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ANNUAL REPORT
2018

DEAR

SHAREHOLDERS,

PARTNERS,

CLIENTS AND

EMPLOYEES

ON BEHALF OF THE BOARD OF DIRECTORS AND KUO MANAGEMENT TEAM, WE ARE PLEASED TO SHARE WITH YOU THE FINANCIAL, OPERATIONAL AND SUSTAINABLE RESULTS ACHIEVED DURING THE YEAR. FIGURES OF GREAT RELEVANCE FOR KUO, SINCE IN 2018 LARGE PROJECTS WERE CONSOLIDATED THAT WILL UNDERPIN THE GROUP'S FUTURE GROWTH. THE SUBMISSION OF AN INTEGRATED REPORT REFLECTS A BROADER VISION OF PERFORMANCE IN THIS PERIOD, WHERE WE SUCCESSFULLY MOVE FORWARD IN THE RESPONSIBLE GROWTH STRATEGY.

The diversification of our business model, in different sectors and geographies, continues to be successful. We have been able to capture cycles and trends of the global market to optimize our performance, seeking to strengthen the leadership position in all portfolio businesses.

During the year, we achieved solid results driven by the dynamism shown in Consumer and Chemical sectors, recording growth in Revenues and EBITDA due to the continuous focus on increasing profitability, through products and applications of greater added value in most of the business, thus improving the sales mix, in addition to operating efficiencies and cost control, which allowed us to reach a double-digit EBITDA margin.

The foregoing, despite the macroeconomic volatility experienced in Mexico in an election year, as well as the uncertainty in global trade conditions. During 2018, 52% of KUO's total sales corresponded to exports while, EBITDA generated abroad accounted for 58%, which continues to generate balance and strength to our operations.

It is important to highlight the progress made in the growth investments during this period. Within the Pork Meat business, we inaugurated the first phase of the investment project, which includes a processing plant, a balanced feed plant and a breeding center, with these facilities, we will have one of the largest pork production capacities in Mexico, positioning the national industry at the forefront in terms of technological innovation and sustainability.

Likewise, in the Transmission business, we completed a new plant in Michigan, USA, where we will carry out the assembly process of the new DCT (Dual Clutch Transmission), an innovative product developed with our own technology following the trends of the automotive industry. We trust that this investment will take us to a strong level of competitiveness, positioning us as a world leader in the sector.

The results achieved during the year are a consequence of the talent and commitment of our human capital, the specialization and experience of our employees have been key to achieving it and to support the future growth of KUO.

Over the years, we have oriented our model towards sustainability, as the only way to guarantee the permanence of the Group in the future. All the initiatives that we have promoted have translated into efficiencies in environmental matters and quality control, in greater connection with the communities, in the strengthening of corporate governance, and in the comprehensive development of our people, giving special emphasis to the safety of our employees and facilities, with the purpose of continuing to create value for our shareholders and stakeholders.

OPERATING AND FINANCIAL HIGHLIGHTS

During 2018, we noted a strong dynamism in the Chemical and Consumer sectors, which resulted in an 8% growth in Revenues and 2% in EBITDA. At the end of the year, within our business portfolio, the proportion of the Consumer sector represented 46% of the Group's consolidated revenues, followed by the businesses of the Chemical sector representing 37% and Automotive with 17%.

In the Consumer sector, it is worth highlighting the strong performance of the Pork Meat business, underscoring the growth of the main distribution channels, especially in the Maxicarne retail network, growing in sales, average ticket and market coverage, carrying out 57 openings during 2018 to end the year with 503 stores in operation. While the export channel increased the demand of pork meat especially to Japan, South Korea and US.

These two distribution channels represented more than 70% of the sales of the business, thanks to the quality of the products and efficiencies in the processes.

During the year we continued in time and due form with the investment program for this division, with the objective of doubling the installed capacity by 2020.

In relation to Herdez del Fuerte JV, the growth was driven mainly by the export market, through Megamex, highlighting the categories of guacamole and sauces. It should be noted that Guacamole Herdez sauce was the fastest growing product of its kind in the US market. Meanwhile, in the Mexican market, we continue to consolidate our presence in the categories of tomato puree, salsas and mole.

In the Chemical sector, we noted a solid performance in both businesses, reflected in a higher demand for applications for asphalts, lubricants and adhesives in the Synthetic Rubber JV, while the Polystyrene business had a demand for differentiated products.

Both businesses recorded significant growth in Revenue and EBITDA, as a result of the focus on higher margin products, process efficiencies, capacity increase and a constant focus on application innovation.

Finally, in the Automotive sector, the Transmission business registered revenues slightly below the previous year, due to a lower demand for manual transmissions. During this period, we continued actively with the investment for the infrastructure and development of a new generation of high technology transmissions, DCT, which shall be ready for serial production in 2019.

On the other hand, the Aftermarket business registered an increase in Revenues due to the demand of main brake and powertrain lines, especially in the Mexican market.

During fiscal year 2018, the Board of Directors dealt with the matters that, in accordance with current legal regulations and bylaws, correspond. Reviewed and approved the report related to fiscal year 2018, the external audit opinion, as well as the performance of the General Management during that period, concluding that all the information reasonably reflects the progress, financial situation and results of the Company.

We continue focused on maintaining a solid financial structure, with healthy levels of leverage that guarantee profitability and growth in the coming years, despite the significant investments in productive assets made during 2018, net leverage index remained within the internal objective. In addition, it is important to highlight that our liabilities and costs denominated in dollars are offset by the generation of income in this currency. We are confident that the completion of the investments announced in 2016 will lay the foundations for a new era in the history of the Group, increasing global positioning and competitiveness.

GOING FORWARD

Looking forward, we foresee 2019 as a period of high volatility, with a significant number of variables constantly changing. Within KUO, we will continue executing our strategic plan maintaining our attention and effort in finalizing the investment projects that we started in 2016, at the same time that we will seek to continue innovating in processes and products in order to find improvements and anticipate the changes that may arise.

We trust the teamwork of each of the businesses, their experience and professionalism should continue to generate opportunities and development conditions. The talent of more than 23,000 employees is a fundamental pillar of the evolution for KUO, in this permanent effort to grow with a responsible vision, creating value in a sustainable way to our shareholders and stakeholders.

At KUO, we believe in the continuity of ongoing projects and thus confirm our commitment to the development of our country, seeking to become a world leader in innovation, competitiveness, profitability and sustainability.

**WE WILL CONTINUE
WORKING TOGETHER
TO CREATE HIGHER
VALUE TO OUR
STAKEHOLDERS
AND ENDORSE OUR
COMMITMENT TO
PROMOTE MEXICO'S
DEVELOPMENT**



[Signature]
**FERNANDO
SENDEROS MESTRE**
Chairman of the
Board of Directors

[Signature]
**ALEJANDRO DE LA
BARREDA GÓMEZ**
CEO

