

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

CONSOLIDATED FINANCIAL STATEMENTS

**FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014,
AND INDEPENDENT AUDITORS' REPORT DATED APRIL 12, 2017**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the consolidated financial statements of Grupo Pochteca, S. A. B. de C. V. and its subsidiaries (the "Group") which comprise the consolidated statements of financial position as of December 31, 2016, 2015 and 2014, and the consolidated statements of income and other comprehensive income, consolidated statements of changes in stockholders' equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2016, 2015 and 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis for Opinion

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

Key Audit Matters

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

Impairment of Goodwill

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

Our audit procedures included, among others:

- i) Involve our internal specialists to:
 - Critically evaluate whether the model used by management to calculate the value in use of the individual cash-generating units complies with the requirements of IAS 36.
 - Evaluate the reasonableness of the assumptions used by the Group to determine the proper discount rates in each case.
 - Review that the projected cash flows are consistent with the historical audited information, and that any the effects of any non-recurring items that are not consistent with our understanding of the operations of the Group are properly excluded.
 - Selectively, recalculate the projections to test the amounts
- ii) Testing internal controls and substantive procedures related to the information used to build the financial model that determines the recoverable amount of the cash-generating units.
- iii) Examine the methodology and reasoning of the Group's management in the impairment analysis, and conclude that the assumptions used are comparable to the historical performance and the projected circumstances of the Group as well as the discount rates used were appropriate in the circumstances.

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

Other Information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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



C.P.C. CARLOS IGNACIO MUÑOZ MIRANDA
April 12, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

AS OF DECEMBER 31, 2016, 2015 AND 2014

(IN THOUSANDS OF MEXICAN PESOS)

	Notes	2016	2015	2014
Assets				
Current assets:				
Cash and cash equivalents	5	\$ 144,799	\$ 385,672	\$ 324,458
Accounts receivable and recoverable taxes - Net	6	1,152,054	1,050,658	1,027,398
Due from related parties	19	7,481	2,356	5,132
Inventories - Net	7	855,305	830,616	910,317
Prepaid expenses		42,336	46,510	50,075
Total current assets		2,201,975	2,315,812	2,317,380
Investment property	8	15,060	12,727	12,727
Property, plant and equipment - Net	9	813,248	813,712	860,514
Other investments		4,381	4,381	4,381
Other assets		72,554	97,359	83,849
Deferred income taxes - Net	23	69,477	42,152	27,404
Intangible assets	11	51,524	51,574	51,903
Goodwill	12	433,067	366,097	405,866
Total non-current assets		1,459,311	1,388,002	1,446,644
Total		\$ 3,661,286	\$ 3,703,814	\$ 3,764,024

The accompanying notes are part of the consolidated financial statements.

	Notes	2016	2015	2014
Liabilities and stockholders' equity				
Current liabilities:				
Bank loans and current portion of long-term debt	14	\$ 500,911	\$ 325,279	\$ 61,525
Trade accounts payable		1,100,641	1,199,576	1,193,008
Other accounts payable and accrued expenses	13	194,018	169,606	184,525
Due to related parties	19	6,871	9,909	9,486
Income taxes and statutory employee profit sharing		19,800	15,780	30,494
Total current liabilities		1,822,241	1,720,150	1,479,038
Long-term liabilities:				
Other long-term accounts payable	13	218,867	210,067	226,871
Long-term debt	14	371,975	614,323	873,988
Employee benefits	15	17,067	7,002	13,460
Total long-term liabilities		607,909	831,392	1,114,319
Total liabilities		2,430,150	2,551,542	2,593,357
Stockholders' equity:				
Contributed capital -				
Capital stock	16	1,096,837	1,093,624	1,089,689
Premium on sale of repurchased stock		58,176	58,176	51,060
Earned capital -				
Retained earnings		69,550	31,884	17,667
Reserve for repurchase of shares		22,488	56,582	54,652
Translation effects of foreign operations		(12,170)	(86,883)	(41,364)
Other comprehensive income		(3,745)	(1,111)	(1,037)
		76,123	472	29,918
Total stockholders' equity		1,231,136	1,152,272	1,170,667
Total		\$ 3,661,286	\$ 3,703,814	\$ 3,764,024

CONSOLIDATED STATEMENTS OF INCOME AND OTHER COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(IN THOUSANDS OF MEXICAN PESOS, EXCEPT EARNINGS PER COMMON SHARE EXPRESSED IN MEXICAN PESOS)

	Notes	2016	2015	2014
Continuing operations:				
Net sales	20	\$ 6,139,273	\$ 6,078,819	\$ 6,031,940
Cost of sales	21	(5,064,001)	(4,972,853)	(4,980,497)
Gross profit		1,075,272	1,105,966	1,051,443
Operating expenses	22	(959,113)	(883,069)	(856,009)
Income from operations		116,159	222,897	195,434
Financing costs:				
Interest income		14,901	14,893	12,262
Interest expense		(96,308)	(113,573)	(112,865)
Exchange (loss)		(49,526)	(93,888)	(77,177)
		(130,933)	(192,568)	(177,780)
(Loss) income before income taxes		(14,774)	30,329	17,654
(Benefit) income taxes expense	23	(9,100)	(3,213)	13,130
Consolidated net (loss) income		\$ (5,674)	\$ 33,542	\$ 4,524
Other comprehensive income				
Items that may be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit obligation		(2,634)	(74)	(1,037)
Exchange differences on translating foreign operations		74,713	(45,519)	(11,476)
Total comprehensive income (loss) for the year		\$ 66,405	\$ (12,051)	\$ (7,989)

	Notes	2016	2015	2014
Earnings per share:				
From continuing operations:				
Basic and diluted (losses) earnings per common share (in Mexican pesos)		\$ (0.0435)	\$ 0.2570	\$ 0.0347
Weighted average shares outstanding		130,522,049	130,522,049	130,522,049

The accompanying notes are part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(IN THOUSANDS OF MEXICAN PESOS)

	Contributed capital			Total	Earned capital				Total stockholders' equity
	Common stock		Premium on sale of repurchased stock		Accumulated results	Reserve for repurchase of shares	Translation effects of foreign operations	Remeasurement of defined benefit obligation	
	Nominal	In trust							
Balances at the beginning of 2014	\$ 1,104,721	\$ (15,919)	\$ 52,618	\$ 1,141,420	\$ 40,376	\$ 41,938	\$ (29,888)	\$ -	\$ 1,193,846
Cancellation of reserve for repurchase of shares	-	-	-	-	12,767	(12,767)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(40,000)	40,000	-	-	-
Repurchase of shares	-	-	(1,558)	(1,558)	-	(14,519)	-	-	(16,077)
Payment of capital	-	887	-	887	-	-	-	-	887
Net comprehensive loss for the year	-	-	-	-	4,524	-	(11,476)	(1,037)	(7,989)
Balances as of December 31, 2014	1,104,721	(15,032)	51,060	1,140,749	17,667	54,652	(41,364)	(1,037)	1,170,667
Payment of capital	-	3,935	-	3,935	-	-	-	-	3,935
Cancellation of reserve for repurchase of shares	-	-	-	-	24,675	(24,675)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(44,000)	44,000	-	-	-
Repurchase of shares	-	-	7,116	7,116	-	(17,395)	-	-	(10,279)
Net comprehensive loss for the year	-	-	-	-	33,542	-	(45,519)	(74)	(12,051)
Balances as of December 31, 2015	1,104,721	(11,097)	58,176	1,151,800	31,884	56,582	(86,883)	(1,111)	1,152,272
Payment of capital	-	3,213	-	3,213	-	-	-	-	3,213
Cancellation of reserve for repurchase of shares	-	-	-	-	73,340	(73,340)	-	-	-
Creation of reserve for repurchase of shares	-	-	-	-	(30,000)	30,000	-	-	-
Repurchase of shares	-	-	-	-	-	9,246	-	-	9,246
Net comprehensive loss for the year	-	-	-	-	(5,674)	-	74,713	(2,634)	66,405
Balances as of December 31, 2016	\$ 1,104,721	\$ (7,884)	\$ 58,176	\$ 1,155,013	\$ 69,550	\$ 22,488	\$ (12,170)	\$ (3,745)	\$ 1,231,136

The accompanying notes are part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(IN THOUSANDS OF MEXICAN PESOS) (INDIRECT METHOD)

	Notes	2016	2015	2014
Cash flows from operating activities:				
Consolidated net (loss) income		\$ (5,674)	\$ 33,542	\$ 4,524
Adjustments for:				
Income taxes (benefit) expense	23	(9,100)	(3,213)	13,130
Depreciation and amortization	22	131,944	118,269	107,572
Gain on sale of property and equipment		(1,316)	(3,033)	(4,213)
Amortization of commissions paid		4,260	4,231	8,250
Interest paid		92,048	109,342	104,615
Interest income		(14,901)	(14,893)	(12,262)
Unrealized exchange loss		107,386	83,561	33,817
		304,647	327,806	255,433
(Increase) decrease in:				
Accounts receivable and recoverable taxes	6	(108,854)	(23,260)	(53,319)
Inventories	7	(24,689)	79,701	(20,441)
Prepaid expenses		4,174	3,565	(15,651)
Other assets		24,805	(22,726)	(9,368)
(Decrease) increase in:				
Trade accounts payable		(98,935)	6,568	106,351
Other accounts payable and accrued expenses		844	(84,382)	99,222
Due to related parties	19	(3,038)	3,199	(10,526)
Income taxes paid		(14,205)	(26,249)	(35,855)
Net cash provided by operating activities		84,749	264,222	315,846
Cash flows from investing activities:				
Purchase of machinery and equipment		(57,500)	(76,082)	(99,029)
Sale of equipment		3,120	16,554	35,718
Acquisition of subsidiaries		(40,951)	(11,857)	(104,601)
Interest collected		14,901	14,893	12,262
Other investments		-	-	279
Net cash used in investing activities		(80,430)	(56,492)	(155,371)

	Notes	2016	2015	2014
Cash flows from financing activities:				
Borrowings	14	205,996	58,778	948,464
Repayment of loans received	14	(354,216)	(26,222)	(804,555)
Payment of financial leasing		(41,107)	(25,645)	(3,990)
Purchase of own common shares		9,246	(10,279)	(16,077)
Interest and commissions paid		(78,525)	(68,443)	(116,213)
Issuance and payment of common stock		3,213	3,935	887
Net cash (used in) provided by financing activities		(255,393)	(67,876)	8,516
Effects of changes in exchange rates on cash held in foreign currency				
		10,201	(78,640)	(25,904)
Net (decrease) increase in cash and cash equivalents		(240,873)	61,214	143,087
Cash and cash equivalents at beginning of year		385,672	324,458	181,371
Cash and cash equivalents at end of year		\$ 144,799	\$ 385,672	\$ 324,458

The accompanying notes are part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

(IN THOUSANDS OF MEXICAN PESOS)

1. ACTIVITIES AND SIGNIFICANT EVENTS

Activity

Grupo Pochteca, S. A. B. de C. V. and Subsidiaries (the "Entity", or the "Group") operates in Mexico and Brazil and its main activities are comprised of trading 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, Ciudad de México, 11850.

Significant events

- a. *Refinancing of syndicated debt* – As mentioned in Note 27, on March 30, 2017 the Entity obtained a new financing in the amount of \$875 million in order to refinance the debts described in the Note 14.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

- a) *Application of new and revised International Financing Reporting Standards ("IFRSs" or "IAS") and interpretations that are mandatorily effective for the current year*

In the current year, the Group has applied a number of amendments to IFRSs and new Interpretation issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after January 1, 2016.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortization of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) When the intangible asset is expressed as a measure of revenue; or
- b) When it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after January 1, 2016. Currently, the Group uses the straight-line method for depreciation and amortization for its property, plant and equipment, and intangible assets respectively.

The management of the Group believes that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the application of these amendments to IAS 16 and IAS 38 did not have an impact on the Group's consolidated financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle

The Annual Improvements to IFRSs 2012–2014 Cycle include a number of amendments to various IFRSs, which are summarised below.

The amendments to IFRS 5 introduce specific guidance in IFRS 5 for when a Group reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for-distribution accounting is discontinued.

The amendments to IFRS 7 provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to IAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The application of these amendments had no material effect on the Group's consolidated financial statements.

b) *New and revised IFRSs in issue but not yet effective*

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

IFRS 9	Financial Instruments ²
IFRS 15	Revenue from Contracts with Customers ²
IFRS 16	Leases ³
Amendments to IAS 12	Income taxes ¹
Amendments to IAS 7	Statements of Cash Flows ¹
Amendments to IFRS 2	Classification and measurement of share-based payments ²

¹ Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

³ Effective for annual periods beginning on or after 1 January 2019, 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 subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2014 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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.

Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. 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.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about a Group's risk management activities have also been introduced.

The management of the Group anticipates that the application of IFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until the Group undertakes a detailed review.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that a Group should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when (or as) the Group satisfies a performance obligation

Under IFRS 15, a Group recognizes revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The management of the Group anticipates that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

IFRS 16, Leases

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

The Group is in the process of determining the potential impacts that will derive from the adoption of this standard in its consolidated financial statements, although given the nature of its operations it would not expect significant impacts.

Amendments to IAS 12 Income Tax: Recognition of Deferred Tax Assets for Unrealized Losses, clarify how to account for deferred tax assets related to debt instruments measured at fair value.

IAS 12 provides requirements on the recognition and measurement of current or deferred tax liabilities or assets. The amendments clarify the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The management of the Entity does not expect significant impacts a result of these amendments.

Amendments to IAS 7 Statements of Cash Flows: Provide disclosures.

The amendments in disclosure initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

To achieve this objective, the IASB requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Entities are required to apply the amendments for annual periods beginning on or after 1 January 2017. Earlier application is permitted.

The management of the Group expects that there may be some impacts a result of these amendments.

Amendments to IFRS 2 Share-based Payment

The amendments to IFRS 2 Share-based Payment, clarify the classification and measurement of share-based payment transactions. The amendments contains clarifications and amendments address to the accounting for cash-settled share-based payment transactions; classification of share-based payment transactions with net settlement features; and accounting for modifications

of share-based payment transactions from cash-settled to equity-settled. These amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments apply prospectively.

The management of the Group expects that there may be some impacts a result of these amendments.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

b. Basis of presentation

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 goods and services.

ii. Fair value

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the 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 Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the 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.

Profit or loss 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 those of the Group's accounting policies:

Subsidiary	Main activity	Functional currency
Pochteca Materias Primas, S. A. de C. V.	Trading of raw materials	Mexican pesos
Suplia, S. A. de C. V.	Trading of raw materials	Mexican pesos
Demser, S. A. de C. V.	Professional services	Mexican pesos
Servicios Administrativos Argostal, S. A. de C. V.	Professional services	Mexican pesos
Pochteca de Guatemala, S. A.	Trading of raw materials	Guatemalan quetzales
Pochteca Do Brasil Participações Ltd.	Trading of raw materials	Brazilian reais
Pochteca Papel, S. A. de C. V.	Trading of paper	Mexican pesos
Transportadora de Líquidos y Derivados, S. A.	Transportation of chemical products	Mexican pesos
Pochteca de El Salvador, S. A.	Trading of raw materials	US Dollars
Pochteca de Costa Rica, S. A.	Trading of raw materials	Costa Rican colon
Pochteca Servicios Administrativos, S. A. de C. V.	Professional services	Mexican pesos
Pochteca Servicios Corporativos, S.A. de C.V.	Professional services	Mexican pesos
Asesoría en Lubricantes Pochteca, S. A de C. V.	Professional services	Mexican pesos
Asesoría en Servicios Pochteca, S. A de C. V.	Professional services	Mexican pesos
Plásticos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Químicos Argostal, S. A. de C. V.	Without operations	Mexican pesos
Comercio e Representações Maia Ltda.	Trading of raw materials	Brazilian reais
Mecotrans Tansportes e Logistica Ltda.	Transportation of chemical products	Brazilian reais
Coremal Química Ltda.	Trading of raw materials	Brazilian reais
Latam Chemicals, LLC	Trading of raw materials	Dólares

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

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 Group.

When the Group loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Entity 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 Group's subsidiaries are prepared in the currency of the primary economic environment in which the Group operates (its functional currency). For the purposes of these consolidated financial statements, the results and financial position of each entity are expressed in Mexican pesos, the Group's functional currency, as well as the presentation currency of the consolidated financial statements.

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

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

e. Reclassifications

The consolidated financial statements as of December 31, 2014 incorporate certain modifications including the reclassification of "Investment property" from current assets to non-current assets and changes in presentation related to the reserve for repurchase of shares in the consolidated statements of changes in stockholders' equity.

For the year 2015, the Group has defined the classification of "Investment property" as non-current assets because the sales effort will be managed over the long term. Although as of December 31, 2014, all conditions were fulfilled to maintain the property as a current asset, it was reclassified to long-term in the consolidated statement of financial position for comparative purposes.

Also, the presentation of the movements in the reserve for repurchase of shares in 2014 has been changed such that they are now identified separately instead of on a cumulative basis. The amortization of commissions paid on loans is presented separately in the consolidated statements of cash flows.

f. Financial instruments

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

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

g. Financial assets

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 Group 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 Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and 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 3b.

3. Financial assets classified as available-for-sale (AFS financial assets)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Listed redeemable notes held by the Group that are traded in an active market are classified as AFS and are stated at fair value at the end of each reporting period. The Group also has investments in unlisted shares that are not traded in an active market but that are also classified as AFS financial assets and stated at fair value at the end of each reporting period (because the Entity's management consider that fair value can be reliably measured). Fair value is determined in the manner described in Note 2b. Changes in the carrying amount of AFS monetary financial assets relating to changes in foreign currency rates (see below), interest income calculated using the effective interest method and dividends on AFS equity investments are recognized in profit or loss. Other changes in the carrying amount of assets classified as held for sale are recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on AFS equity instruments are recognized in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and losses that are recognized in profit or loss are determined based on the amortized cost of the monetary asset. Other foreign exchange gains and losses are recognized in other comprehensive income.

4. 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.

5. 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. *Cash and cash equivalents*

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

i. *Inventories and cost of sales*

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

j. *Property, plant and equipment*

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

Any increase in the revaluation of such land and buildings is recognized in other comprehensive income and accumulated in equity, except if it reverses a revaluation decrease of the same asset previously recognized in profit or loss, in which case the increase is credited to income as it reduces spending by the decrease previously made.

A decrease in carrying amount that originated from the revaluation of such land and buildings is recorded in income to the extent it exceeds the balance, if any, of the revaluation reserve of property related to a previous revaluation of that asset.

The machinery and equipment are carried at cost less any accumulated depreciation or impairment loss.

An item of property and equipment is derecognized when sold or when no expected future economic benefits arising from the continued use of the asset. The gain or loss arising from the sale or retirement of an item of property and equipment is calculated as the difference between the resources received from the sale and the carrying amount of the asset and is recognized in income.

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 2016, 2015 and 2014 are as follows:

	Average years
Buildings	50 and 20
Machinery and equipment	10
Vehicles and allied equipment	4 and 15
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. *Investment property*

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains and losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

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

l. *Other investments*

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

m. *Other assets*

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

n. *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 acquire are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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.

o. *Intangible assets*

Intangible assets acquired in a business combination

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

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

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

p. *Goodwill*

The goodwill generated by a business acquisition is recognized as an asset at the date on which control is acquired (see Note 12); 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 Group'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.

q. *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.

r. *Financial liabilities and equity instruments*

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

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

– Classification as debt or equity

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

– Equity instruments

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

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

– Financial liabilities

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

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

s. *Derivative financial instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 18.

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

t. *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.

u. *Retirement benefit costs*

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

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

Past service cost is recognized 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.

v. *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.

w. *Stock option plan for key executives*

The Group 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 cents per share. During 2008, the Board of Directors approved this capital increase, whereby the Group treasury held 7,943,189 shares for subsequent use in the stock option plan for key executives. The shares were irrevocably assigned to certain Group officers and employees, who became trust beneficiaries. Likewise, the Group executives agreed to pay the value of the assigned shares within a three-year period.

During 2015, The Group created a Trust referred to as F/34. The Trust assets are comprised of the shares to be subscribed by investments trust management number F/34, for an amount of up to \$21,105 for the share purchase option plan for key executives. Trust grantors comprise several subsidiaries, the trustee is Banco Ve por Más, Sociedad Anónima, Institución de Banca Múltiple, Grupo Financiero Vé por Más and the trust beneficiaries include several executives. As of December 31, 2015, shares have not been assigned to beneficiaries of this trust. The shares to be acquired represent the capital of Grupo Pochteca, S. A. B. de C. V.

x. *Income taxes*

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

– Current tax

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

– 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.

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 Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

– Current and deferred tax for the year

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

y. *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 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 non-current based on the estimated period of time to attend the obligations covered.

z. *Derivative financial instruments*

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and cross currency swaps. Further details of derivative financial instruments are disclosed in Note 19.

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

aa. *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.

– Sale of goods

Revenue from the sale of goods is recognized when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the Entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

– Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Entity and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

bb. 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.

cc. Earnings per share

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

dd. Reserve for repurchase of shares

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the accounting policies, the Group'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.

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

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

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

d. Provisions and contingencies – At the end of 2016, there are many judgements in process related to labor matters promoted in various subsidiaries which were originated in development of operations. The legal advisors of the company and its directors consider that, given its nature and even as a whole, the outcome of litigation and claims will not represent a significant economic impact and will not produce a significant effect on the consolidated financial statements for the years in which they are settled.

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

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

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

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

- f. *Fair value measurements and valuation processes* – Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The management of the Group determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified appraiser to perform the valuation.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in Note 17.

5. CASH AND CASH EQUIVALENTS

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

	2016		2015		2014
Cash	\$ 128,819	\$	363,085	\$	300,769
Investments	15,980		22,587		23,689
	\$ 144,799	\$	385,672	\$	324,458

6. ACCOUNTS RECEIVABLE AND RECOVERABLE TAXES

	2016		2015		2014
Trade accounts receivable	\$ 1,010,790	\$	938,249	\$	969,144
Allowance for doubtful accounts	(78,921)		(57,056)		(54,583)
	931,869		881,193		914,561
Recoverable taxes in Mexico	57,396		63,145		39,713
Recoverable taxes in Brazil	114,397		60,879		42,232
Other	48,392		45,441		30,892
	\$ 1,152,054	\$	1,050,658	\$	1,027,398

The accounts receivable from customers 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. 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. As of December 31, 2016, 71% of accounts receivable from customers which are not overdue or impaired have the highest credit rating according to the rating system used by the Entity.

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

Aging of accounts receivable past-due but recoverable

	2016	2015	2014
60-90 days	\$ 20,609	\$ 52,938	\$ 46,087
Greater than 90 days	45,501	54,842	64,694
Total	\$ 66,110	\$ 107,780	\$ 110,781

Change in allowance for doubtful accounts

	2016	2015	2014
Balance at beginning of the year	\$ 57,056	\$ 54,583	\$ 90,851
Provision for accounts deemed uncollectible during the year	19,031	15,454	13,244
Translation effects and accounts recovered during the year	2,834	(12,981)	(49,512)
Balance at end of the year	\$ 78,921	\$ 57,056	\$ 54,583

Aging of impaired accounts receivable

	2016	2015	2014
Over 120 days	\$ 78,921	\$ 57,056	\$ 54,583

7. INVENTORIES

	2016	2015	2014
Finished goods:			
Coatings, solvents and mixtures	\$ 8,440	\$ 9,139	\$ 255,544
Paper	101,815	136,512	172,668
Chemicals and plastics	404,502	388,923	106,903
Food products	190,827	155,580	144,282
Lubricants	132,717	114,803	225,252
	838,301	804,957	904,649
Allowance for slow moving inventory	(20,616)	(21,278)	(9,169)
	817,685	783,679	895,480
Merchandise-in-transit	37,620	46,937	14,837
	\$ 855,305	\$ 830,616	\$ 910,317

The allowance for slow moving inventory had been increased by \$2,957 in 2016, \$12,109 in 2015 and \$1,756 in 2014.

Inventories that were consumed and recognized in cost of sales from continuing operations amounted to \$4,846,153, \$4,806,422 and \$4,860,470 in 2016, 2015 and 2014, respectively.

8. INVESTMENT PROPERTIES

On December 31, 2016 and March 22, 2014, the Group received as payment in kind real properties for account receivables due from Solquimia, S. A. de C. V. and Agropur Lacpur, S. A. de C. V., respectively. At the date of the payment in kind, the balance receivable was \$2,333 and \$12,727, respectively. As the Group does not have any plans to make use of the property, management classifies it as an investment property, subject to the requirements established.

The fair value of the Group's investment property as of December 31, 2016 and 2015 has been determined in accordance with IFRS13.91 (a), 93 (d) on the basis of a valuation performed on the respective dates by an independent appraiser with the appropriate classifications and sufficient recent experience in the valuation of investment properties similar in nature and physical location to those of the Group. Fair value as of December 31, 2016 is \$25,325 and \$21,825 for 2015 and 2014, of which \$15,200 refers to the land in 2016, \$11,700 for 2015 and 2014 and \$10,125 to the construction. However, the Group has decided to maintain the property at its carrying amount and recognize potential income only when it is realized through the sale of the asset. As of December 31, 2016, 2015 and 2014 the Entity has not identified any indicators of impairment.

For the year 2015, the Entity has classified "Investment property" within non-current assets because the sales effort will be managed over the long term. Although as of December 31, 2014, all conditions were fulfilled to classify the property within current assets, it was reclassified to long-term assets in the consolidated statement of financial position for comparative purposes.

9. PROPERTY, PLANT AND EQUIPMENT

	Balances as of December 31, 2015	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2016
Investment:					
Land	\$ 198,357	\$ 196	\$ -	\$ 8,442	\$ 206,995
Building and constructions	532,714	26,964	(2,557)	54,820	611,941
Industrial machinery and equipment	388,053	17,402	(10,091)	14,016	409,380
Office furniture and equipment	49,957	1,750	(122)	3,263	54,848
Vehicle	163,284	6,502	(15,957)	35,572	189,401
Computers	56,772	5,713	(242)	5,833	68,076
Equipment acquired under financial leases	177,198	8,597	-	1,950	187,745
Total investments	1,566,335	67,124	(28,969)	123,896	1,728,386
Accumulated depreciation:					
Building and constructions	(192,338)	(21,612)	863	(23,375)	(236,462)
Industrial machinery and equipment	(238,263)	(25,536)	6,397	(5,995)	(263,397)
Office furniture and equipment	(27,440)	(2,982)	108	(2,343)	(32,657)
Vehicle	(175,398)	(37,311)	11,676	(28,130)	(229,163)
Computers	(41,168)	(38,897)	162	12,723	(67,180)
Equipment acquired under financial leases	(78,016)	(5,556)	-	(2,707)	(86,279)
Total accumulated depreciation	(752,623)	(131,894)	19,206	(49,827)	(915,138)
Net investment	\$ 813,712	\$ (64,770)	\$ (9,763)	\$ 74,069	\$ 813,248

	Balances as of December 31, 2014	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2015
Investment:					
Land	\$ 205,580	\$ -	\$ (2,283)	\$ (4,940)	\$ 198,357
Building and constructions	518,994	20,782	(10,608)	3,546	532,714
Industrial machinery and equipment	385,816	16,081	(951)	(12,893)	388,053
Office furniture and equipment	48,369	3,000	(29)	(1,383)	49,957
Vehicle	208,301	15,852	(14,684)	(46,185)	163,284
Computers	57,135	2,764	(116)	(3,011)	56,772
Equipment acquired under financial leases	127,308	51,414	(262)	(1,262)	177,198
Total investments	1,551,503	109,893	(28,933)	(66,128)	1,566,335
Accumulated depreciation:					
Building and constructions	(179,480)	(27,862)	3,489	11,515	(192,338)
Industrial machinery and equipment	(216,151)	(24,603)	437	2,054	(238,263)
Office furniture and equipment	(26,129)	(2,723)	5	1,407	(27,440)
Vehicle	(178,093)	(23,242)	11,416	14,521	(175,398)
Computers	(28,702)	(15,927)	58	3,403	(41,168)
Equipment acquired under financial leases	(62,434)	(14,367)	7	(1,222)	(78,016)
Total accumulated depreciation	(690,989)	(108,724)	15,412	31,678	(752,623)
Net investment	\$ 860,514	\$ 1,169	\$ (13,521)	\$ (34,450)	\$ 813,712

	Balances at the beginning of 2014	Additions	Disposals	Reclassifications and translation effects	Balances as of December 31, 2014
Investment:					
Land	\$ 214,981	\$ 1,300	\$ (10,753)	\$ 52	205,580
Building and constructions	493,418	15,085	(5,908)	16,399	518,994
Industrial machinery and equipment	329,168	14,763	(1,508)	43,393	385,816
Office furniture and equipment	44,993	2,678	(172)	870	48,369
Vehicle	285,571	16,662	(24,788)	(69,144)	208,301
Computers	67,770	14,705	(127)	(25,213)	57,135
Equipment acquired under financial leases	93,472	33,836	–	–	127,308
Total investments	1,529,373	99,029	(43,256)	(33,643)	1,551,503
Accumulated depreciation					
Building and constructions	(157,568)	(28,103)	1,084	5,107	(179,480)
Industrial machinery and equipment	(176,509)	(27,356)	105	(12,391)	(216,151)
Office furniture and equipment	(23,389)	(3,072)	–	332	(26,129)
Vehicle	(179,553)	(24,921)	8,072	18,309	(178,093)
Computers	(18,314)	(11,066)	–	678	(28,702)
Equipment acquired under financial leases	(52,199)	(12,725)	2,490	–	(62,434)
Total accumulated depreciation	(607,532)	(107,243)	11,751	12,035	(690,989)
Net investment	\$ 921,841	\$ (8,214)	\$ (31,505)	\$ (21,608)	\$ 860,514

10. BUSINESS COMBINATIONS

In 2013, the Group acquired businesses that were recorded using the purchase method. The results of the acquired businesses were included in the consolidated financial statements since the acquisition date. The acquired businesses are as follows:

a. Subsidiaries acquired

	Principal activities	Acquisition date	Proportion of shares acquired (%)	Consideration transferred
Mardupol	Purchase and sale of raw materials ⁽¹⁾	February 1, 2013	100	\$ 155,227
Coremal	Purchase and sale of raw materials ⁽²⁾	December 31, 2013	100	492,457
				<u>\$ 647,684</u>

⁽¹⁾ On February 1, 2013, the Entity completed the acquisition of Productos Químicos Mardupol, S. A. de C. V. (Mardupol), a company engaged in the distribution of chemicals.

⁽²⁾ Coremal Ltda is a distributor of chemical products located in Recife, Brazil, with operations in 27 states of such country. Their principal offices are established in Sao Paulo, Brazil. The acquisition price was R\$88,935, equivalent to \$492,457 pesos, and was composed of an initial payment of \$49,903 Mexican pesos, and contingent consideration that is determined by a formula established in the purchase-sale agreement, the payment of which is based on the achievement of certain EBITDA margins during annual periods between 2014 to 2019. As of December 31, 2016, 2015 and 2014 the liability payments have been \$40,951, \$11,857 and \$104,601, respectively.

As of December 31, 2013, the valuation of assets and liabilities assumed in connection with the acquisition of Coremal, was conducted using the information available at the date of issuance of these consolidated financial statements, however, certain adjustments were applied to such provisional amounts during the measurement period, as a result of obtaining additional information.

b. Consideration transferred

	Mardupol	Coremal
Consideration to be paid in cash	\$ 114,540	\$ 442,554
Shares	89,329	–
Effect of receivable for selling Pochteca Brasil, Ltd.	–	49,903
Less: Claim under the contract	(48,642)	–
Total	<u>\$ 155,227</u>	<u>\$ 492,457</u>

c. *Adjust to contingent consideration*

	Amount
Balance to be paid in cash at December 31, 2014	\$ 251,215
Payments rendered in 2015	(11,857)
Adjustment for remeasurement of contingent liability	(47,026)
Balance as of December 31, 2015	192,332
Payments rendered in 2016	(40,951)
Translation effect	67,228
Balance as of December 31, 2016	\$ 218,609

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

	Mardupol (1)	Coremal (2)	Total
Current Assets			
Cash	\$ 3,360	\$ 28,479	\$ 31,839
Accounts receivables	205,407	231,098	436,505
Inventories	128,830	169,980	298,810
Non-current assets			
Plant and equipment	31,899	230,857	262,756
Other assets	12,271	27,183	39,454
Intangible assets	52,233	-	52,233
Current liabilities			
Trade and other accounts payables	360,299	343,798	704,097
Non-current liabilities			
Borrowings	7,144	90,236	97,380
	\$ 66,557	\$ 253,563	\$ 320,120

- (1) 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.
- (2) As mentioned above, the valuation of the assets and liabilities assumed as of December 31, 2013 in connection with the acquisition of Coremal, was made using information available at such date. As of December 31, 2014, an adjustment was recorded for \$(86,739), associated with the unpaid consideration in conformity with the terms established in the purchase-sale agreement. As of December 31, 2016, the assets and liabilities assumed have not changed.

e. *Goodwill identified on acquisition*

	Mardupol	Coremal	Total
Acquisition 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 determined as of December 31, 2013	117,155	238,894	356,049
	-	35,000	35,000
Adjustment for measurement of contingent liabilities	-	(86,739)	(86,739)
Goodwill adjusted as of December 31, 2014	117,155	187,155	304,310
Translation effect	-	(39,769)	(39,769)
Goodwill adjusted as of December 31, 2015	\$ 117,155	\$ 147,386	\$ 264,541
Translation effect	-	66,970	66,970
Goodwill adjusted as of December 31, 2016	\$ 117,155	\$ 214,356	\$ 331,511

f. *Cash flows on acquisition of subsidiaries*

	Mardupol		Coremal	
Consideration paid in cash	\$	114,540	\$	–
Less: cash balances acquired		(3,360)		(28,479)
	\$	111,180	\$	(28,479)

The acquisition of Mardupol gave to the Group a physical presence in Ciudad Obregón and Ciudad Juárez, localities where it did not have operations, generating additional sales of \$53,494 and \$40,000 plus sales at December 31, 2014 and 2013 respect. Likewise, Mardupol brought a portfolio of pigments and colorants and products for the agro-business, sectors which the Group had practically never entered, adding \$31,300 and \$23,000 in sales in the year 2014 and 2013 respect. The water treatment sector, where the Group already had a presence, was strengthened also by the portfolio of Mardupol, increasing sales by \$40,000 and \$44,500 at December 31, 2014 and 2015 respect. Furthermore, the portfolio of products brought by leading suppliers such as Du Pont, Jones Hamilton, Eastman and Solvay helped to increase sales by \$110,000 and \$150,000 at December 31, 2014 and 2013 respect.

Generally speaking, chemicals and plastic segment, which includes the great majority of the products of Mardupol, increased sales from \$1,370,235 in 2013 to \$2,664,912, in 2014. 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 the Group with the acquisition of Mardupol.

11. INTANGIBLE ASSET

In accordance with the fair value analysis of assets and liabilities acquired in connection with the acquisition of Mardupol, a supplier relationship intangible asset was identified:

	2016		2015		2014	
Supplier relationship	\$	51,425	\$	51,425	\$	51,425
PEMEX relationship		–		–		280
Non-competes contract		99		149		198
Balances at end of year	\$	51,524	\$	51,574	\$	51,903

The supplier relationship intangible asset has an indefinite life. As of December 31, 2016, 2015 and 2014, the Group recorded amortization of \$50 and \$329 related to the PEMEX relationship and the Non-competes contract.

12. GOODWILL

	2016		2015		2014	
Balances at beginning of year	\$	366,097	\$	405,866	\$	457,605
Additional amounts recognized from business acquisitions that occurred during the year		–		–		35,000
Translation effect and adjustment for measurement of contingent liabilities		66,970		(39,769)		(86,739)
Balances at end of year	\$	433,067	\$	366,097	\$	405,866

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 Group has not identified or recognized the impairment losses of goodwill balances recorded at December 31, 2016, 2015 and 2014. Management did not observe any changes in the main hypotheses giving rise to goodwill impairment.

13. OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2016		2015		2014	
Liability from Coremal purchase	\$	218,609	\$	192,332	\$	251,215
Accounts payable		65,116		100,382		82,021
Liabilities for purchase of fixed assets ⁽¹⁾		–		–		24,283
Reserves		95,345		56,532		10,899
Other account payable		33,815		30,427		42,978
	\$	412,885	\$	379,673	\$	411,396
Short-term	\$	194,018	\$	169,606	\$	184,525
Long-term		218,867		210,067		226,871
	\$	412,885	\$	379,673	\$	411,396

⁽¹⁾ Short-term amounts are \$31 million and \$24 million, as of December 31, 2015 and 2014, respectively.

14. BANK LOANS AND LONG-TERM DEBT

	2016	2015	2014
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 days plus spread of between 1.50% to 3.00% depending on the leverage ratio of the Group, maturing February 2017.	\$ 40,000	\$ -	\$ -
Unsecured loan with HSBC México, S.A. (HSBC), at TIIE 91 plus spread of between 1.50% to 3.00%, depending on the leverage ratio of the Group, maturing September 2017.	35,000	-	-
Bank loan with Banco Santander for R\$4,341,708.78 at an annual rate of 21.24% entered into May 2016 and maturing May 2017.	30,201	-	-
Bank loan with Banco do Brasil for R\$ 3,442,980.24 at an annual rate of 4.03% entered into June 2016 and maturing June 2017	21,025	-	-
Bank loan with Banco Itau for R\$5,000,000 at an annual rate of 2.74% plus 100% of CDI (Interbank Deposit Certificate rate) variation entered into February 2016 and maturing March 2017.	19,934	-	-
Bank loan with Banco Itau for R\$3,000,000 at an annual rate of 3.45% plus 100% of CDI variation entered into September 2016 and maturing April 2017.	19,827	-	-
Bank loan with Finimp com Banco Itau for R\$1,429,842 at an annual rate of 2.20% plus CDI entered into September 2016 and maturing April 2017.	14,394	-	-
Bank loan with Banco Itau for R\$2,000,000 at an annual rate of 5.37% plus 100% of the variance of the CDI entered into June 2016 and maturing May 2017.	12,796	-	-
Bank loan with Banco do Brasil for R\$1,744,706.13 at an annual rate of 4.03% entered into November 2016 and maturing April 2017.	11,523	-	-
Bank loan with Banco Santander for R\$1,679,999.99 at an annual rate of 20.03% entered into June 2016 and maturing July 2017.	4,869	-	-

	2016	2015	2014
Bank loan with Finame BNDES with Banco Itau for R\$ 703,794.62 at an annual rate of 5.58% entered into May 2016 and maturing January 2019.	7,802	-	-
Leasing with IBM for R\$208,645.14 at an annual rate of 1.61% entered into November 2016 and maturing November 2019.	1,285	-	-
Leasing with Banco do Brasil for R\$1,265,440 at an annual rate of 20.271% plus 100% of CDI variation entered into January 2016 and maturing November 2019.	7,237	-	-
Loan for \$ 610,000 (syndicated debt with HSBC and Inbursa for \$305,000 each), rate TIIE plus a margin of 1.50% to 3.00% depending on the leverage ratio, with equal quarterly payments of \$35,000 from March 2016 and a final payment in December 2018 for \$225,000. As of December 31, 2013 the loan balance was \$500,000, which was restructured in December 2014 to an amount of \$610,000.	470,000	610,000	610,000
Loan with HSBC Bank for R\$24,964,913 with an annual real rate of 3.70% plus CDI entered into October 2013 and maturing in August 2018.	96,277	144,467	161,965
Lease with GE Capital Mexico of transport equipment and computers in the amount of \$139,430, \$125,472 and \$82,019 in 2016, 2015 and 2014, respectively, at TIIE 28 days plus 3.5816% fixed rate, entered into February 2014 and maturing in January 2020.	45,757	79,006	69,183
Bank loan with Banco Itau for R\$5,000,000 at an annual rate of 3.98% entered into in February 2015 and maturing in February 2016.	-	30,923	-
Bank loan with Finimp for R\$1,429,842 with an annual real rate of 2.38% plus CDI entered into in May 2014 and maturing in August 2016.	-	21,761	8,635
Loan for \$20,000 Mexican pesos with HSBC, TIIE rate plus a margin of 1.50% for a term of one year	-	20,000	-

	2016	2015	2014
Bank loan with Banco Itau for R\$20,097,194 at an annual rate of 4.53% entered into in September 2012 and maturing in December 2017.	14,124	14,873	41,477
Leasing with Volvo for R\$35.893 at an annual rate of 4.40% entered into in May 2013 and maturing in December 2020.	10,417	8,932	6,311
Loan with Banco do Brasil for R\$15,230,768 at an annual rate of 10.17% entered into in June 2012 and maturing in August 2017	4,692	8,065	23,218
Bank loan with Banco Itau for R\$1,800,000 reais at an annual rate of 3.98% plus 100% of CDI variation entered into in December 2015 and maturing in December 2016.	11,450	7,855	-
Leasing with Banco Fidis with different annual interest rates and different maturity dates.	1,014	2,524	7,202
Leasing with Mercedes Benz for R\$69.606 at an annual rate of 3.50% entered into in December 2014 and maturing in November 2018.	948	1,134	4,456
Bank loan with Banco Brasil S.A. for R\$30,000 at an annual rate of 5.50% entered into in August 2013 and maturing in July 2017	-	1,089	185
Santander Bank loan for R\$9,695,584 with an annual real rate of 10.25% entered into in October 2013 and maturing in October 2017.	496	668	11,303
Leasing with Mercedes Benz for R\$94.570 at an annual rate of 3.50% entered into in February 2010 and maturing in December 2017.	-	460	606
Leasing with Banco do Brasil for an amount of R\$93,804 at an annual rate of 7.00% entered into in July 2012 and maturing in July 2017.	42	114	-
Leasing with IBM for R\$201.098 at an annual rate of 14.84% entered into in November 2013 and maturing in June 2016.	-	97	366

	2016	2015	2014
Loan with SAFRA for R\$1,400,000 with an annual real rate of 10.00% entered into in August 2013 and maturing in June 2016.	-	71	439
Bank loan with Itaucard for R\$14.061 at an annual rate of 16.21% entered into in April 2013 and maturing in March 2017.	8	30	110
Leasing with SAFRA for R\$165.624 at an annual rate of 13.92% entered into in July 2013 and maturing in August 2016.	-	25	-
Bank loan with Aymore amounting to R\$36.782 at an annual rate of 2.50% plus CDI entered into in November 2014 and maturing in August 2015.	-	-	199
Loan with bank City de Costa Rica, S.A. for \$107,331,140 colones at an annual rate of 6.84% entered into in April 2014 and maturing in August 2015	-	-	2,606
Interbanco revolving line for US\$107.465 with an annual rate of 8.50% entered into in September 2014 and maturing in March 2015	-	-	1,584
Leasing with Votorantim for R\$1,247,161 with an annual real rate of 12.51% entered into in February 2013 and maturing in August 2015.	-	-	2,391
Bank loans	881,118	952,094	952,236
Less - Unamortized commissions paid	(8,232)	(12,492)	(16,723)
	872,886	939,602	935,513
Less - Current portion of long-term debt	500,911	325,279	61,525
Long-term debt	\$ 371,975	\$ 614,323	\$ 873,988

The TIIE rates as of December 31, are as follows:

	2016	2015	2014
TIIE	6.110%	3.320%	3.790%

- a. **Refinancing of syndicated debt** – On December 3, 2014, the Group entered into a refinancing agreement for the syndicated loan with HSBC and Grupo Financiero Inbursa, in which the following major changes were made: 1) to restore the maturity date of the loan to December 3, 2018; 2) to remove Grupo Pochteca, S.A.B. de C.V. as creditor and to leave only PMP and PP as creditors, 3) to refinance the loan for \$ 610,000, of which HSBC and Inbursa provide an equal amount for \$305,000 and 4) modify the obligations of do and not do. In order to give effect to the refinancing of the credit, HSBC and Inbursa required the payment of accrued interest and principal generated at that date, so that the creditors could again the loan up to \$ 610,000 to the borrowers.
- b. As of December 31, 2016, 2015 and 2014, in accordance with the syndicated loan agreement with Banco Inbursa, S. A. and HSBC México 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 2.0 to 1.0 from the Close Date until and including June 30, 2015; and b) greater than 2.5 to 1.0 from and including December 31, 2015 and c) greater than 3.0 to 1.0 from and including January 1, 2016 from 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 March 31, 2015; (b) less than 2.75 to 1.0 from and including April 1, 2015 until and including December 31, 2015; and (c) less than 2.5 to 1.0 from and including January 1, 2016 until and including the maturity date.
 - Stockholders' Equity. Consolidated stockholders' equity of at least \$900,000.
 - 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 (EBITDA) of the immediately preceding year.

As of December 31, 2016, 2015 and 2014, these restrictions have been complied with. Maturities of long term-debt at December 31, 2015, are:

Year ended as of December 31,	Amount
2018	\$ 366,627
2019	5,130
2020	218
	\$ 371,975

15. EMPLOYEE BENEFITS

Net period cost for obligations resulting from the pension plan, severance payments and seniority premiums was \$1,194, \$1,118 and \$906 in 2016, 2015 and 2014, respectively. Other disclosures required under IFRS are not considered important.

16. STOCKHOLDERS' EQUITY

On an annual basis, the shareholders of the Group determine the maximum amount to be earmarked for repurchase of shares, without exceeding the amount of the retained earnings at that date, refunding to retained earnings any previously authorized amount that has not been exercised. As of December 31, 2016, 2015 and 2014 the Entity maintained 2,178,700, 3,038,041 and 2,344,486 shares in treasury, respectively. Sales of shares made after the approval of the shareholders, increase the balance of the unused reserve, which relate to investments made in prior periods of amounts authorized by the Assembly.

- I. The Stockholders' Ordinary General Meeting of April 28, 2016 resolved to establish:
 - A maximum amount of \$30,000 that the Entity may allocate to the purchase of its own shares or securities representing such shares, on the understanding that the acquisition and placement of shares will be made through the Bolsa Mexicana de Valores, S. A. B. de C. V. at market price.
- II. The common stock of the trust is represented by shares subscribed by investment and administration trust number F/147, which was created for the stock option plan for key executives. At December 31, 2016, 2015 and 2014, the outstanding portion payable by executives is \$7,884, \$11,097 and \$15,032, respectively, which is presented in stockholders' equity as shares held in trust. The value of contributed capital has therefore been reduced by this amount.

III. During 2015, The Entity created a Trust referred to as F/34. The Trust assets are comprised of the shares to be subscribed by investments trust management number F/34, for an amount up to \$21,105 for the share purchase option plan for key executives. Trust grantors comprise several subsidiaries, the trustee is Banco Ve por Más, Sociedad Anónima, Institución de Banca Múltiple, Grupo Financiero Ve por Más as trustee and the trust beneficiaries include several executives. As of December 31, 2016, shares have not been assigned to beneficiaries of this trust. The shares to be acquired represent the capital of Grupo Pochteca, S. A. B. de C. V.

IV. Common stock without par value as of December 31, is as follows:

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

V. Mexican General Corporate Law requires that at least 5% of net income of the year be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical pesos). The legal reserve may be capitalized but may not be distributed unless the entity is dissolved. The legal reserve must be replenished if it is reduced for any reason. As of December 31, 2016, 2015 and 2014, the Group has not set aside any amount to create such reserve.

VI. 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.

Dividends paid from profits generated as of January 1, 2014 in Mexico resident and resident individuals abroad, may be subject to additional income tax of up to 10%, which should be retained by the Group.

17. FINANCIAL INSTRUMENTS

Capital risk management

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

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

Debt ratios

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

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

	2016	2015	2014
Cash and cash equivalents	\$ 144,799	\$ 385,672	\$ 324,458
Debt	872,886	939,602	935,513
Net debt	728,087	553,930	611,055
Stockholders' equity	1,231,136	1,152,272	1,170,667
Index of net debt and equity	59.14%	48.07%	52.20%

The debt includes long-term debt and current portion.

Categories of financial instruments

	2016	2015	2014
Financial assets:			
Cash	\$ 144,799	\$ 385,672	\$ 324,458
Loans and account receivable	987,742	928,990	950,585
Financial liabilities:			
Liabilities at amortized cost	\$ 2,199,265	\$ 2,359,154	\$ 2,364,878

Fair value of financial instruments

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

The fair value of the syndicated debt with HSBC and Inbursa is as follows:

2016		2015		2014	
Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
\$ 470,000	\$ 470,000	\$ 610,000	\$ 576,560	\$ 610,000	\$ 577,816

Financial risk management objectives

The Group'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 Group.

The Group minimize the negative effects of these risks by using different strategies. According to the Group's statutes, it is prohibited to hire any kind of financing. Internal auditors periodically review compliance with policies and exposure limits. The Group does not subscribe or trade financial instruments for speculative or hedging purposes.

Market risk

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

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

Exchange rate risk

The Group is exposed to exchange rate risks based on the balances of monetary assets and liabilities recognized in the consolidated statements of changes in financial position denominated in foreign currency (US dollars, Brazilian reals 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, 2016, 2015 and 2014 would have been adversely affected by the amount of \$51,923, \$101,188 and \$82,979, 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 reals 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, represent approximately 86% at December 31, 2016 and 65% for 2015 and 2014, 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 non-derivative instruments at the end of the reporting period. In the case of variable-rate liabilities, the Group prepares an analysis based on the assumption that the liability in effect at the end of the reporting period was also in effect throughout the year.

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

	2016	2015	2014
Total debt at variable rates	\$ 872,886	\$ 939,602	\$ 935,513
Variable interest expense	76,544	78,635	77,696
Financial cost of debt percentage	8.77%	8.37%	8.31%
Sensitivity to + 100 base points	85,281	88,041	87,096
Sensitivity to -100 base points	67,823	69,249	68,386

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 Group has adopted a policy of only becoming involved with solvent parties and obtaining sufficient guarantees, when appropriate, as a form of mitigating the risk of the financial loss caused by defaults.

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

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

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

Liquidity risk management

The liquidity risk is the situation whereby the Group is unable to fulfill obligations associated with financial liabilities settled through the delivery of cash or another financial asset. The Group's debt acquisition policy is very conservative. The 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, 2016, 2015 and 2014 as the transition date is as follows:

	December 31, 2016			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 500,911	\$ 366,627	\$ 5,348	\$ 872,886
Suppliers	1,100,641	–	–	1,100,641
Other accounts payable	194,018	39,879	178,988	412,885
Related parties	6,871	–	–	6,871
	<u>\$ 1,802,441</u>	<u>\$ 406,506</u>	<u>\$ 184,336</u>	<u>\$ 2,393,283</u>

	December 31, 2015			
	Less than 1 year	1-2 years	3-5 years	Total
Bank loans	\$ 325,279	\$ 282,727	\$ 331,596	\$ 939,602
Suppliers	1,199,576	–	–	1,199,576
Other accounts payable	169,606	56,972	153,095	379,673
Related parties	9,909	–	–	9,909
	<u>\$ 1,704,370</u>	<u>\$ 339,699</u>	<u>\$ 484,691</u>	<u>\$ 2,528,760</u>

	December 31, 2014			Total
	Less than 1 year	1-2 years	3-5 years	
Bank loans	\$ 61,525	\$ 105,081	\$ 768,907	\$ 935,513
Suppliers	1,193,008	–	–	1,193,008
Other account payable	181,525	54,357	172,514	408,396
Related parties	9,486	–	–	9,486
	<u>\$ 1,445,544</u>	<u>\$ 159,438</u>	<u>\$ 941,421</u>	<u>\$ 2,546,403</u>

18. FINANCIAL DERIVATIVES

The Group uses financial derivatives in the form of cross currency swaps (CCS) and exchange rate forwards and exchange rate options as hedges to protect itself from exposure to variations in the BRL/USD exchange rate generated by the payment of the coupons (interest) and the current principal of the credit executed with HSBC for an amount of up to US \$8,494,733.

As of December 31, 2015, the fair value of the aforementioned transactions is as follows:

Instrument	Counterparty	Starting date	Maturity	Rate payable and exchange rate agreed	Notional amount in USD	Fair value
Currency swap	Itau	February 2, 2016	February 2, 2017	CDI + 3.25%	750,263	\$ (3,941)
Currency swap	Itau	February 5, 2015	February 2, 2016	CDI + 3.25%	517,424	\$ (2,267)
Currency swap	Itau	September 15, 2016	March 14, 2017	CDI + 5.20%	740,082	\$ (929)
Forward	Banco Do Brasil	June 28, 2016	June 21, 2017	3.6459	1,040,262	\$ (2,415)
Forward	Banco Do Brasil	November 3, 2016	April 27, 2017	3.3897	565,627	\$ (452)
Currency swap	HSBC	September 30, 2016	August 27, 2018	CDI + 2.00%	6,067,666	\$ (29,336)

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

As of December 31, 2016, the effectiveness of these hedges is high, because the changes in fair value and the cash flows from the primary position are offset in a range of between 80% and 125%. The results of the prospective and retrospective tests at the end of the year was of 99% and 99%, respectively.

The fair value of the currency swaps is \$36,472,912 Mexican pesos, recorded as a liability with a change in the financial statement of income and the fair value of the covered transactions amount \$36,725,264 Mexican pesos which was recorded as a charge to the debt against a credit to the income statement. Because there are small differences between the hedging instrument and the hedged item, there is an ineffective portion of \$252,352 Mexican pesos that is recorded as income in the statement of income (the difference between the fair value of hedging instruments and the covered ones).

The method used to measure effectiveness is the "ratio analysis" based on a hypothetical derivative; such method consists of comparing the changes in the fair value of the hedge instrument with the changes in the fair value of the hypothetical derivative which would result in a perfect hedge of the item covered.

As of December 31, 2016, the fair value of the forwards was \$2,866,436 Mexican pesos recorded as a liability against a charge in other comprehensive income. The effect recognized in equity was \$2,863,649 Mexican pesos and the effect reclassified to the statement of income as an ineffective portion was \$2,787. The period in which the cash flow recognized in equity is expected to occur and impact the statement of income in April and June of 2017 because it is when the forwards expire.

19. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

a. Balance due from related parties are:

	2016	2015	2014
Mexichem Flúor, S.A. de C.V.	\$ 4,455	\$ 1,983	\$ 4,996
Mexichem Resinas Vinílicas, S.A. de C.V.	2,321	323	136
Mexichem Soluciones Integrales, S.A. de C.V.	176	50	–
Mexichem Derivados, S.A. de C.V.	529	–	–
	\$ 7,481	\$ 2,356	\$ 5,132

b. Balance due to related parties are:

	2016	2015	2014
Quimir, S.A. de C.V.	\$ 5,671	\$ 8,620	\$ 7,799
Mexichem Derivados, S.A. de C.V.	–	–	109
Mexichem Servicios Administrativos, S.A. de C.V.	490	138	289
Mexichem Compuestos, S.A. de C.V.	710	1,151	1,289
	\$ 6,871	\$ 9,909	\$ 9,486

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

	2016	2015	2014
Mexichem Derivados, S.A. de C.V.:			
Sales	\$ 3,530	\$ 2,228	\$ 481
Purchases	(1,457)	(1,357)	(927)
Quimir, S.A. de C.V.:			
Sales	16	547	1,608
Purchases	(43,548)	(45,838)	(39,430)
Mexichem Flúor, S.A. de C.V.:			
Sales	18,960	10,431	10,822
Purchases	(732)	(1,862)	(1,539)
Mexichem Resinas Vinílicas, S.A. de C.V.:			
Sales	5,650	1,995	995
Mexichem Soluciones Integrales, S.A. de C.V.:			
Sales	747	197	92
Mexichem Compuestos, S.A. de C.V.:			
Sales	3,082	3,038	2,704
Purchases	(3,411)	(3,906)	(7,415)
Mexichem Servicios Administrativos, S.A. de C.V.:			
Administrative services paid	(2,510)	(2,038)	(2,158)
Kaluz, S.A. de C.V.:			
Administrative services paid	–	(23)	–
	\$ (19,673)	\$ (36,588)	\$ (34,767)

20. NET SALES

	2016	2015	2014
Chemicals and lubricants	\$ 5,597,580	\$ 5,536,702	\$ 5,437,091
Paper	541,693	542,117	594,849
	\$ 6,139,273	\$ 6,078,819	\$ 6,031,940

21. COST OF SALES

	2016	2015	2014
Inventories consumed	\$ 4,846,153	\$ 4,806,422	\$ 4,860,470
Freight	178,100	150,932	99,911
Other	39,748	15,499	20,116
	\$ 5,064,001	\$ 4,972,853	\$ 4,980,497

22. OPERATING EXPENSES

	2016	2015	2014
Payroll	\$ 482,967	\$ 491,048	\$ 452,779
Depreciation and amortization	131,944	118,269	107,572
Operations	60,543	99,915	78,991
Leasing	55,605	42,472	44,898
Telephone and systems	27,946	27,932	26,400
Maintenance	22,584	24,408	20,997
Fees	67,056	51,575	72,627
Other	110,468	27,450	51,745
	\$ 959,113	\$ 883,069	\$ 856,009

23. INCOME TAXES

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

ISR – Under the new Income Tax Act 2014 (Act 2014) the rate was 30% for 2016, 2015 and 2014 and continue at 30% for the following years.

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

a. Income taxes (benefit) expense recognized are as follows:

	2016	2015	2014
ISR:			
Current tax	\$ 18,225	\$ 11,535	\$ 8,742
Deferred tax	(27,325)	(14,748)	4,388
	\$ (9,100)	\$ (3,213)	\$ 13,130

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

	2016	2015	2014
Deferred ISR asset:			
Tax loss carryforwards	\$ 37,012	\$ 24,461	\$ 12,550
Provisions	39,164	28,932	27,402
Deferred ISR asset	76,176	53,393	39,952
Deferred ISR liability:			
Property, plant and equipment	(4,647)	(300)	(6,455)
Other assets	(47)	(10,680)	(5,090)
Inventories, net	(2,005)	(261)	(1,003)
Deferred tax liability	(6,699)	(11,241)	(12,548)
Total assets	\$ 69,477	\$ 42,152	\$ 27,404

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:

	2016	2015	2014
Statutory rate	30%	30%	30%
Plus the effect of permanent differences mainly			
non-deductible expenses	9%	8%	39%
Add (less) – effects of inflation	22%	(9%)	5%
Less tax deduction portfolio		(20%)	–
Plus (less) – recognition of previously unrecognized benefits	–	(20%)	–
Effective rate	61%	(11%)	74%

- 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, 2016, are:

Year of expiration	Tax loss carryforwards
2024	\$ 41,835
2025	\$ 81,538
	\$ 123,373

24. NON-CASH TRANSACTIONS

During the Annual General Meeting of Shareholders on April 28, 2016, section VI, a ceiling in the reserve for repurchase of own shares was approved for an amount of \$30,000, this is the maximum amount that the Group will be able to pay for repurchase of own shares or credit titles that depicts them, on the understanding, that the acquisition and placement of own shares concerned, were realized by the Group through Bolsa Mexicana de Valores, S. A. B. de C. V. the affecting the accumulated results of the Group by an amount of \$43,340 to cancel the remaining reserve amount and record then the \$30,000.

During the years ended December 31, 2016, 2015 and 2014, the Group acquired equipment for a value of \$10,964, \$33,811 and \$33,836 through a financing lease. This acquisition is being reflected in the cash flow statements over the life of the leases through the payment of the rentals.

On December 30, 2016, the Group received a payment in kind of a real property with a value of \$2,333. Such amounts refer to the collection of an account which the group had with Solquimia Mexicana, S. A. de C. V. At the date of the payment in kind the account was \$401. As the Group has no plans to make use of this property, the Group's management has approved its classification as available for sale, for which reason it is recorded under the heading of long-term assets.

On May, 6, 2016, the Group executed a non-compete agreement with Distribuidora VEM, S. A. de C. V. for \$873, which is part of a termination agreement of a Group's account receivable for \$1,269.

25. COMMITMENTS

The Entity leases the building where corporate offices are located and some branch offices. The rental expense amounted to \$55,605, \$42,472 and 444,898 as of December 31, 2016, 2015 and 2014, respectively. The lease agreements have mandatory terms from 1 to 15 years and set the following minimum payments:

Year	Amount
2017	\$ 49,569
2018	43,090
2019	36,628
2020	32,630
2021	16,647
2021 and thereafter	69,485
	\$ 248,049

26. BUSINESS SEGMENT INFORMATION

Business segment information of the Group is as follows:

	2016		2015		2014	
	Chemical products	Paper	Chemical products	Paper	Chemical products	Paper
Statement of income:						
Net sales	\$ 5,597,580	\$ 541,693	\$ 5,536,702	\$ 542,117	\$ 5,437,091	\$ 594,849
Depreciation	\$ 120,295	\$ 11,649	\$ 107,719	\$ 10,550	\$ 96,965	\$ 10,607
Operating income	\$ 105,914	\$ 10,245	\$ 203,019	\$ 19,878	\$ 176,161	\$ 19,273
Finance costs	\$ (119,373)	\$ (11,560)	\$ (175,395)	\$ (17,173)	\$ (160,248)	\$ (17,532)
Consolidated net income	\$ (5,174)	\$ (500)	\$ 30,551	\$ 2,991	\$ 4,078	\$ 446
Balance sheet:						
Total assets	\$ 3,338,361	\$ 322,925	\$ 3,373,503	\$ 330,311	\$ 3,392,829	\$ 371,195
Total liabilities	\$ 2,215,593	\$ 214,557	\$ 2,323,992	\$ 227,550	\$ 2,337,609	\$ 255,748
Statement of cash flows:						
Operation activities	\$ 77,274	\$ 7,475	\$ 240,658	\$ 23,564	\$ 284,698	\$ 31,148
Investment activities	\$ (73,336)	\$ (7,094)	\$ (51,454)	\$ (5,038)	\$ (140,049)	\$ (15,322)
Financing activities	\$ (232,867)	\$ (22,526)	\$ (61,823)	\$ (6,053)	\$ 7,676	\$ 840

Information on geographical area of the Entity is presented below:

	2016		2015		2014	
	Mexico	Brazil	Mexico	Brazil	Mexico	Brazil
Net sales	\$ 4,560,302	\$ 1,578,971	\$ 4,484,645	\$ 1,594,174	\$ 4,482,659	\$ 1,549,281
Total assets	\$ 2,685,580	\$ 978,706	\$ 3,165,318	\$ 538,496	\$ 3,207,981	\$ 556,043
Total liabilities	\$ 1,434,037	\$ 996,113	\$ 2,041,979	\$ 509,563	\$ 2,076,732	\$ 516,625

27. SUBSEQUENT EVENTS

On March 30, 2017, Pochteca Materias Primas, S. A. de C. V and Pochteca Papel, S. A. de C. V., subsidiaries of the Group, executed a simple credit agreement for \$875 million with the following institutions HSBC México, S. A., Insitución de Banca Múltiple, Grupo Financiero HSBC, Banco Inbursa, S. A., Insitución de Banca Múltiple, Grupo Financiero Inbursa, Scotiabank Inverlat, S. A., Institución de Banca Múltiple, Grupo Financiero Soctiabank Inverlat, and BBVA Bancomer, S. A., Institución de Banca Múltiple and Grupo Financiero BBVA Bancomer within a 4 year period, at the TIIE 91 days plus a spread between 175 basis points to 350 basis points.

28. APPROVAL OF THE ISSUANCE OF CONSOLIDATED FINANCIAL STATEMENTS

On April 12, 2017, 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.

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