATED RESULTS

Consolidated	January - December		
Millions of Pesos	2013	2012	Var %
<b>Net sales</b>	4,473	3,896	15%
<b>Net income</b>	40	51	-22%
<b>EBITDA</b>	216	190	14%
<b>Net Debt-to-LTM EBITDA</b>	220	0.29	

Sales in the year grew 15% to Ps. 4,473 million. Gross income reached Ps. 749 million, a 20% increase against the Ps. 627 million figure recorded in the past year. Gross margin was 16.8% as percentage of sales against the 16.1% margin reached in 2012.

Income before taxes was Ps. 66 million, a 23% decrease against the figure recorded in 2012. This was the result of a foreign exchange loss of Ps. 30 million registered in the year in comparison with the Ps. 3 million foreign exchange gain recorded in 2012, thus leading to a Ps. 33 million adverse impact if compared with the previous year. Net income for the year was Ps. 40 million, which decreased 22% in comparison with the Ps. 51 million figure recorded in 2012. The adjustment in net income for the year was mainly due to the foreign exchange effect and higher taxes produced by having consumed accumulated tax losses in *Dermet de Mexico* during the year. However, EBITDA, which is not affected by conjunctural factors such as currency exchange fluctuations, increased 14% to Ps. 216 million, in comparison with Ps. 190 million in the previous year.

This growth was achieved despite several adverse factors that occurred during 2013. The most important were:

- A.** The general fall in prices of raw materials sold by the Company. The slowdown in the world economy had a depressing effect on a number of raw materials internationally. High-volume products of Pochteca as sodium cyanide or titanium dioxide suffered double-digit price declines during the year. These decreases generated significant losses from holding inventories, in addition to generating lower sales per ton sold. Fortunately, we were able to increase the volume of tons sold in 42%, thus offsetting the fall in prices, achieving a 15% growth in total sales. Similarly, despite the considerable losses from inventories affected by downwardly adjusted prices, gross margin as percentage of sales grew from 16.1% to 16.8%.
- B.** Oil exploration and drilling customers had a very difficult time collecting from their customers. This created constant delays in payments to Pochteca from these customers. Having these customers constantly in arrears dampened sales volume to them as well as putting pressure on the Company's receivables. This situation inevitably affected Pochteca negatively, given that over 7% of the Company's sales go to oil and gas.
- C.** The decline in the construction activity heavily affected an important sector of Pochteca's clients such as paint, lacquer coatings and construction materials manufacturers. These customers make an important part of the revenue of the Company's Solvents, Blends and Coatings segment. This segment represents 29% of Pochteca's sales. Similarly, the weakness in construction and infrastructure projects impacted negatively on the sale of lubricants and greases. The underspending of the Government budget affected these sectors in particular and the industry in general, thus affecting demand. The fall in prices for minerals, which affected both the prices of raw materials used in mining (i.e. cyanide and gold) the volumes required by the mines of these raw materials, as well as the production levels of the mines.

- D.** Our Company continued to consolidate its risk diversification model. The five major customers went from 11.6% of sales in 2012 to a 9.4% contribution in 2013, with none reaching 3% of total sales. Similarly, the top five products accounted for 8.3%, none reaching 3% of sales. Diversification of geographical markets and industries reinforced this risk dispersion and allowed the Company to move from shrinking to stable, growing industries, as well as moving from declining demand of products to a more dynamic portfolio. These strategic movements allowed us to increase sales and maintain margins, in spite of a contractionary economic environment and deflation in most of our product lines.

The fact that the Company was able to grow at double digit rates, increase its gross margins and maintain a healthy and stable balance of receivables during 2013 leads us to believe that the diversification of products, customers, industries and regions implemented in recent enhanced the Company's resilience and capacity for adaptation. This model minimizes the impact of adverse market conditions.



Under a less diversified risk model, a significant difficulty in one or two major markets or customers could result in severe sales and margin contractions that could potentially affect the profitability and solvency of the Company in a permanent way.

This diversified model will allow the Company to capture significant benefits once the energy reform will be consolidated. The positive impact will be seen not only in the industrial sectors of oil exploration and drilling, which represent a significant portion of the Grupo Pochteca's sales, but also in investments to be made in more than 30 industries connected with the use of products derived from oil, gas and/ or electricity as energy inputs. All these industrial branches are served by Grupo Pochteca. The growth experienced by these markets will result in an increase in the demand of the Company's product portfolio.

EFFICIENCY AND PRODUCTIVITY

Accumulated EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) was Ps. 216 million in 2013, representing a 14% increase against the previous year.

Operating expenses as percentage of sales were 11.9% in comparison with the 11.2% margin observed in the previous year. This deterioration was mainly the result of the decline in the price of products. In order to be able to grow 15% in our sales, we had to sell 42% more tons than the previous year. Distribution this additional volume requires more resources in most important areas of the company.

We are confident that we can reduce operating expenses as a percent of sales, as sales continue to grow and the rate of decline in prices of raw materials is reduced.

OPERATING EXPENSES (EXCLUDING DEPRECIATION)

ACCUM. 12		ACCUM. 12
11.2%	Expenses / sales	11.9%

FINANCIAL EXPENSES AND FOREIGN EXCHANGE GAIN

Financial expenses for the year were Ps. 59.8 million, which favorably compares with the Ps. 71.7 million recorded in 2012, representing a 17% decrease in the year.

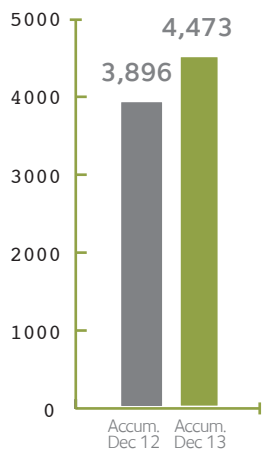
As per the foreign exchange position in the year, the Company registered a loss of Ps. 29.6 million, which if compared with the gain of Ps. 3.5 million observed in the previous year, results in a Ps. 331.1 million adverse effect in comparison with 2012.

CASH GENERATION

On a pro-forma basis, considering the Mardupol results as if these were consolidated beginning December, 2012, the Company's cash generation for the year was (Ps. 213 million). This was mainly affected by capital expenditures of Ps. 208 million. Investments included a new site in Queretaro for our technology information systems and a backup site in Mexico City, in addition to improvements made on Mardupol's tanks and warehouses. Through these actions the Company is well positioned in terms of infrastructure for the years to come. Capital expenditures of Ps. 80 million are projected to occur in 2014, as most of resources have been already invested during 2013.

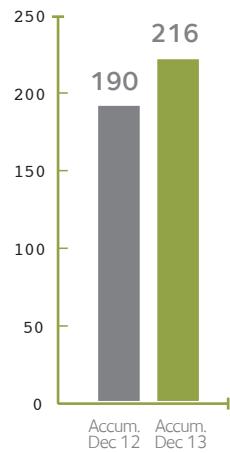
Sales

Millions of Pesos



EBITDA

Millions of Pesos



Accumulated sales grew 15% against the previous year, despite the fact that the weighted average price of our portfolio of products contracted more than 16% in the year in comparison with 2012.

GROSS MARGIN AS PERCENTAGE OF SALES

ACCUM. 12		ACCUM. 13
16.1%	Gross margin	16.8%

BALANCE SHEET

WORKING CAPITAL

In spite of the generalized arrears in the oil and gas sector and in spite of the severe contraction in the construction industry the Company reduced the collection period of its receivables from 54 days at the end of 2012 to 53 in the same period of 2013. In addition, inventory ratio changed from 70 to 71 days, and supplier's payment term remained steady at 92 days. The previously mentioned ratios include exclusively figures for Pochteca without Coremal. The latter was incorporated into the Company's balance sheet on December 31, 2013, so its sales, expenses and profits did not impact Pochteca during 2013, and thus, are not considered for this calculation.

NET DEBT

Net debt was Ps. 623 million at the end of 2013. The figure includes Coremal's bank debt as well as the debt contracted by Grupo Pochteca for the acquisition of Coremal. The Net Debt-to-EBITDA ratio includes Grupo Pochteca's EBITDA plus EBITDA from Coremal on a pro-forma basis, given that Coremal's P&L is not consolidated for 2013.

Net Debt-to-EBITDA was 2.2 times at the end of the quarter, which is marginally higher than the 2.0 times established as an internal goal. After the implementation of commercial strategies to increase sales through Coremal's operation, and the optimization of working capital financing in Grupo Pochteca and Coremal, the ratio is expected to return to around 2.0 times.

Interest coverage ratio remained at 2.61 times at the end of the year, practically the same ratio observed in 2012 after taking into account the effect of the Mardupol and Coremal acquisitions in 2013.

DISCONTINUED OPERATIONS

In 2012, the Company recorded the Central American and Brazilian subsidiaries as discontinued operations, after the Board decided to sell them off, in light of the fact that their contribution to EBITDA was less than 10% of total EBITDA. This would allow the Company's management to focus on the main EBITDA generating businesses. During the summer of 2013, largest subsidiary, Pochteca Brazil, was sold. Conversely, we were unable to sell Guatemala, Salvador and Costa Rica mainly due to the reduced scale of their operations (combined sales of Ps. 167 million). Following our external auditor advice and given the unlikelihood of selling them, the Company reincorporated these three operations into the business. In order for the 2012 and 2013 numbers to be comparable, the financial information for 2012 has been modified so as to include the unsold operations for the years 2012 and 2013, on the ordinary course of the business, including the financial statements of the Company. Total revenue generated by these three operations was Ps. 198 million in 2013, a 19% increase in comparison with the previous year.

COREMAL

On December 31, 2013 the purchase of 100% of the shares of COREMAL was completed. It included Coremal – Comercio e Representações Maia Ltda., Mercotrans Transportes e Logística Ltda. and Coremal Química Ltda. On a first stage, 51% of the business is paid for while the remaining 49% is paid in five annual installments of 9.8% of the value of the company, utilizing the same valuation methodology as in the first stage, but based on the results achieved in each subsequent year. This scheme secures an alignment of interests between Coremal's shareholders and Grupo Pochteca for the next five years.

Coremal was founded in 1952. Currently, it is one of the largest chemical products distributors in Brazil. It has six distribution centers along the country. The company's infrastructure supplies packaged and bulk products to over 8,600 customer in the 27 states of the country, through the support of its subsidiary Mercotrans Transport and Logistics, Ltd.

The market for chemicals and lubricants in Brazil is significantly larger than the Mexican market. Its complexity and local characteristics, however, lead us to operate through an experienced Brazilian partner with proven track record in the sector. Grupo Pochteca believes that Coremal represents a very positive acquisition. Purchasing a well-known group with proven managerial abilities and that has a nationwide distribution network and long term relationships with world class suppliers and that operates under the most stringent HSSE standards with a client, market, product and regional diversification that is consistent with Pochteca's strategy, is the best way to enter the Brazilian market. Coremal operates following the best HSSE industry practices and has been certified by the Associquim (Association of Chemical Industry of Brazil).

Consolidated	January - December	
Millions of Pesos	2013	2012
Net Debt	623	55
Net Debt-to-LTM EBITDA	2.20	0.29
Interest Coverage	2.61	2.61
Outstanding Shares	130,522,049 *	621,891,141

\* After reverse stock split (5-to-1)



Among other things, the transaction allows Pochteca to:

1. Consolidate its presence in Latin America, through which it adds value to major manufacturers and multinational customers in search of regional distributors.
2. Enter into the chemical and lubricants distribution segment in Brazil. The market is much larger than Mexico's (chemical products consumption in excess of US\$ 70 billion per year). In addition, the market is more fragmented than the Mexican market.
3. Export know-how and complementary products to Coremal's portfolio and vice versa.

As in other transactions, the Company kept conservative Net Debt-to-EBITDA and interest coverage ratios to limit the risk profile of the business.

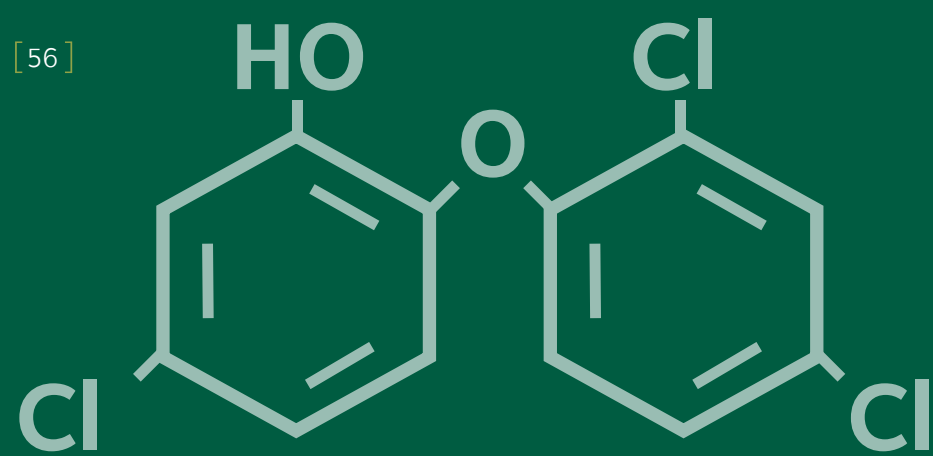
#### INDEPENDENT ANALYST AND FINANCIAL COVERAGE ON GRUPO POCHTECA

Grupo Pochteca signed in to the Independent Analyst Program. The Selection Subcommittee agreed to assign *Consultora 414, S.A. de C.V.* ("CONSULTORA 414") as the analysis firm responsible for covering the securities of POCHTECA.

Other analysts that follow the Company's stock are *Actinver Casa de Bolsa*, *Vector Casa de Bolsa* and *BBVA Bancomer*.







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

## Consolidated Financial Statements

For the Years Ended December 31, 2013 and 2012, and Independent Auditors' Report Dated April 14, 2014

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# Deloitte.

## Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and subsidiaries (the "Entity") which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the consolidated statements of income and other comprehensive income, statements of changes in stockholders' equity and statements of cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Independent Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Grupo Pochteca, S. A. B. de C. V. and subsidiaries as of December 31, 2013 and 2012, and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards, as issued by the International Accounting Standards Board.

### Other Matter

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

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

  
**C. P. C. MIGUEL ÁNGEL DEL BARRIO BURGOS**  
April 14, 2014



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

**Consolidated Statements of Financial Position**

As of December 31, 2013 and 2012

(In thousands of Mexican pesos)

	Notes	2013	2012
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	5	\$ 181,371	\$ 361,938
Accounts receivable and recoverable taxes – Net	6	986,806	626,032
Due from related parties	19	3,940	5,456
Inventories – Net	8	889,876	563,178
Prepaid expenses		34,424	15,967
		2,096,417	1,572,571
Assets held for sale	7	–	185,531
Total current assets		2,096,417	1,758,102
Property, plant and equipment – Net	9	921,840	568,016
Investments in shares of associated company		4,660	4,660
Other assets		74,481	20,991
Deferred income taxes – Net	23	26,035	41,889
Intangible assets	12	52,233	–
Goodwill	13	457,605	101,556
<b>Total</b>		<b>\$ 3,633,271</b>	<b>\$ 2,495,214</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
Current liabilities:			
Bank loans and current portion of long-term debt	15	\$ 186,306	\$ 4,929
Trade accounts payable		1,052,840	788,313
Other accounts payable and accrued expenses	14	258,882	107,769
Due to related parties	19	18,820	28,069
Income taxes and statutory employee profit sharing		3,403	7,735
		1,520,251	936,815
Liabilities directly associated with assets classified as held for sale	7	–	54,571
Total current liabilities		1,520,251	991,386
Long-term liabilities:			
Other long-term accounts payable	14	294,474	25,945
Long-term debt	15	617,761	428,892
Employee benefits	16	6,939	4,267
Total long-term liabilities		919,174	459,104
Total liabilities		2,439,425	1,450,490
Stockholders' equity:			
Contributed capital–			
Capital stock	17	1,141,420	1,152,121
Capital loss–			
Accumulated deficit		40,376	(137,598)
Reserve for repurchase of shares		41,938	59,142
Translation effects of foreign operations		(29,888)	(28,941)
		52,426	(107,397)
Total stockholders' equity		1,193,846	1,044,724
<b>Total</b>		<b>\$ 3,633,271</b>	<b>\$ 2,495,214</b>

The accompanying notes are part of the consolidated financial statements.

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

**Consolidated Statements of Income and Other Comprehensive Income**

For the years ended December 31, 2013 and 2012

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

	Notes	2013	2012
<b>Continuing operations:</b>			
Net sales	20	\$ 4,472,769	\$ 3,896,307
Cost of sales	21	(3,723,480)	(3,269,313)
Gross profit		749,289	626,994
Operating expenses	22	(593,453)	(472,889)
Consolidated income from operations		155,836	154,105
Financing costs:			
Interest expense		(59,803)	(71,710)
Exchange gain (loss)		(29,636)	3,479
		(89,439)	(68,231)
Income before income taxes		66,397	85,874
Income taxes expense	23	26,844	30,129
Income from continuing operations		39,553	55,745
<b>Discontinued operations:</b>			
Loss from discontinued operations	24	–	(4,922)
Consolidated net income		\$ 39,553	\$ 50,823
Other comprehensive income, net of income tax			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		(947)	(12,008)
<b>Total comprehensive income for the year</b>		<b>\$ 38,606</b>	<b>\$ 38,815</b>
<b>Earnings per share:</b>			
From continuing and discontinued operations:			
Basic earnings per common share (in Mexican pesos)		\$ 0.3076	\$ 0.4349
From continuing operations:			
Basic earnings per common share (in Mexican pesos)		\$ 0.3076	\$ 0.4770
Weighted average shares outstanding		128,573,424	116,866,599

The accompanying notes are part of the consolidated financial statements.



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

Consolidated Statements of Changes in Stockholders’ Equity

For the years ended December 31, 2013 and 2012  
(In thousands of Mexican pesos)

	Contributed capital			Capital loss				
	Common stock			Total	Accumulated deficit	Reserve for repurchase of shares	Translation effects of foreign operations	Total stockholders' equity
	Nominal	In trust	Premium on sale of repurchased stock					
Balances at the beginning of 2012	\$ 875,096	\$ (17,618)	\$ –	\$ 857,478	\$ (128,421)	\$ –	\$ (16,933)	\$ 712,124
Capital increase	300,000	–	(10,675)	289,325	–	–	–	289,325
Issuance of common stock	–	80	–	80	–	–	–	80
Creation of reserve for repurchase of shares	–	–	–	–	(60,000)	60,000	–	–
Repurchase of shares	–	–	5,238	5,238	–	(858)	–	4,380
Net income for the year	–	–	–	–	50,823	–	(12,008)	38,815
Balance as of December 31, 2012	1,175,096	(17,538)	(5,437)	1,152,121	(137,598)	59,142	(28,941)	1,044,724
Capital increase	58,046	–	75,064	133,110	–	–	–	133,110
Cancellation of reserve for repurchase of shares	–	–	–	–	60,000	(60,000)	–	–
Reduction of share capital	(128,421)	–	–	(128,421)	128,421	–	–	–
Creation of reserve for repurchase of shares	–	–	–	–	(50,000)	50,000	–	–
Repurchase of shares	–	–	(17,009)	(17,009)	–	(7,204)	–	(24,213)
Payment of capital	–	1,619	–	1,619	–	–	–	1,619
Net income for the year	–	–	–	–	39,553	–	(947)	38,606
Balances as of December 31, 2013	\$ 1,104,721	\$ (15,919)	\$ 52,618	\$ 1,141,420	\$ 40,376	\$ 41,938	\$ (29,888)	\$ 1,193,846

The accompanying notes are part of the consolidated financial statements.



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

## Consolidated Statements of Cash Flows

For the years ended December 31, 2013 and 2012  
(In thousands of Mexican pesos) (Indirect method)

	Notes	2013	2012
<b>Operating activities:</b>			
Consolidated net income		\$ 39,553	\$ 55,745
Adjustments for:			
Income taxes expense	23	26,844	30,129
Depreciation	9	60,250	36,197
Loss in results for assets held for sale		–	(4,922)
Loss on sale of equipment		–	2,920
Derivative financial instruments		–	5,641
Interest paid		33,464	46,966
Investment income recognized in income		(3,601)	(1,206)
		156,510	171,470
(Increase) decrease in:			
Accounts receivable and recoverable taxes	6	139,514	71,692
Inventories	8	17,112	79,120
Other assets		(4,403)	13,538
Increase (decrease) in:			
Trade accounts payable		(296,836)	159,256
Other accounts payable and accrued expenses		(24,234)	36,392
Due to related parties	19	2,969	18,112
Income taxes paid and statutory employee profit sharing		(14,795)	(5,738)
Net cash (used in) provided by operating activities		(24,163)	543,842
<b>Investing activities:</b>			
Purchase of machinery and equipment		(245,810)	(82,713)
Sale of equipment		94,491	11,351
Net assets held for sale	7	–	(130,960)
Acquisition of subsidiaries		(201,776)	–
Interest income		3,601	1,206
Net cash used in investing activities		(349,494)	(201,116)
<b>Financing activities:</b>			
Borrowings	15	169,384	440,000
Repayment of loans received	15	(50,000)	(740,300)
Commissions paid		–	(16,500)
Payment of financial leasing		(4,929)	(2,487)
(Purchase) resale of own common shares		(24,213)	4,380
Interest paid		(30,934)	(45,628)
Issuance and payment of common stock		134,729	289,405
Net cash provided by (used in) financing activities		194,037	(71,130)
Effects of changes in exchange rates on cash held in foreign currency		(947)	(4,254)
Net (decrease) increase in cash and cash equivalents		(180,567)	267,342
Cash and cash equivalents at beginning of year		361,938	94,596
Cash and cash equivalents at end of year		\$ 181,371	\$ 361,938

The accompanying notes are part of the consolidated financial statements.

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

## Notes to Consolidated Financial Statements

For the years ended December 31, 2013 and 2012  
(In thousands of Mexican pesos)

### 1. Activities and significant events

#### Activity

The main activity of Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the Entity) is in the trading of raw materials for the chemical, coating, plastics and food industries, as well as the processing and marketing of paper, cardboard and products for graphic arts. The offices are located at Manuel Reyes Veramendi 6, Colonia San Miguel Chapultepec, Delegación Miguel Hidalgo, México, D. F.

#### Significant events

- a. Business acquisitions** – On December 31, 2013, the Entity terminated the association agreement between the companies Comercio e Representações Maia Ltda., Mecotrans Transportes e Logística Ltda. and Coremal Química Ltda. (collectively “Coremal”) by acquiring 100% of the shares (see Note 10).

Coremal, founded in 1952, is one of the largest chemicals distributors in Brazil, with six distribution warehouses located nationwide. Its infrastructure enables it to provide packaged and bulk products to over 8,600 customers throughout the country's 27 states, through the support from its subsidiary Mercotrans Transporte e Logística, Ltda.

With this transaction the Entity intends to increase its sales by more than 30% for the year 2014, generate best practices between both companies, and improve service to its customers and suppliers at the regional level.

In June 2013, the Entity sold the subsidiary Pochteca Brasil Ltda., because the commitment acquired in 2012 was that markets would only be consolidated where there was a contribution of at least 10% of EBITDA.

- b.** On February 1, 2013, the Entity completed the acquisition of 100% of the shares of Productos Químicos Mardupol, S. A. de C. V., Servicios Corporativos Guibert, S. A. de C. V. and Servicios Corporativos Mardupol, S. A. de C. V. (Mardupol). With this acquisition the Entity will consolidate the chemicals distribution market in Mexico and increase its operating margins because the resulting synergies will improve its strategic position by launching its growth platform for the next few years.

### 2. Basis of presentation

#### a. New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Entity has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after January 1, 2013.

#### New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Entity has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Entity as it deals only with separate financial statements.



Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and SIC-12 Consolidation – Special Purpose Entities. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee. Some guidance included in IFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Entity.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

The Entity has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from January 1, 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Entity has not made any new disclosures required by IFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Entity has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed as the ‘statement of profit or loss and other comprehensive income’ [and the ‘income statement’ is renamed as the ‘statement of profit or loss’]. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IAS 19 Employee Benefits (as revised in 2011)

In the current year, the Entity has applied IAS 19 Employee Benefits (as revised in 2011) and the related consequential amendments for the first time.

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the ‘corridor approach’ permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a ‘net interest’ amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. These changes have had an impact on the amounts recognized in profit or loss and other comprehensive income in prior years (see the tables below for details). In addition, IAS 19 (as revised in 2011) introduces certain changes in the presentation of the defined benefit cost including more extensive disclosures.

Specific transitional provisions are applicable to first-time application of IAS 19 (as revised in 2011). The Group has applied the relevant transitional provisions and restated the comparative amounts on a retrospective basis.

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

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

IFRS 9	<i>Financial Instruments</i> <sup>2</sup>
Amendments to IFRS 9 and IFRS 7	<i>Mandatory Effective Date of IFRS 9 and Transition Disclosures</i> <sup>3</sup>
Amendments to IFRS 10, IFRS 12 and IAS 27	<i>Investment Entities</i> <sup>1</sup>
Amendments to IAS 32	<i>Offsetting Financial Assets and Financial Liabilities</i> <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

<sup>2</sup> Effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

<sup>3</sup> Effective for annual periods beginning on or after January 1, 2016, with earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for recognition.

Key requirements of IFRS 9:

- All recognized financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in net income (loss).



- With regard to the measurement of financial liabilities designated as of fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of ‘currently has a legally enforceable right of set-off’ and ‘simultaneous realization and settlement’.

The Entity’s management does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Entity’s consolidated financial statements as the Entity does not have any financial assets and financial liabilities that qualify for offset.

3. Significant accounting policies

a. Statement of compliance

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

b. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of properties and lands at a fair value, as explained in the accounting policies below:

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

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

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

c. Basis of consolidation of financial statements

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

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

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

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

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

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

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. The equity in their capital stock of the subsidiaries are shown below:

Subsidiary	Main activity
Pochteca Materias Primas, S. A. de C. V. <sup>(1)</sup>	Trading of raw materials
Suplia, S. A. de C. V.	Trading of raw materials
Demser, S. A. de C. V.	Professional services
Servicios Administrativos Argostal, S. A. de C. V.	Professional services
Pochteca de Guatemala, S. A.	Trading of raw materials
Pochteca Do Brasil Participações Ltd.	Trading of raw materials
Pochteca Papel, S. A. de C. V.	Trading of paper
Transportadora de Líquidos y Derivados, S. A.	Transportation of chemical products
Pochteca de El Salvador, S. A.	Trading of raw materials
Pochteca de Costa Rica, S. A.	Trading of raw materials
Pochteca Servicios Corporativos, S. A. de C. V.	Professional services
Asesoría en Lubricantes Pochteca, S. A de C. V.	Professional services
Asesoría en Servicios Pochteca, S. A de C. V.	Professional services



Subsidiary	Main activity
Plásticos Argostal, S. A. de C. V.	Without operations
Químicos Argostal, S. A. de C. V.	Without operations
Comercio e Representações Maia Ltda.	Trading of raw materials
Mecotrans Tansportes e Logística Ltda.	Transportation of chemical products
Coremal Química Ltda.	Trading of raw materials

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

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

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

1. Changes in the Group's ownership interests in existing subsidiaries

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

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

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

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

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

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

e. **Cash and cash equivalents**

Cash includes bank deposits and checking accounts and cash equivalents in short-term investments, highly liquid and easily convertible into cash, which are subject to insignificant value change risks.

f. **Reclassifications**

Certain amounts in the consolidated financial statements for the year ended December 31, 2012 have been reclassified to conform to the presentation of the amounts in the 2013 consolidated financial statements being the most important corresponding to discontinued lines in the consolidated statement of income and other comprehensive income in 2012 attachments.

g. **Financial assets**

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

1. Effective interest method

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

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

2. Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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



Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the ‘other income (expenses) – Net’ line item. Fair value is determined in the manner described in note 14.

3. Loans and accounts receivable

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including [trade and other receivables, bank balances and cash, and others [describe]]) are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short, term receivables when the effect of discounting is immaterial.

*Allowance for bad debts:* Tests are applied to accounts receivable from customers to determine their impairment at the end of each period. These amounts are considered to be impaired when objective evidence is obtained to the effect that, as a result of one or more events arising after their recognition, the estimated future cash flows of the financial asset have been affected. Objective evidence of impairment may include: i) the customer’s financial difficulties; ii) customer noncompliance as regards the payment of invoices; iii) the customer has either started bankruptcy proceedings or a financial reorganization process; or iv) observable changes in national and local economic conditions which are correlated with payment default. Accounts receivable from customers that have not undergone individual impairment are included in the impairment evaluation performed on a collective basis.

***h. Non-current assets classified as held for sale***

The assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This condition is when the sale is highly probable and the asset (or asset group) is held for immediate sale in its present condition. Management must be committed to the sale, which is expected to qualify for recognition as a completed sale within one year period from the date of classification.

When the Entity is committed to a sale plan involving loss of control of a subsidiary, all assets and liabilities of that subsidiary are classified as held for sale when the criteria described above, regardless of whether the entity will retain non-controlling interest in its former subsidiary after the sale.

The valuation is the lower of its carrying amount before the classification and fair value less costs to sell.

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

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

***j. Property, plant and equipment***

Property, plant and equipment are recorded at acquisition cost prior to the transition. At transition the land and buildings decided use expert appraisal valuation to value at their fair value which represent the deemed cost of those assets.

Expenditures for property plant and equipment, including renewals and improvements which extend useful lives, acquired subsequent to the transition date to IFRS are capitalized and valued at acquisition cost.

Land is not depreciated. Depreciation is recognized so as to write off the cost or deemed cost of assets. Depreciation of these assets, as well as other properties, begins when the assets are ready for their intended use. Depreciation is calculated under the straight-line method based on estimated useful lives of the assets. The average years of useful lives used to calculate depreciation in 2013 and 2012 are as follows:

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

The gain or loss arising from the sale or retirement of an item of property, plant and equipment is calculated as the difference between the resources received from sales and the carrying amount of the asset and is recognized in results.

***k. Borrowing costs*** – Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

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

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

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

***m. Business combinations***

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

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

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

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



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

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

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

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

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

**n. Intangible assets**

Intangible assets acquired in a business combination

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

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

**o. Goodwill**

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

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

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

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

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

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

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

**q. Financial liabilities and equity instruments**

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

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

**- Classification as debt or equity**

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



- Equity instruments

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

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

- Financial liabilities

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

- Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the 'financing cost' line item.

- Other financial liabilities

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

- Derecognition of financial liabilities

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

**r. Provisions**

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

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

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

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

**s. Employee benefits**

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

**t. Retirement benefit costs**

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

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

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

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

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

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

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

The Entity has created an investment and administration trust to which it contributed the amount of \$33,085 to acquire 22,056,811 shares of Grupo Pochteca, S. A. B. de C. V. at a price of one peso and fifty centavos per share. During 2008, the Board of Directors approved this capital increase, whereby the Entity treasury held 7,943,189 shares for subsequent use in the stock option plan for key executives. The shares were irrevocably assigned to certain Entity officers and employees, who became trust beneficiaries. Likewise, the Entity executives agreed to pay the value of the assigned shares within a three-year period.

**w. Income taxes**

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

- Current tax

Current income taxes, calculated as the higher of the regular Mexican income tax ("ISR") or the Business Flat Tax ("IETU"), are recorded in the results of the year in which they are incurred.



– Deferred income tax

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

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

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

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

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

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

– Current and deferred tax for the year

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

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

Revenues are recognized in the period in which the risks and rewards of ownership of the inventories are transferred to the customers, who generally coincides with the delivery of products to customers and the customer assumes responsibility for them.

**y. Statement of income and other comprehensive income** – The Entity chose to present the statement of income and other comprehensive income in a single statement, considering a line of operating income in accordance with industry practices. Costs and expenses were classified according to their function. The Entity opted to present the statement of income and other comprehensive income in a single statement, considering an income line operation in accordance with the industry practices. Costs and expenses were classified according to their function.

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

**aa. Earnings per share** – Basic earnings (loss) per common share are calculated by dividing consolidated net income (loss) by the weighted average number of common shares outstanding during the year.

**bb. Reserve for repurchase of shares** – Shares acquired are shown as a decrease in the fund for repurchase of shares included in the consolidated statements of financial position in the line of retained earnings and are valued at acquisition cost.

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

In the application of the accounting policies, the Entity’s management makes judgments, estimates and assumptions about certain amounts of assets and liabilities in the financial statements. The estimates and assumptions are based on experience and other factors considered relevant. Actual results could differ from those estimates.

Estimates and assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the change is made and future periods if the change affects both the current period and subsequent periods.

The following are critical accounting judgments and key sources of uncertainty in applying accounting policies, made at the date of the consolidated financial statements, which have a significant risk of deriving an adjustment to the carrying amounts of assets and liabilities during the next financial period, are as follows:

**a. Useful life of property, plant and equipment** – The Entity reviews the estimated useful life of its property, plant and equipment at the end of each annual period. At the IFRS transition date, the Entity management performed a detailed analysis to modify the estimated useful life and components of property, plant and equipment. The level of uncertainty associated with the estimation of these useful lives is related to asset utilization.

**b. Allowance for doubtful accounts** – The Entity uses estimates to determine the allowance for bad debts. The factors considered for this purpose primarily involve the risks derived from the customer’s financial position, customer guarantees and collection delays.

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

**d. Acquisition of businesses** – The Entity has recognized the acquisition of Coremal using the items available at the date of issuance of these consolidated financial statements, but may be adjustments to the provisional amounts recorded during the measurement period, as a result of obtaining additional information.

**5. Cash and cash equivalents**

In the consolidated statements of cash flows, cash and cash equivalents include cash and banks and investment in money market instruments, net of outstanding banks overdrafts. Cash and cash equivalents at the end of the period is reported as shown in the consolidated statement of cash flow, it can be reconciled with the figures related in the consolidated statements of financial position as follows:

	2013	2012
Cash	\$ 123,213	\$ 198,370
Investments	58,158	163,568
	\$ 181,371	\$ 361,938



6. Accounts receivable and recoverable taxes

	2013	2012
Trade accounts receivable	\$ 1,061,077	\$ 636,033
Allowance for doubtful accounts	(90,851)	(57,758)
	970,226	578,275
Recoverable value-added tax	13,477	46,369
Other	3,103	1,388
	\$ 986,806	\$ 626,032

The accounts receivable from customers disclosed above are classified as loans and accounts receivable which are valued at their applied cost.

The average credit period granted for goods sales is 60 days. The Entity does not charge interest on accounts receivable from customers. The Entity has recognized an allowance for doubtful accounts equal to 0.3% of the sales of the last five years. In the case of accounts receivable aged more than 120 days, the Entity recognizes an allowance for doubtful accounts by considering the unrecoverable amounts determined according to its experience with counterparty noncompliance.

The limits and ratings assigned to customers are reviewed annually. The 71% of accounts receivable from customers which are not overdue or impaired have the best credit rating according to the rating system used by the Entity. For the year end accounts receivable balance, Dowell Schlumberger de México S. A. de C. V. is the Entity's most significant customer with debts of \$24,798 and \$15,881 as of December 31, 2013 and 2012, respectively. No other customer represents more than 2% of the total balance of accounts receivable from customers.

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

a. Aging of accounts receivable due but recoverable.

	2013	2012
60–90 days	\$ 60,264	\$ 14,985
Greater than 90–120 days	8,419	24,020
Total	\$ 68,683	\$ 39,005

With regard to the balance of \$68,683 as of December 2013, \$16,000 comes from sales to Petróleos Mexicanos (PEMEX) and other companies from the oil exploration and drilling sector which have lagged behind during 2013. However, according to the Entity they are companies with a high credit rating and, furthermore, the increase over 2012 is mainly due to the operations of Mardupol, acquired in February 2013, and of Coremal, acquired in December 2013.

b. Change in allowance for doubtful accounts.

	2013	2012
Balance at beginning of the year	\$ 57,758	\$ 65,380
Provision for amounts deemed as bad during the year	68,505	2,200
Accounts recovered during the year	35,412	9,822
Balance at end of the year	\$ 90,851	\$ 57,758

Aging of accounts receivable impaired

	2013	2012
120 + days – Total	\$ 90,851	\$ 57,758

7. Assets held for sale

At a Board Meeting held on January 17, 2013, it was agreed to deconsolidate the foreign operations as of December 31, 2012 because the Entity's new strategy is to consolidate markets only where it has participation of at least 10% of consolidated EBITDA. According to the original plans, during 2013, the Entity only completed the sale of Pochteca Brasil, Ltda, the subsidiary with the largest operations. However, for the entities of Guatemala, El Salvador and Costa Rica, there was no interest from the market, mainly due to the reduced scale of their operations. Given the reduced likelihood of completing the sale of such entities, it was agreed to no longer consider these subsidiaries under the heading discontinued operations, and they are now presented as part of continuing operations.

The main assets and liabilities of foreign operations at the end of the reporting period are as follows:

	Operations in foreign countries	Pochteca Brazil	Operations in foreign countries (excluding Brazil)
Cash	\$ 18,763	\$ 1,427	\$ 17,336
Account receivable and recoverable taxes – Net	106,981	53,263	53,718
Inventories – Net	45,709	14,585	31,124
Property, machinery and equipment	10,096	4,575	5,521
Other assets	3,982	3,339	643
Assets held for sale	185,531	77,189	108,342
Bank loans	9,879	9,879	–
Trade account payable	40,550	22,783	17,767
Other account payable and accrued liabilities	4,142	2,822	1,320
Liabilities directly associated to assets held for sale	54,571	35,484	19,087
Business net foreign assets classified as held for sale	\$ 130,960	\$ 41,705	\$ 89,255



## 8. Inventories

	2013	2012
Finished goods:		
Coatings, solvents and mixtures	\$ 223,846	\$ 152,784
Paper	199,699	130,743
Chemicals and plastics	231,449	96,195
Food products	60,291	47,987
Lubricants	165,419	115,515
	880,704	543,224
Allowance for slow moving inventory	(12,386)	(3,431)
	868,318	539,793
Merchandise-in-transit	21,558	23,385
	\$ 889,876	\$ 563,178

The inventories recognized in cost of sales for inventory consumption during the period in respect of continuing operations was \$3,553,733 and \$ 3,112,021 in 2013 and 2012, respectively.

## 9. Property, plant and equipment

	Balance as of December 31, 2012	Additions	Disposals	Assets held for sale	Reclassifications	Balance as of December 31, 2013
Investment:						
Land	\$ 190,004	\$ 1,587	23,385	\$ –	\$ 5	\$ 214,981
Building and constructions	323,470	32,750	146,301	(115)	(8,988)	493,418
Industrial machinery and equipment	226,125	49,473	55,444	–	(1,874)	329,168
Office furniture and equipment	13,342	49,346	24,529	(39,547)	(2,677)	44,993
Vehicle	134,715	19,851	143,386	(911)	(11,470)	285,571
Computers	19,949	25,739	42,361	(7,172)	(13,107)	67,770
Equipment acquired under financial leases	51,677	41,795	–	–	–	93,472
Total investments	959,282	220,541	435,406	(47,745)	(38,111)	1,529,373
Accumulated depreciation	(391,266)	(60,250)	(189,055)	–	33,038	(607,533)
Net investment	\$ 568,016	\$ 160,291	\$ 246,351	\$ (47,745)	\$ (5,073)	\$ 921,840

	Beginning balance 2012	Additions	Disposals	Assets held for sale	Reclassifications	Balance as of December 31, 2012
Investment:						
Land	\$ 172,573	\$ 18,878	\$ (1,135)	\$ (312)	\$ –	\$ 190,004
Building and constructions	289,230	38,103	(1,962)	(1,901)	–	323,470
Industrial machinery and equipment	197,976	33,401	(2,648)	(2,604)	–	226,125
Office furniture and equipment	13,968	1,342	(2)	(1,966)	–	13,342
Vehicle	138,019	5,539	(5,604)	(3,239)	–	134,715
Computers	35,215	420	–	(4,356)	(11,330)	19,949
Equipment acquired under financial leases	51,677	–	–	–	–	51,677
Total investments	898,658	97,683	(11,351)	(14,378)	(11,330)	959,282
Accumulated depreciation	(364,295)	(34,563)	–	7,592	–	(391,266)
Net investment	\$ 534,363	\$ 63,120	\$ (11,351)	\$ (6,786)	\$ (11,330)	\$ 568,016

On June 25, 2012, the Entity acquired the lubricants Shell plant in Mexico, located in the city of Leon, Guanajuato for U.S. \$2,539 thousand dollars (\$32,977 Mexican peso equivalent). This acquisition will enhance the Entity's position in the lubricants market in Mexico, by allowing the bulk lubricant handling and packaging according to the needs of its customers. The privileged location of this plant, in central Mexico, also strengthens the logistics structure of the entity. The capacity of the plant, coupled to a technology transfer agreement will allow the entity making refrigerants and specialty cleaners. The current facilities of the Institution in Leon, Guanajuato will be consolidated with the Shell plant to improve the synergies of this project.

## 10. Acquisition of businesses

### a. Subsidiaries acquired

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

With these acquisitions the Entity believes that, among other things, it will be able to consolidate its presence in the Mexican market and in Brazil, making the most of the synergies in all the areas where Mardupol and Coremal complement each other, to continue the Entity's expansion and diversification activities in the sale of raw materials.



**b. Consideration transferred**

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

The consideration of \$492,457 paid to Coremal considered the value of the net assets of the subsidiary Pochteca Brasil, Ltd. because the latter formed part of the purchase and sale process.

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

	Mardupol <sup>(1)</sup>	Coremal	Total
<b>Current Assets</b>			
Cash	\$ 3,360	\$ 28,479	\$ 31,839
Accounts receivables	205,407	231,098	436,505
Inventories	128,830	169,980	298,810
<b>Non-current assets</b>			
Plant and equipment	31,899	230,857	262,756
Other assets	12,271	27,183	39,454
Intangible assets	52,233	–	52,233
<b>Current liabilities</b>			
Trade and other accounts payables	360,299	343,798	704,097
<b>Non-current liliabilities</b>			
Borrowings	7,144	90,236	97,380
	\$ 66,557	\$ 253,563	\$ 320,120

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

As already noted, the recording of the liabilities and assets assumed as a result of the acquisition of Coremal, was made using the elements available at the date of issuance of these financial statements. However, there might be adjustments to the provisional amounts recorded during the measurement period if additional information is obtained.

The accounts receivable acquired (which are mainly composed of customer receivables) in these transactions reflect a fair value of \$197,660 (Productos Químicos Mardupol) and \$205,250 (Coremal). The best estimate at the acquisition date of the contractual cash flows which are not expected to be collected comes to \$18,534 (Productos Químicos Mardupol) and \$32,526 (Coremal).

**d. Goodwill identified on acquisition**

	Mardupol	Coremal	Total
Acquired consideration	\$ 155,227	\$ 492,457	\$ 647,684
Plus: Effects of purchase accounting transition	28,485	–	28,485
Less: Fair value of net assets acquired	(66,557)	(253,563)	(320,120)
Goodwill identified on acquisition	\$ 117,155	\$ 238,894	\$ 356,049

**e. Cash flows on acquisition of subsidiaries**

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

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

Generally speaking, chemicals and plastic segment, which includes the great majority of the products of Mardupol, increased sales from \$767,680 in 2012 to \$1,370,235, in 2013. A major part of this growth was due to the increased physical presence, the additional portfolio of products and suppliers, and the customers that were incorporated into the operation of Pochteca with the acquisition of Mardupol.



11. Sale of Subsidiary

On July 1, 2013, the Entity sold Pochteca Brasil, Ltda. The Entity did not receive a cash consideration for the transaction because in December 2013, Pochteca Brasil, Ltd. acquired 100% of the shares of “Coremal”, the group to which it had sold Pochteca Brasil Ltda.

a) Analysis of assets and liabilities over which control was lost.

	2013
Current assets	
Cash	\$ 1,427
Account receivables	53,263
Inventories	14,585
Non-current assets	
Plant and equipment	4,575
Other assets	3,339
Current liabilities	
Accounts payables	22,783
Other financial liabilities	2,822
Non-current liabilities	
Borrowings	9,879
Net assets sold	\$ 41,705

12. Intangible asset

According to the analysis of fair value of assets and liabilities at the date of purchase by an integrated intangible asset was identified:

	2013
Supplier relationship	\$ 51,425
PEMEX relationship	560
Noncompete contract	248
Balances at end of year	\$ 52,233

13. Goodwill

	2013	2012
Balances at beginning of year	\$ 101,556	\$ 101,556
Additional amounts recognized from business acquisitions that occurred during the year	356,049	–
Balances at end of year	\$ 457,605	\$ 101,556

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

The Entity has not identified or recognized the impairment losses of goodwill balances recorded at December 31, 2013 and 2012. Management did not observe any changes in the main hypotheses giving rise to goodwill impairment.

14. Other accounts payable and accrued expenses

	2013	2012
Liability from Coremal purchase	\$ 442,554	\$ –
Accounts payable	70,480	74,033
Liabilities for purchase of fixed assets <sup>(1)</sup>	26,104	29,020
Reserves	9,795	19,348
Other account payable	4,423	11,313
	\$ 553,356	\$ 133,714
Short-term	\$ 258,882	\$ 107,769
Long-term	294,474	25,945
	\$ 553,356	\$ 133,714

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



## 15. Bank loans and long-term debt

	2013	2012
Syndicated loan for \$440,000 with HSBC (HSBC and Inbursa syndicated debt for \$190,000 and \$250,000, respectively), at TIIE plus a margin of 1.50% to 2.50% depending on the leverage ratio, maturing in 2015.	\$ 440,000	\$ 440,000
Financial leasing agreement for transportation equipment with Ve por Más, S. A. for \$9,275, at TIIE plus 9, maturing in August 2013 and October 2014.	2,973	4,523
Financial leasing agreement for machinery with De Lage Landen, S. A. de C. V. for \$10,945 with 15.10% annual interest rate, maturing in March and July 2012.	–	3,048
Unsecured loan dated October 23, 2013 for \$50,000 with Inbursa, earning interest at 1.75% above the 28 day TIIE rate, and maturing in 2014.	50,000	–
Vehicle lease agreement with GE Capital México for \$42,959 at a fixed rate 3.5816% above the 28 day TIIE rate.	49,935	–
Unsecured loan with HSBC for \$60,000 (syndicated debt with HSBC and Inbursa for \$30,000 and \$300,000, respectively), earning interest at a rate 3% above the TIIE rate, and maturing in 2015.	60,000	–
Loan with Banco Internacional for \$350,000 US earning interest at rate 85% to pay from January 2014 for the next 5 months.	4,578	–
Loan with Banco do Brasil for Real 15,230,768 earning interest at rate 10.17 maturing in 2017.	55,486	–
Financial Leasing with Banco do Brasil for Real 93,804 with 7% annual interest rate maturing in September 2014.	450	–
Financial Leasing with Banco Fidis for Real 2,264,296 with 7% annual interest rate maturing in June 2014.	8,865	–
Loan with Banco Itau for Real 20,097,194 earning interest at rate 4.53% maturing in March 2015.	78,557	–
Financial Leasing with Banco Itau for Real 2,127,798 with 7% annual interest rate maturing in October 2014.	7,846	–

	2013	2012
Financial Leasing with IBM Real 201,098 with 14.84% annual interest rate maturing in June 2016.	587	–
Loan with Itaucard for Real 14,061 earning interest at rate 16.21% maturing in March 2017.	74	–
Financial Leasing with Mercedes Benz for Real 23,079 with 8.2% annual interest rate maturing in November 2014.	117	–
Financial Leasing with Mercedes Benz for Real 2,250,488 with 8.74% annual interest rate maturing in August 2014.	8,072	–
Loan with Safra for Real 1,400,000 earning interest at rate 13.92% maturing in August 2015.	5,234	–
Financial Leasing with Safra for Real 165,624 with 13.92% annual interest rate maturing in August 2016.	554	–
Loan with Santander for Real 9,695,584 earning interest at rate 10.25% that beginning in October 2013 and maturing in October 2014.	33,226	–
Financial Leasing with Volvo for Real 35,893 with 4.40% annual interest rate maturing in June 2018.	1,497	–
Financial Leasing. With Votorantim for Real 1,247,161 with 12.51% annual interest rate maturing August 2016.	4,266	–
Bank loans	812,317	447,571
Less – Commissions paid unamortized	8,250	13,750
	804,067	433,821
Less – Current portion	186,306	4,929
Long-term debt	\$ 617,761	\$ 428,892



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

	2013	2012
TIIE	3.790%	4.850%
LIBOR	0.25%	0.30%

**a)** In accordance with the syndicated loan agreement with Banco Inbursa, S. A. and HSBC México of up to \$440,000, the Entity is subject to certain obligations, restrictions and covenants, of which the most important are:

The following financial ratios must be maintained at all times:

- Interest Rate Hedge Ratio. An Interest Rate Hedge Ratio (a) greater than 3.0 to 1.0 from the Close Date until and including June 21, 2013; and (b) greater than 3.5 to 1.0 from and including June 21, 2013 until and including the maturity date.
- Leverage Ratio. A Leverage Ratio of (a) less than 2.5 to 1.0 from the close date until and including June 21, 2013; (b) less than 2.0 to 1.0 from and including June 21, 2013 until and including June 21, 2014; and (c) less than 1.5 to 1.0 from and including June 21, 2014 until and including the maturity date.
- Stockholders’ Equity. Consolidated stockholders’ equity of at least \$727,959.
- The Entity must not sell, encumber, transfer, lease or in any other way dispose of its goods, rights or any other assets without the prior written consent of the Agent.
- The Entity must not merge with third parties, split, transform itself or modify its common stock, corporate purpose or business activity in such a way as to generate a Substantial Adverse Change without the prior written authorization of the Agent.
- The Entity must not create, grant or permit mortgages, pledges, trusts, distraint or any other kind of encumbrance or actual or personal guarantee in any place or to any extent as regards the entity, its goods, rights and other assets (except for acts performed during the normal course of business).
- The obligors Pochteca Materias Primas, S. A. de C. V. (PMP) and Pochteca Papel, S. A. de C. V. (PP) must not perform transactions involving derivative financial instruments for speculative purposes or for reasons other than hedging.
- The Entity must not declare or pay dividends or distributions to its stockholders (including the reimbursement or amortization of shares) for an annual amount exceeding the equivalent of 10% of the consolidated earnings before financing, interest, depreciation and amortization (UAFIDA) of the immediately preceding year.

**b)** On June 21, 2012, the Entity, paid beforehand Trust Certificates 4,500,000 par value of one hundred dollars each, which were due in August 2014.

As of December 31, 2013 and 2012, these restrictions have been complied with. Maturities of long term-debt at December 31, 2013, are:

Year	Amount
2015	\$ 587,281
2016	15,992
2017	14,188
2018	300
	\$ 617,761

16. Employee benefits

Net period cost for obligations resulting from the pension plan, severance payments and seniority premiums was \$1,208 and \$1,383 in 2013 and 2012, respectively. Other disclosures required under IFRS are not considered material.

17. Stockholders’ equity

- I. The Stockholders’ Ordinary and Extraordinary General Meeting of August 30, 2013 resolved to establish:
  - Carry out a reduction of the variable portion of common stock to absorb the Entity’s accumulated losses and a recomposition of common stock to comply with article 112 of the General Companies Law, through the conversion of shares representing both parts of common stock, or vice versa, to equal the theoretical value of the shares representing both parts of common stock.
  - The establishment of a Buyback Fund for Proprietary Shares, up to a maximum authorized amount of \$50,000, which did not require any cash flow, because the fund of \$60,000 had already been canceled at the request of the National Banking and Securities Commission (CNBV). If shares are sold from the Buyback Fund, the amount obtained above or below their historical cost is recognized as part of the re-placement premium of repurchased shares.
- II. The Stockholders’ Ordinary and Ordinary General Meeting of January 11, 2013, resolved to establish:
  - Amend all of the resolutions adopted in dealing with Item 3 on the Agenda of the Stockholders’ Ordinary General Meeting held on November 22, 2012, so that they read as follows:
  - We hereby approve an increase in the Entity’s authorized variable common stock by up to the amount of \$66,134, and the subsequent issuance of up to 7,000,000 ordinary, nominative Series “B” shares, if the inverse split agreed had gone into effect; or 35,000,000 ordinary, nominative Series “B” shares, if such inverse split had not gone into effect. The capital increase was for \$58,046 through the issuance of 30,719,313 ordinary, nominative Series “B” shares, of which 22,332,217 shares were used for the purchase of Productos Químicos Mardupol.
- III. The Stockholders’ Ordinary and Extraordinary General Meeting of November 22, 2012 resolved to perform a “reverse stock split” involving all the Entity’s shares by issuing and delivering 1 (one) new paid and released Series “B” share for every five shares held by each stockholder, without reducing or increasing the Entity’s paid-in capital. Share certificates were exchanged on March 26, 2013.

- IV. On April 27, 2012, the Stockholders’ Ordinary and Extraordinary Annual Meeting resolved to establish a Fund to Repurchase the Entity’s own shares for up to a maximum authorized amount of \$60,000, which did not require a cash flow. In the case of the sale of shares held in the repurchase fund, the surplus or deficit of the historical share cost is recognized within the replacement premium of the repurchased shares.
- V. The Stockholders’ Ordinary General Meeting of March 15, 2012 resolved to increase the Entity’s variable capital by up to \$300,000 (without considering issuance costs) by issuing up to 36,000,000 (one hundred and eighty million) ordinary, nominative Series “B” shares at no par value, which will be deposited with the treasury. As a result of this increase, the number of shares rose by 33,333,334.
- VI. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives, as discussed in Note 3u. At December 31, 2013 and 2012, the outstanding portion payable by executives is \$15,919 and \$17,538, respectively, which is presented in stockholders’ equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.
- VII. Common stock without par value as of December 31, is as follows:

	Number of shares		Amount	
	2013	2012	2013	2012
Fixed capital Serie “B”	9,487,842	8,499,764	80,304	80,304
Variable capital Serie “B”	121,034,207	116,023,431	1,024,417	1,094,792
Total	130,522,049	124,523,195	1,104,721	1,175,096

- VIII. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2013 and 2012, the Entity has not set aside any amount to create such reserve.
- IX. Stockholders’ equity, except for restated paid-in capital and tax retained earnings, will be subject to ISR payable by the Entity at the rate in effect upon distribution. Any tax paid on such distribution may be credited against annual and estimated ISR of the year in which the tax on dividends is paid and the following two fiscal years.

18. Financial instruments

Capital risk management

The Entity manages its capital to ensure that will continue as a going concern, while also maximizing the return to its stockholders through optimization of its capital structure.

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

Debt ratios

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

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

	2013	2012
Cash and cash equivalents	\$ 181,371	\$ 361,938
Debt	804,067	433,821
Net debt	622,696	71,883
Stockholders’ equity	1,193,846	1,044,724
Index of net debt and equity	52.16%	6.88%

The debt includes long-term debt and current portion.

Categories of financial instruments

	2013	2012
<i>Financial assets:</i>		
Cash	\$ 181,371	\$ 361,938
Loans and account receivable	1,006,665	631,488
<i>Financial liabilities:</i>		
Liabilities at amortized cost	\$ 2,170,201	\$ 1,276,148

Financial risk management objectives

The Entity’s Treasury function provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Entity through internal risk reports which analyses exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. Both financial risk management and the use of derivative financial instruments and non-derivative are governed by the policies of the Entity.

The Entity seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. According to the Entity’s statutes, it is prohibited to hire any kind of lease. Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The Entity does not enter into or trade financial instruments, including derivative financial instruments, for speculative and hedging purposes.



Market risk

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

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

Exchange rate risk

The Entity is exposed to exchange rate risks based on the balances of monetary assets and liabilities recognized in the consolidated statements of changes in financial position denominated in foreign currency (US dollars, Brazilian reales and Guatemalan quetzales).

Foreign currency sensitivity analysis

If the Mexican peso - US dollar exchange rate had increased by \$1 peso and all other variables had remained constant, the Entity’s profit after tax at December 31, 2013 and 2012 would have been adversely affected by the amount of \$18,126 and \$20,282, respectively. However, a decrease of \$1 under the same circumstances would have positively affected the Entity’s comprehensive income by the same amount. The monetary items related to Brazilian reales and Guatemalan quetzales are presented as available-for-sale; as the related exchange rate fluctuations are presented within discontinued operations, the Entity does not prepare a sensitivity analysis for these foreign currencies.

Interest rate risk

The Entity is exposed to an interest rate risk based on loan interest rates because its subsidiaries obtain loans at variable interest rates (primarily the TIIE and LIBOR rates, although the latter is no longer relevant) which, at December 31, 2013 and 2012, represent approximately 100% and 100%, respectively, of the total debt contracted by the Entity. However, it minimizes this risk by providing follow-up on rate behavior, seeking variable rates when the rate is stable and following a downward trend and fixed rates when an upward trend is present.

Sensitivity analysis

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

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

	2013	2012
Total debt at variable rates	\$ 804,067	\$ 430,773
Variable interest expense	33,464	45,168
Financial cost of debt percentage	4.16%	10.41%
Sensitivity to + 100 base points	41,490	49,151
Sensitivity to -100 base points	25,409	40,536

Credit risk management

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

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

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

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

Liquidity risk management

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

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

The maturity of long-term debt and the current portion thereof and accrued liabilities at December 31, 2013 and 2012 as the transition date is as follows:

	December 31, 2013			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 186,306	\$ 611,523	\$ 14,488	\$ 812,317
Suppliers	1,052,840	–	–	1,052,840
Other account payable	258,882	139,010	155,464	553,356
Related parties	18,820	–	–	18,820
	\$ 1,516,848	\$ 750,533	\$ 169,952	\$ 2,437,333

	December 31, 2012			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 35,069	\$ 490,364	\$ –	\$ 525,433
Suppliers	788,313	–	–	788,313
Other account payable	3,075	25,945	–	29,020
Related parties	28,069	–	–	28,069
	\$ 854,526	\$ 516,309	\$ –	\$ 1,370,835

*Fair value of the financial instruments*

The management believes that the book values of the financial assets and liabilities recognized at amortized cost in the consolidated financial statements approximate fair value, because the amortization period is short-term.

Based on the debt analysis performed by the Entity's management, which includes a comparison of rates, term of the debt, credit rating and its leverage ratio, it believes that the fair value approximate that recorded in its current portion and long-term debt.

**19. Balances and transactions with related parties**

**a.** Balance due from related parties are:

	2013	2012
Mexichem Fluor, S.A. de C.V.	\$ 2,236	\$ 2,635
Mexichem Colombia, S.A.	–	1,992
Mexichem Derivados, S.A. de C.V.	3	–
Mexichem Resinas Vinílicas, S.A. de C.V.	947	392
Mexichem Compuestos, S.A. de C.V.	397	210
Mexichem Soluciones Integrales, S.A. de C.V.	4	183
Mexichem Servicios Compuestos, S.A. de C.V.	–	17
Quimir, S.A. de C.V.	353	15
Mexichem Servicios, S.A. de C.V.	–	12
	\$ 3,940	\$ 5,456

**b.** Balance due to related parties are:

	2013	2012
Quimir, S.A. de C.V.	\$ 8,791	\$ 9,860
Mexichem Fluor, S.A. de C.V.	50	8,675
Mexichem Derivados, S.A. de C.V.	831	5,375
Mexichem Servicios Administrativos, S.A. de C.V.	1,855	2,291
Mexichem Compuestos, S.A. de C.V.	7,293	1,771
Kaluz, S.A. de C.V.	–	97
	\$ 18,820	\$ 28,069

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

	2013	2012
Mexichem Derivados, S.A. de C.V.:		
Sales	\$ 144	\$ 204
Purchases	(10,207)	(15,892)
Quimir, S.A. de C.V.:		
Sales	1,075	–
Purchases	(166)	(38,105)
Mexichem Fluor, S.A. de C.V.:		
Sales	9,436	15,905
Purchases	(76)	(7,544)
Mexichem Resinas Vinílicas, S.A. de C.V.:		
Sales	4,965	2,491
Mexichem Soluciones Integrales, S.A. de C.V.:		
Sales	356	3,168
Mexichem Compuestos, S.A. de C.V.:		
Sales	2,890	399
Purchases	(12,323)	(705)
Mexichem Colombia, S.A. de C.V.		
Sales	–	1,992
Mexichem Servicios Administrativos, S.A. de C.V.:		
Administrative services paid	(8,600)	(13,807)
Kaluz, S.A. de C.V.:		
Administrative services paid	(963)	(290)
Fees endorsement	–	(2,256)
	\$ (13,469)	\$ (54,440)

**20. Net sales**

	2013	2012
Coatings, solvents and mixtures	\$ 1,293,417	\$ 1,350,505
Paper	673,778	662,080
Chemicals and plastics	1,370,235	767,681
Food products	402,794	344,995
Lubricants	732,545	771,046
	\$ 4,472,769	\$ 3,896,307



## 21. Cost of sales

	2013	2012
Inventories consumed	\$ 3,553,733	\$ 3,112,021
Freight	84,912	75,044
Other	84,835	82,248
	<b>\$ 3,723,480</b>	<b>\$ 3,269,313</b>

## 22. Operating expenses

	2013	2012
Payroll	\$ 359,704	\$ 303,705
Depreciation	60,250	36,197
Operations	47,274	27,683
Leasing	31,927	22,572
Telephone and systems	24,008	15,381
Maintenance	21,687	17,935
Fees	20,348	14,453
Other	28,255	34,963
	<b>\$ 593,453</b>	<b>\$ 472,889</b>

## 23. Income taxes

The Entity is subject to ISR and through December 31, 2013, to ISR and IETU.

ISR -The rate was 30% in 2013 and 2012 and as a result of the new 2014 ISR law (2014Tax Law), the rate will continue at 30% in 2014 and thereafter.

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

The current income tax is the greater of ISR and IETU up to 2013.

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

*Tax regime in other countries* – The ISR of foreign subsidiaries is caused by the rules of the law of income tax of those countries.

a. Income taxes expense are as follows:

	2013	2012
ISR:		
Current tax	\$ 13,747	\$ 17,265
Deferred tax	13,097	10,677
	<b>26,844</b>	<b>27,942</b>
IETU:		
Current tax	\$ –	\$ 2,187
	<b>–</b>	<b>2,187</b>
	<b>\$ 26,844</b>	<b>\$ 30,129</b>

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

	2013	2012
Deferred ISR asset:		
Tax loss carryforwards	\$ 5,081	\$ 33,689
Accrued liabilities	35,684	8,736
Other, net	–	17,794
Deferred ISR asset	<b>40,765</b>	<b>60,219</b>
Deferred ISR liability:		
Property, plant and equipment	(10,203)	(11,478)
Other assets	(3,524)	(6,852)
Inventories, net	(1,003)	–
Deferred tax liability	<b>(14,730)</b>	<b>(18,330)</b>
Total assets	<b>\$ 26,035</b>	<b>\$ 41,889</b>

c. The reconciliation of the statutory income tax rate and the effective rate expressed as a percentage of income (loss) before income taxes (benefit on income) is as follows:

	2013	2012
Statutory rate	30%	30%
Add the effect of permanent differences mainly nondeductible expenses	14%	7%
Add (deduct) – effects of inflation	(4%)	(2%)
Effective rate	<b>40%</b>	<b>35%</b>

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

Year of expiration	Tax loss carryforwards	
2021	\$	16,937

24. Discontinued operations

As described in Note 7, the Entity was in the process of selling its subsidiaries abroad; however, during the final quarter of 2013, management took the decision to continue its operations abroad, except in Brazil, because this sale was completed. Below we present the only discontinued operation, which refers to Pochteca Brasil:

	2012
<i>Results from discontinued operations:</i>	
Net sales	\$ 178,477
Cost of sales	158,991
Gross profit	19,486
Operating expenses	22,221
Operation loss	(2,735)
Other expense, net	462
Interest expense	3,551
Exchange loss	867
	4,880
Loss before income taxes	(7,615)
Income taxes	2,693
Loss from discontinued operations	\$ (4,922)

25. Transactions that did not affect cash flows

During the years ended December 31, 2013 and 2012, the Entity acquired equipment for \$49,935 and \$23,197, respectively, through a financial lease. The acquisition is being reflected in the consolidated statements of cash flows throughout the life of the lease as rental payments.

26. Commitments

The Entity leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$24,908 as of December 31, 2013 and \$20,185 as of December 31, 2012. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2014	\$ 20,967
2015	11,937
2016	10,381
2017	9,087
2018	9,087
2019 and going forward	47,229
	\$ 108,688

27. Business segment information

Business segment information of the Entity is as follows:

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



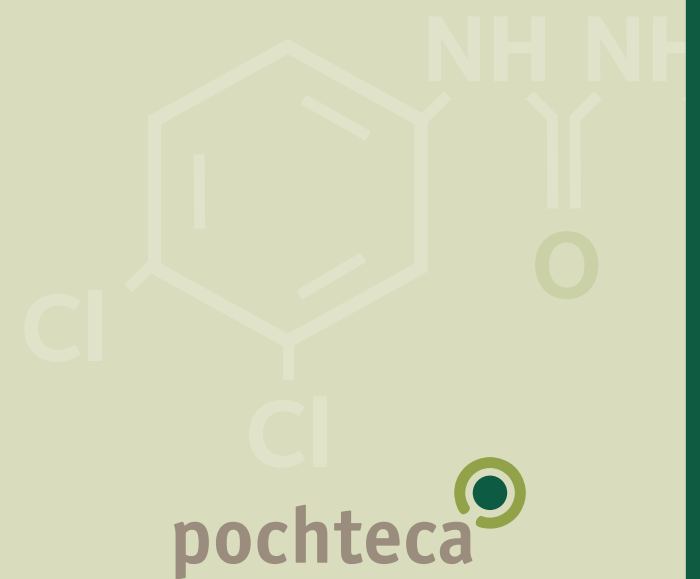
	December 31, 2012					
	Coatings, solvents and mixtures	Paper	Chemicals and plastics	Food products	Lubricants	Total consolidated
Statement of income:						
Net sales	\$ 1,350,505	\$ 662,080	\$ 767,681	\$ 344,995	\$ 771,046	\$ 3,896,307
Depreciation	\$ 13,126	\$ 6,137	\$ 6,590	\$ 3,198	\$ 7,146	\$ 36,197
Operating income	\$ 55,714	\$ 28,394	\$ 22,135	\$ 14,795	\$ 33,067	\$ 154,105
Finance costs	\$ (24,684)	\$ (12,036)	\$ (11,223)	\$ (6,272)	\$ (14,016)	\$ (68,231)
Consolidated net income	\$ 18,350	\$ 9,024	\$ 8,238	\$ 4,702	\$ 10,509	\$ 50,823
Balance sheet:						
Total assets	\$ 900,928	\$ 443,023	\$ 404,478	\$ 230,849	\$ 515,936	\$ 2,495,214
Total liabilities	\$ 523,717	\$ 257,533	\$ 235,127	\$ 134,195	\$ 299,918	\$ 1,450,490
Statement of cash flows:						
Operation activities	\$ 196,361	\$ 96,559	\$ 88,158	\$ 50,315	\$ 112,449	\$ 543,842
Investment activities	\$ (72,615)	\$ (35,708)	\$ (32,601)	\$ (18,607)	\$ (41,585)	\$ (201,116)
Financing activities	\$ (25,682)	\$ (12,629)	\$ (11,530)	\$ (6,581)	\$ (14,708)	\$ (71,130)

Foreign entities operations were discontinued on December 31, 2012. Segment information as mentioned above does not include any amounts for these discontinued operations, which are described in more detail in Note 7.

## 28. Approval of the issuance of consolidated financial statements

On April 14, 2014, the issuance of the accompanying consolidated financial statements was authorized by Armando Santacruz, Chief Executive Officer; consequently they do not reflect events occurred after that date. These consolidated financial statements are subject to the approval of the Audit Committee and General Ordinary Stockholders' Meeting, where they may be modified, based on provisions set forth in the Mexican General Corporate Law.

\* \* \* \* \*



## INVESTORS' Information

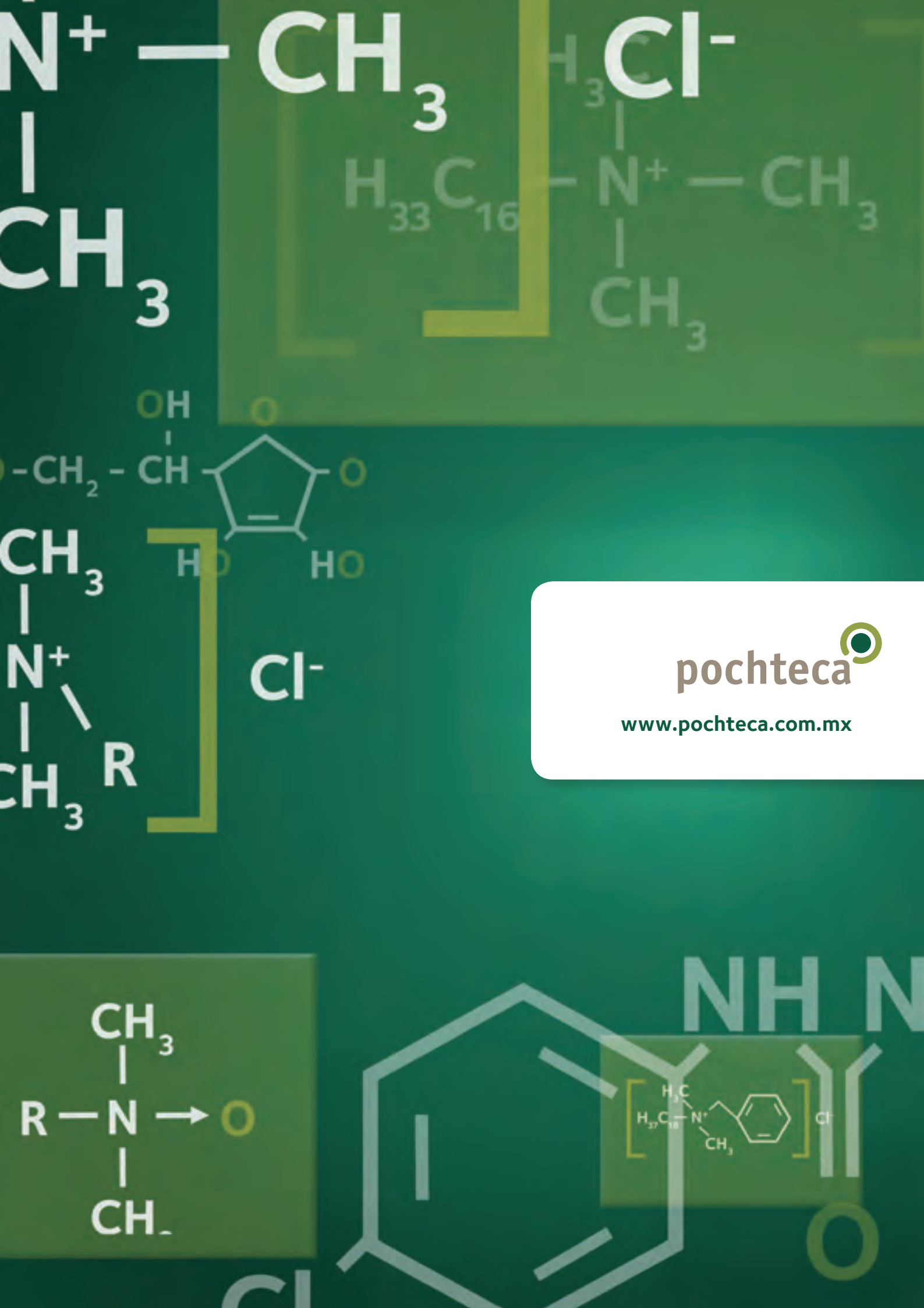
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