

INROADS DE MÉXICO, A.C.

FINANCIAL STATEMENTS,  
INDEPENDENT AUDITOR'S REPORT  
AND STATUTORY AUDITOR'S REPORT

DECEMBER 31, 2017 AND 2016

INROADS DE MÉXICO, A.C.

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of  
Inroads de México, A.C.

***Opinion***

We have audited the financial statements of Inroads de México, A.C. (The Association), which comprises of the statements of financial position as of December 31, 2017 and 2016, and the statements of operations and cash flows for the years then ended, as well as the notes to the financial statements. The financial statements also include a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Inroads de México, AC, as of December 31, 2017 and 2016, as well as its activities and cash flows for the years ended on those dates, in accordance with the Mexican Financial Reporting Standards (MFRS/NIF).

***Basis of opinion***

We have conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under those standards are described later in the section Responsibilities of the auditor in relation to the audit of the financial statements of this report. We are independent of the Association in accordance with the Code of Professional Ethics of the Mexican Institute of Public Accountants, A.C., along with the ethical requirements that are applicable to our audits of financial statements in Mexico. We believe that the audit evidence we have obtained provides a sufficient and adequate basis for our opinion.

***Paragraph of emphasis***

The accompanying financial statements are presented in accordance with the Mexican Financial Reporting Standards (MFRS/NIF) specifically observing the pronouncements of the financial information based on NIF B-16 "Financial statements of non-profit entities" and E-2 "Donations received or granted by entities with non-profit purposes" both effective as of January 1, 2010.

***Responsibilities of the Administration in relation to the financial statements***

Management of the Association is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the NIF and related internal control it deems necessary to enable the preparation of financial statements free from material misstatement due to fraud or error.

In the preparation of the financial statements, Management is responsible for assessing the Association's ability to continue as a going concern, revealing, as appropriate, issues related to the Company in operation and using the operating accounting principle except if the administration intends to liquidate the association or cease its operations, or there is no other realistic alternative.

Those responsible for the governance of the Association are responsible for supervising the financial information process of the Association.

***Responsibilities of the auditor in relation to the audit of the financial statements***

Our objectives are to obtain reasonable assurance that the financial statements as a whole are free from material misstatement, due to fraud or error, and to issue an audit report containing our opinion. Reasonable safety is a high degree of safety but does not guarantee that an audit performed in accordance with ISA will always detect a material misstatement when it exists. Misrepresentations may be due to fraud or error and are considered material if, individually or in aggregate form, they can reasonably be expected to influence economic decisions that users make based on the financial statements.

As part of an audit in accordance with ISA, we apply our professional judgment and maintain an attitude of professional skepticism throughout the audit. As well:

- Identify and assess the risks of material misstatement in the financial statements, due to fraud or error, design and apply audit procedures to respond to those risks, and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting material misstatement due to fraud is higher than in the case of a material misstatement due to error, since fraud may involve collusion, falsification, deliberate omissions, intentionally erroneous manifestations or circumvention of internal control.
- Obtain knowledge of the internal control relevant to the audit in order to design audit procedures that are appropriate to the circumstances and not for the purpose of expressing an opinion on the effectiveness of the internal control of the Association.
- Evaluate the adequacy of the accounting policies applied and the reasonableness of the accounting estimates and the corresponding information disclosed by management.
- Evaluate the overall presentation, structure and content of the financial statements, including disclosed information, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate to those in charge of the Association's governance regarding, among other topics, the scope and timing of the planned audit and the significant findings of the audit, as well as any significant deficiencies in internal control that we identified in the course of the audit.

**Russell Bedford México, S.C.**



Mr. Ambrosio Gómez García

Mexico City, April 26, 2018



**AMBROSIO GÓMEZ GARCÍA**  
**CONTADOR PÚBLICO CERTIFICADO**

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**STATUTORY AUDITOR'S REPORT**

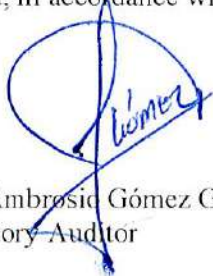
Mexico City, April 26, 2018

To the Board of Directors of  
Inroads de México, A.C.

In my capacity as the Statutory Auditor of Inroads de México, A.C. (The Association), I hereby express my opinion on the veracity, reasonableness and sufficiency of the financial information submitted to you by the Administration for the year ending on December 31, 2017.

I have attended the Boards of Members to which I have been called and I have obtained from the directors and administrators all the information about the operations, documentation and other supporting evidence that I considered necessary to be examined.

In my opinion, the criteria, accounting and information policies applied by the Association and considered by the administrators to prepare the financial information submitted by them to this meeting are adequate and sufficient and were applied consistently with the previous year; Therefore, such financial information reflects in a truthful, sufficient and reasonable manner the financial position of Inroads de México, AC, as of December 31, 2017, as well as its activities and cash flows for the year then ended, in accordance with the Mexican Financial Reporting Standards (MFRS/NIF).



Mr. Ambrosio Gómez García  
Statutory Auditor

INROADS DE MEXICO, A.C.

Statements of financial position

(Figures in Mexican pesos)

	<u>As of December 31</u>	
	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (Note 6)	\$ 221,109	\$ 1,671,347
Accounts receivable (Note 7)	171,846	256,587
Prepayments	<u>2,890</u>	<u>1,148</u>
Total current assets	<u>395,845</u>	<u>1,929,082</u>
Non-current assets:		
Furniture and computer equipment - Net (Note 8)	267,181	27,495
Other assets (Note 9)	<u>24,304</u>	<u>22,948</u>
Total non-current assets	<u>291,485</u>	<u>50,443</u>
Total Assets	<u>\$ 687,330</u>	<u>\$ 1,979,525</u>
<b>Liabilities</b>		
Short term liabilities:		
Suppliers, accumulated liabilities and other accounts payable	\$ 23,847	\$ 41,163
Income tax payable (Note 10)	18,432	12,058
Other taxes and contributions	<u>297,905</u>	<u>210,238</u>
Total short term liability	<u>340,184</u>	<u>263,459</u>
<b>Equity (Note 9):</b>		
Unrestricted	<u>347,146</u>	<u>1,716,066</u>
Total liabilities and equity	<u>\$ 687,330</u>	<u>\$ 1,979,525</u>

The eleven accompanying notes are an integral part of these financial statements

Mr. Javier Gerardo Delgado Ayala  
Managing Director

INROADS DE MEXICO, A.C.

Statements of activities

(Figures in Mexican pesos)

	Year ending December 31	
	<u>2017</u>	<u>2016</u>
<b><u>Income:</u></b>		
Sponsorship	\$ 3,064,474	\$ 2,481,000
Donations	2,687,622	4,371,712
Other income	37,274	212
Exchange rate profit	41,513	91,156
Interest	<u>                    </u>	<u>585</u>
Total revenue	<u>5,830,883</u>	<u>6,944,665</u>
<b><u>Expenses:</u></b>		
Wages and labor obligations	4,405,299	3,777,510
Operating expenses	2,693,202	2,321,745
Exchange rate loss	78,600	
Income tax	18,432	12,059
Other expenses	<u>4,270</u>	<u>6,402</u>
Total expenses	<u>7,199,803</u>	<u>6,117,716</u>
(Decrease) increase in equity	<u>(1,368,920)</u>	<u>826,949</u>
Beginning equity	<u>1,716,066</u>	<u>889,117</u>
Ending equity	<u>\$ 347,146</u>	<u>\$ 1,716,066</u>

The eleven accompanying notes are an integral part of these financial statements

Mr. Javier Gerardo Delgado Ayala  
Managing Director

INROADS DE MÉXICO, A.C.

Statement of Cash Flow

(Figures in Mexican pesos)

	Year ending December 31	
	<u>2017</u>	<u>2016</u>
<b>Operating activities:</b>		
(Decrease) increase in equity	\$(1,368,920)	\$ 826,949
Items related to investment activities:		
Depreciation	16,111	14,567
Interest received	<u>                    </u>	<u>(585)</u>
	(1,352,809)	840,931
Decrease in accounts and documents by sponsors and others	81,643	26,578
Increase in suppliers, accumulated liabilities and other accounts payable	<u>76,725</u>	<u>21,571</u>
Net cash flows from operating activities	(1,194,441)	889,080
<b>Investment activities:</b>		
Furniture and equipment acquisition	(255,797)	(7,915)
Interest from investment activities	<u>                    </u>	<u>585</u>
Net cash flows from investing activities	<u>(255,797)</u>	<u>(7,330)</u>
Net (decrease) increase in cash and cash equivalents	(1,450,238)	881,750
Beginning cash and cash equivalents	<u>1,671,347</u>	<u>789,597</u>
Ending cash and cash equivalents	<u>\$ 221,109</u>	<u>\$ 1,671,347</u>

The eleven accompanying notes are an integral part of these financial statements

Mr. Javier Gerardo Delgado Ayala  
Managing Director



INROADS DE MÉXICO, A.C.  
Notes to the financial statements  
December 31, 2017 and 2016

(Figures expressed in Mexican pesos)

**NOTE 1 - AUTHORIZATION FOR THE ISSUANCE OF THE FINANCIAL STATEMENTS**

On April 26, 2018 Mr. Javier Gerardo Delgado Ayala (Managing Director) responsible for financial information authorized the issuance of the financial statements for presentation to the board of directors for final approval.

**NOTE 2 - MAIN ACTIVITY OF THE ASSOCIATION**

Inroads de México, A.C. (The Association) is a non-profit organization incorporated on March 8, 1996, under Mexican law. Its mission is to detect talent among young Mexicans with limited economic resources, to promote their integral formation as leaders committed to society and to channel opportunities for their development.

It offers a comprehensive training plan to support selected university students to obtain a meaningful practical experience, in areas related to their professional career, in a first level company.

The purpose of the Association is:

- a. Attend to young people of any sex, who due to their socioeconomic circumstances require incentives in the labor and educational area and training, with the purpose of seeking their entry to various companies to obtain a better development. The aim of the training will be to ensure that young people with low socio-economic resources have the opportunity to develop in the fields of work related to the profession they are studying, so that they can be surpassed not only in classrooms but also in practice.
- b. Obtain resources through contributions, donations, inheritances, legacies or any other type of assistance, from natural or moral persons, national and foreign.
- c. Promote the integral development of the young people who participate in the program.
- d. To publish information about the programs and parties in order to disclose the work carried out by the organization.
- e. Establish contact points between the Association among others with similar purposes.
- f. To get contact between other institutions that have the same or similar object.
- g. Acquire, dispose of, lease or take on an endless supply of commercial speculation, all kinds of furniture or real estate as they are convenient and / or necessary for the development of its object.

- h. The celebration and execution of all acts, agreements, contracts and operations, whether with individuals or corporations, public or private and governmental or decentralized entities, national and foreign, suitable for carrying out their activities and their social object.
- i. In general, the performance of all kinds of acts, operations, agreements, contracts and securities necessary for the realization of its social purpose.

The object must be achieved without obtaining a profit or equity benefit directly or indirectly for its associates and board members.

Consequently, the purpose of the Association will not be predominantly economic or commercial speculation, since it is a non-profit association independent from civil association with any political, religious, ideological or economic groups or parties.

In order to achieve the purposes described above, the Association will have assets that will be constituted as follows:

- I. Partners contributions.
- II. Donations, inheritances, legacies or other contributions that for any reason receive,
- III. Earned income,
- IV. Goods acquired
- V. Any type of rights granted in favor of the Association or acquired by it, by virtue of donations, assignments or any other means permitted by law.

All of its income and assets will be used exclusively for the purposes of the Association, and it cannot grant benefits on a surplus distributable to any natural person or to their natural or legal persons, except in the latter case of moral persons referred to in article 97 of the Mexican Income Tax Law (LISR).

### **NOTE 3 - PREPARATION AND PRESENTATION BASIS**

The financial statements are presented in accordance with Mexican Financial Reporting Standards (NIF), specifically observing the pronouncements of the financial information based on NIF B-16 "Non-Profit Financial Statements" and NIF E- 2 "Donations Received and Granted by Entities with Non-Profit Purposes", both effective as of January 1, 2010.

### **NOTE 4 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies followed by Inroads de México, A.C, for the preparation of its financial statements are summarized as follows.



***a) Use of estimates***

The preparation of the financial statements requires management to make certain estimates and to use certain assumptions that affect the reported amounts of assets, liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of income and expenses during the year. Important items subject to these estimates and assumptions include the book value of furniture and equipment. Actual results may differ from these estimates and assumptions.

***b) Recognition of the effects of inflation***

Cumulative inflation for the three fiscal years prior to December 31, 2017 and 2016 was 12.71% and 9.87%, respectively; therefore, the Mexican economy is in a non-inflationary economic environment in both years and consequently the figures as of December 31, 2017 and 2016 of the accompanying financial statements are presented in historical pesos. The inflation percentages for the years ended December 31, 2017 and 2016 were 6.77% and 3.36%, respectively.

***c) Cash and cash equivalents***

Cash and cash equivalents include deposits in bank accounts in Mexican pesos and US dollars. Cash is valued at nominal value and the foreign currency is translated at the interbank rate at the date of the financial statements.

***d) Accounts receivable***

Accounts receivable from sponsors are recognized at the nominal values of invoices or receipts.

***e) Furniture and computer equipment***

Furniture and computer equipment are valued at their historical cost of acquisition as of December 31, 2017 and 2016.

Depreciation is calculated using the straight-line method based on the estimated useful lives of the assets over the cost of acquisition.

***f) Suppliers***

This caption includes obligations with suppliers for purchases of goods and services acquired in the normal course of the Association's operations. When purchases of goods and services acquired are expected to be paid within one year or less from the closing date, they are presented as current liabilities on the financial reports. In case of not complying with the aforementioned, they are presented as non-current liabilities.

***g) Provisions***

The Association recognizes, based on Management's estimates, provisions for liabilities for those present obligations in which the transfer of assets or the rendering of services are virtually unavoidable and arises as a result of past events, mainly bonuses, salaries and other payments to personal.

***h) Taxes on income***

Income tax (ISR by its acronym in Spanish) will only be recorded when the distributable amount (whether or not delivered in cash or in assets to its members or partners) is determined (see Note 11).

***i) Equity***

In order to achieve the objectives above mentioned, the Association has assets constituted by the economic fund that has ordinary and extraordinary quotas of the associates, the donations granted by the associates or third parties, the subsidies that are obtained, the property owned by the Association, and income from festivities, raffles, sweepstakes, collections, etc., which are carried out in the places and with the requirements that the laws permit, with prior authorization from the Board.

***j) Recognition of income***

Sponsorship revenues are recognized when they are performed and invoiced.

Proceeds from donations received in cash are recognized for the cash or cash equivalents received and for the amount of unconditional donations received that are accrued and payable.

***k) Transactions in foreign currency***

Transactions in foreign currency are recorded at the exchange rates prevailing on the dates of their respective settlements. Assets and liabilities in these currencies are expressed in local currency at the exchange rates prevailing at the balance sheet date. Differences due to fluctuations in the exchange rates between the settlement dates of the transactions and their settlement or valuation at the year-end are applied to the results.

**NOTE 5 - POSITION OF THE ASSOCIATION IN FOREIGN CURRENCY**

The figures in this note are expressed in US dollars (USD \$).

As of December 31, 2017 and 2016, the Association had monetary assets in foreign currency for USD \$4,692 and USD \$ 29,393, respectively.

As of December 31, 2017, the exchange rate was \$ 19.74 per dollar (\$20.62 as of December 31, 2016). As of April 26, 2018, the date of issuance of the audited financial statements, the exchange rate was \$18.81 per US dollar.



#### NOTE 6 – CASH AND CASH EQUIVALENTS

The balance of the cash and cash equivalents account is as follows:

	<u>December 31 of</u>	
	<u>2017</u>	<u>2016</u>
Petty cash	\$ 2,000	\$ 2,000
Bank accounts in local currency	126,517	1,063,286
Bank accounts in dollars	<u>92,592</u>	<u>606,061</u>
	<u>\$ 221,109</u>	<u>\$ 1,671,347</u>

#### NOTE 7 – ACCOUNTS RECEIVABLE

The balances of the accounts receivable corresponding to sponsors, at year-end, are as follows:

	<u>December 31 of</u>	
	<u>2017</u>	<u>2016</u>
Donations	\$ 90,000	
Sponsors	41,760	\$ 252,300
Taxes to recover	19,866	2,813
Other accounts receivable	<u>20,220</u>	<u>1,474</u>
	<u>\$ 171,846</u>	<u>\$ 256,587</u>

#### NOTE 8 - FURNITURE AND COMPUTER EQUIPMENT

As of December 31, 2017 and 2016, furniture and equipment are as follows:

	<u>% annual depreciation</u>	<u>December 31 of</u>	
		<u>2017</u>	<u>2016</u>
Furniture	10	\$ 250,637	\$ 23,757
Computer equipment	30	<u>150,256</u>	<u>121,339</u>
		400,893	145,096
Accumulated depreciation		<u>(133,712)</u>	<u>(117,601)</u>
Total furniture and computer equipment - Net		<u>\$ 267,181</u>	<u>\$ 27,495</u>

The depreciation recorded in the results for 2017 and 2016 amounts to \$ 16,111 and \$ 14,567, respectively, which is recognized under operating expenses.

## NOTE 9 - EQUITY

The equity of the Association was done from contributions of its members and, in accordance with its by-laws, the income and income obtained are not distributed to its members and must be reinvested in order to continue carrying out their activities as a non-profit Civil Association. Profit, and is integrated as follows:

<u>Description</u>	<u>Amount</u>
Results of 1997	\$ 23,856
Results of 1998	(23,856)
Results of 1999	170,936
Results of 2003	397,619
Results of 2004	358,013
Results of 2005	(336,259)
Results of 2006	110,950
Results of 2007	455,073
Inflation (until 2007)	131,974
Results of 2008	(293,619)
Results of 2009	(732,089)
Results of 2010	83,087
Results of 2011	118,825
Results of 2012	302,102
Results of 2013	11,706
Results of 2014	367,023
Results of 2015	(256,224)
Results of 2016	<u>826,949</u>
Equity as of December 31, 2016	1,716,066
Results of 2017	<u>(1,368,920)</u>
Equity as of December 31, 2017	<u>\$ 347,146</u>

If at the time of its liquidation and because of the same, the Association allocates all of its assets to entities authorized to receive deductible donations, the income tax will not be calculated in accordance with article 79° of the Tax Income (ISR).

## NOTE 10 - INCOME TAX

As it is an authorized association to receive donations, the Association is not a taxpayer of Income Tax (ISR).

Notwithstanding the foregoing, in accordance with article 80 of the Mexican Income Tax Law (LISR), in case of income greater than 10% of the total income, for activities other than the purposes for which it was authorized to receive donations, must determine the ISR on the surplus of said percentage applying for this purpose the rate of 30%. The referred tax income law did not apply to the exercises of 2017 and 2016.



Likewise, in accordance with article 79° of the LISR, the Association is obliged to enter as tax to its charge the tax that results from applying to the distributable remaining amount that determines, the maximum rate to be applied to the excess of the lower limit that establishes the rate contained in article 152° of the LISR (35%). It is considered as distributable remnant, even if it has not been delivered in cash or in assets to its members or partners, the following:

- a) The amount of the omissions of income or purchases not made and unduly recorded.
- b) Expenses that they make and are not deductible, except when this circumstance is due to the fact that they are not covered by the documentation that meets fiscal requirements or have been paid in cash in the event that they exceed \$ 2,000.
- c) Loans made to their partners or members, or spouses, relatives in straight line ascendant or descendant of said partners or members.

Pursuant to Article 110 of the Rules of the LISR, donations and their income must be used solely and exclusively for the corporate purposes of the Association; in no case may they allocate more than 5% of the donations and, if applicable, the income they receive to cover their administration expenses.

Also in accordance with article 86, Fraction V of the LISR, the Association shall be required to withhold and receive the tax and require documentation that meets the tax requirements when making payments to third parties and are obliged to do so in terms of said law.

As of December 31, 2017 and 2016, the Association determined an income tax of \$18,432 and \$12,059, respectively.

#### **NOTE 11 – NEW ACCOUNTING PRONOUNCEMENTS**

The Mexican Council for Financial Reporting Standards, A.C., has issued the FRS mentioned below, which will be effective as of January 1, 2018:

***FRS B-17 "Determination of fair value"*** - Defines the fair value as the exit price that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the valuation date. That is, a current value based on an exit price. To determine the fair value, it is necessary to consider: a) the specific asset or liability that is being valued; b) for a non-monetary asset, the greater and better use of the asset, and, if the asset is used in combination with other assets or on an independent basis; c) the market in which an orderly transaction would take place for the asset or liability; and d) the appropriate valuation techniques or techniques for determining fair value.

***FRS C-3 "Accounts receivable"*** - a) the allowance for uncollectibility for commercial accounts is recognized from the moment the income accrues, based on the expected credit losses; b) since the initial recognition, the value of money over time must be considered, so if the effect of the present value is important, it must be adjusted based on that present value, and c) an analysis of the change between initial balances must be presented and end of the allowance for uncollectibility.



**FRS C-16 "Impairment of financial instruments receivable (IFC)"** - Determine when and how the expected losses due to impairment of IFC should be recognized, which should be recognized when, as credit risk has increased, it is concluded that a part of the flows IFC's cash future will not be recovered and proposes that the expected loss be recognized based on the historical experience of credit losses.

**FRS D-1 "Revenue from contracts with customers"** - Until the entry into force of this FRS, there was no Mexican accounting standard on the recognition of income, for which purpose the supplementary nature established in FRS A-8 was met case in accordance with International Accounting Standard 18 "Revenue from Ordinary Activities".

The main changes in general are focused on giving greater consistency to the recognition of revenues and eliminating weaknesses in the previous supplementary regulations.

The most significant changes consist of:

1. Recognize the income at the time of the Transfer of Control, based on the following steps: a) Identification of the contract; b) the identification of the different obligations to be fulfilled in a contract; c) Determination of the price of the transaction; d) the allocation of the amount of the transaction between the different obligations to be fulfilled based on the independent sale prices; e) Recognition of income as the entity satisfies an obligation to comply. Considering the level of expectation or uncertainty of the collection, and the different commercial conditions that could have been agreed with the client, such as discounts, right to return, post-sale obligations, etc.
2. The introduction of the concept of conditional cash receivable. The entity satisfies an obligation to comply but does not have an unconditional right to the consideration, because it first needs to satisfy another obligation to comply with the same contract.
3. The valuation of income considering aspects such as the recognition of important financing components, the consideration other than cash and the consideration payable to a client.
4. Identification of whether the entity is a principal supplier or agent. In the event that the entity acts as an agent, it must recognize as revenue only the part corresponding to its commission.

**FRS D-2 "Costs for contracts with customers"** - Classifies the recognition of costs for contracts with clients in: Costs to obtain a contract and costs to fulfill a contract.

The incremental costs to obtain a contract with a client should be recognized as an asset if the entity considers recovering said costs. Otherwise, these costs should be recognized in the net profit or loss of the period at the time they are incurred.

Costs to fulfill a contract

If the costs incurred to fulfill a contract are not within the scope of another NIF, for example: NIF C-4; C-5; C-6; C-8 and D-6;



It must be recognized as an asset, provided that these costs meet all the following criteria. Otherwise, they should be recognized in results of the period at the time they are incurred.

The criteria that must be met for the recognition of an asset are:

- a) Generate or improve resources of the entity that will be used to satisfy or continue satisfying obligations to be fulfilled in the future of a current contract.
- b) Are recoverable.
- c) Can be quantified reliably

At the date of issuance of these financial statements, the Company is in the process of determining the effects of this new standard on its financial information.

Management believes that the effects of the new MFRS will not generate significant effects on its financial information.

Mr. Javier Gerardo Delgado Ayala  
Managing Director