CYDSA completed the first phase of the Competitiveness and Growth Strategy, aimed at reconfiguring and strengthening the Business Portfolio.

TOMAS GONZALEZ SADA
Chairman of the Board and
Chief Executive Officer

To Our Shareholders:

It is a pleasure to report that in 2018 CYDSA completed the first phase of the Competitiveness and Growth Strategy initiated in 2011, aimed at reconfiguring and strengthening the Group's Business Portfolio. As reported over this eight-year period, the implementation of this Strategy required the identification and execution of important Investment Projects, resulting in an enhancement to the Company's Competitive Position and providing solid foundations for CYDSA's future growth. Therefore, operating and financial improvements in 2018 include significant increases in Sales and Operating Cash Flow (EBITDA)[1].

Three achievements in 2018, notable for their potential contribution to the Group's short-, medium- and long-term development, follow:

- **Increased Production Capacity for Evaporated Salt.**

From 2013 to 2017, the Salt for Household Consumption and Industrial Applications Business Unit implemented a multi-phased project that focused on redesigning and updating the production process of the evaporated salt plant in Coatzacoalcos, Veracruz. This initiative increased nominal production capacity from 400,000 to 700,000 tons per year and significantly enhanced energy efficiency.

During 2018, by applying productivity strategies and best manufacturing practices, the Business surpassed its design installed capacity, achieving potential annual production of 800,000 tons. This improvement, obtained without additional investment in fixed assets, strengthened the competitive position of the Sales del Istmo plant, the largest evaporated salt facility in the Americas.

1. Operating Cash Flow or EBITDA refers to Profits before Net Financial Expenses, Income Taxes, Discontinued Operations, Depreciation and Amortization.

+16%

Total Consolidated Sales

+37%

Operating Cash Flow (EBITDA)

- **First Operating Year of the System for Processing and Underground Storage of Liquefied Petroleum Gas (LPG).**

  As outlined in the 2017 Annual Report, on November 16 of that year, the commercial operation of the LPG Processing and Underground Storage System started up operations, in a salt cavern specifically built for this purpose.

  This pioneer System in Mexico and Latin America originated in 2014 when CYDSA formalized an agreement with Petroleos Mexicanos (Pemex) to develop an underground salt cavern with storage capacity of at least 1.8 million barrels of LPG, and the construction of surface infrastructure to process, inject, extract, and transport up to 120,000 barrels per day of this hydrocarbon.

  In 2018, the System completed its first year of operation, working fully in accordance with design specifications and Pemex requirements. This achievement affirms CYDSA's strategy aimed at developing sustainable industrial parks for managing hydrocarbons and providing storage in salt caverns, contributing to the clean, efficient, and safe use of energy resources in Mexico. Also, the LPG Processing and Underground Storage System represents the creation of a Business Area providing significant potential for the Group's long-term growth.

- **Long-Term Consolidation of Financial Obligations.**

  The implementation of CYDSA's Competitiveness and Growth Strategy required the execution of Investment Projects totaling outlays exceeding US$600 million. The Group's own resources, combined with several loans secured at various stages of the development process, financed these investments, with approximately 60% dedicated to developing new Businesses in the Energy Processing and Logistics Area.

  These projects included the LPG Processing and Underground Storage System, with a 20-year service contract with Pemex in place since the start-up of its commercial operation in November 2017. This Business enabled CYDSA to negotiate an 18-year Bank Loan equivalent to US$157 million, 55% comprised of US dollar-denominated funds, and the remaining denominated in pesos. A portion of the peso-denominated proceeds from this loan, received on October 18, 2018, liquidated in advance all existing short-term financial obligations.

  This Bank Loan complemented the financing obtained in October 2017 with the issuance of US$330 million in 10-year Senior Notes to the international market. In addition, to assure its financing costs, in 2018 the Group acquired several exchange and interest rate hedging instruments, also with long-term coverage.

With these advancements, CYDSA owns a Portfolio comprised of traditional Chemical Manufacturing and Specialties Businesses, strengthened by expanded installed capacity and modernized production technology in most of their processes; and Businesses in the new Energy Processing and Logistics Area, improving the competitiveness of the manufacturing businesses with electricity and steam cogeneration, as well as offering attractive medium- and long-term growth opportunities. In addition, the Group enhanced its financial position and strategy with consolidation of its obligations into long-term maturities, providing greater flexibility for funding the Business Portfolio Plan in the coming years.

CYDSA's management remains confident that the Organization possesses the capabilities to successfully address the challenges that the Group may face. Consequently, its strategies will focus on assuring Sustainable Profitability for the Business Portfolio, thereby enhancing Shareholder Value Creation.

The following chapters describe achievements and results[2] in 2018:

- **Sales and Income.**
- **Operating Cash Flow (EBITDA).**
- **Financing Sources.**
- **Cash Flow.**
- **Outlook.**

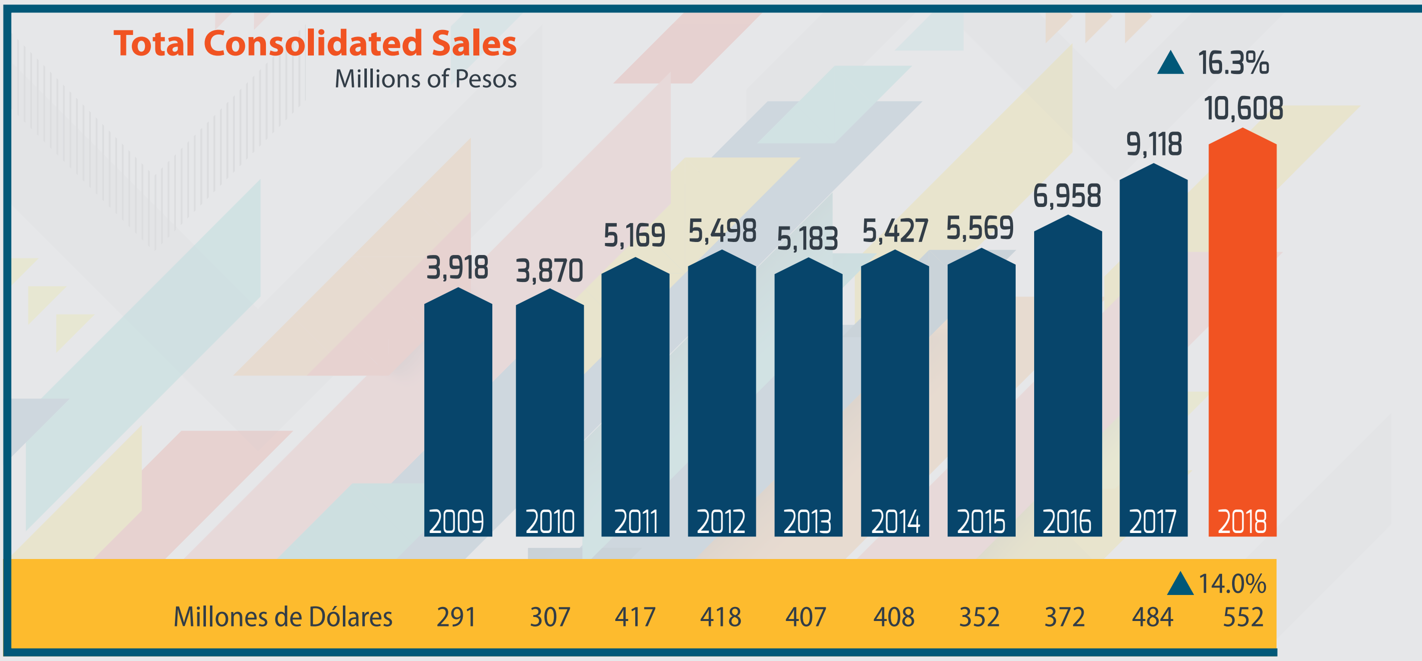
Sales and Income[3]

In 2018, all of CYDSA's Businesses increased product sales in the domestic market. Performance in the Chemicals Manufacturing and Specialties Businesses mainly reflected additional production capacity and the recovery of international prices in some Product Lines. Sales growth in Energy Processing and Logistics derived primarily from the first full year of operation of the LPG Processing and Underground Storage System, that started up in November 2017. Total Domestic Sales rose to 9,710 million pesos, a 17.9% improvement over the 8,233 million in 2017. Exports totaled US$47 million in 2018, similar to the previous year's figure.

In aggregate, Consolidated Sales of 10,608 million pesos in 2018 rose 16.3% from the 9,118 million in 2017, as shown in the graph of the next page. The Economic Environment section of this Report (page 20) explains that the average exchange rate of 19.24 pesos per dollar in 2018 depreciated 1.7% from the comparable 18.92 in the prior year. Consequently, **CYDSA's 2018 Consolidated Sales in dollar terms, totaling US$552 million, grew 14.0%** from the US$484 million in 2017.

2. Unless otherwise stated, figures are expressed in current pesos, while foreign exchange figures are expressed in US dollars.

3. In accordance with Mexican Stock Exchange regulations, since 2012 all investor financial reporting must adopt International Financial Reporting Standards (IFRS).



Note: To provide comparability, figures exclude all Divestitures and Discontinued Operations.

Operating Income[4] of 2,187 million pesos in 2018, representing 20.6% of Sales, increased 43.6% from the previous year's 1,510 million, comprising 16.6% of 2017 Sales. As noted, higher sales in most of the Businesses combined with better profit margins on some product lines, more than offset higher energy costs and depreciation charges related to Capital Investments for Competitiveness and Growth Projects.

In 2018, Net Financial Expense totaled 930 million pesos, compared to the 602 million in 2017. In both periods, in addition to interest costs and financial revenue, expenses included fees related to debt transactions, as well as exchange and interest rate hedging costs. This line item also comprises the effect of exchange rate fluctuations of the peso against the US dollar on monetary items denominated in foreign currency, based on the net position of these items on CYDSA's Balance Sheet and the exchange rate at the end of each year. The December 31 exchange rate of 19.65 pesos per dollar in 2018, 19.66 pesos in 2017, and 20.62 pesos in 2016, resulted in exchange rate appreciations of 0.1% for 2018 and 4.7% in 2017.

The last entries on the 2018 Income Statement include Share in Results of Associates and Net Discontinued Operations, of a negative 26 million pesos; and Income Taxes, with a 382 million peso charge. Consequently, **2018 Consolidated Net Profit totaled 849 million pesos, or 8.0% of Sales,** comparing favorably to Net Profit of 580 million pesos, or 6.4% of Sales in 2017.

Management's Discussion and Analysis of Results of Operations and Financial Condition in this Report (page 48) provides additional details on these items and other key financial information.

4. Operating Income or EBIT equals Net Sales minus Cost of Sales and Administrative Expenses.

Operating Cash Flow (EBITDA)

In 2018, CYDSA's Operating Cash Flow (EBITDA) rose to 3,119 million pesos, 37.3% higher than the 2,271 million in the previous year. **In dollar terms, 2018 EBITDA of US$163 million** increased by US$42 million, or 34.7%, from US$121 million in 2017. The following graph depicts these figures as well as **EBITDA Margin on Sales of 29.4% in 2018** compared with 24.9% the prior year.

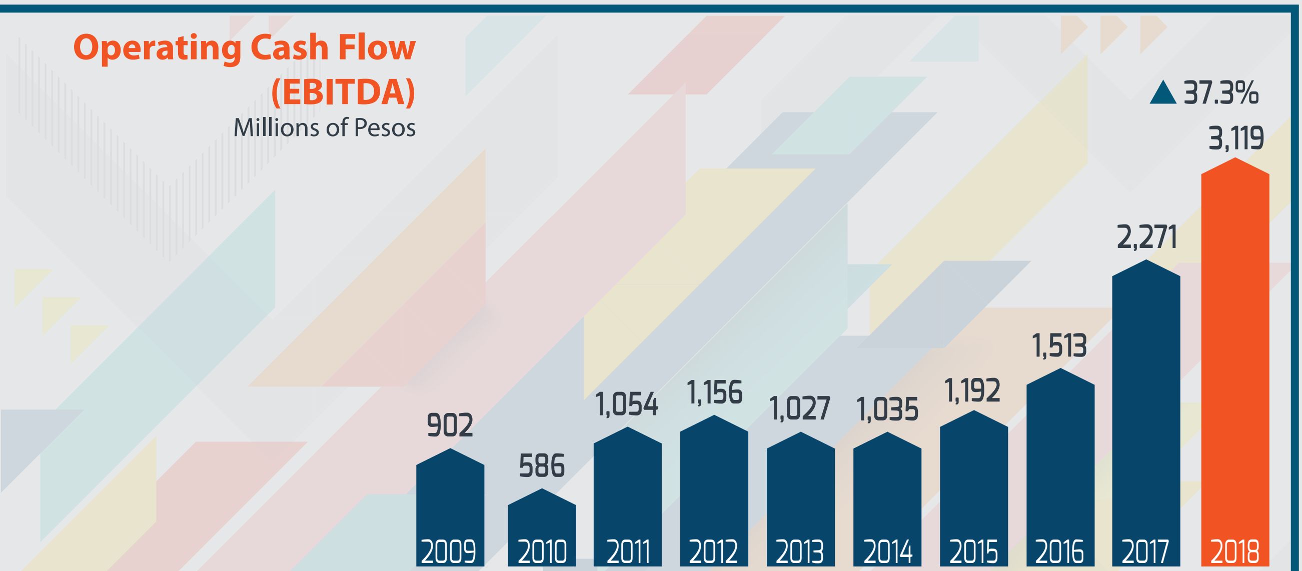
As noted below, advancements in the Group's two Business Areas generated the US$42 million increase in 2018 EBITDA:

- **Improvement in Sales and Profit Margins of Chemicals Manufacturing and Specialties: US$17 million.**

  The Competitiveness and Growth Strategy included Investment Projects for increasing production capacity. Combined with improvements in manufacturing and commercialization efficiency, these initiatives drove higher sales in traditional and new markets of Salt for Household Consumption and Industrial Applications and of Chlorine, Caustic Soda and Related Specialties.

  In addition, CYDSA sells several bulk chlor-alkalis and related specialties in domestic markets, with prices based on international quotations of commodity raw materials that behave in cycles lasting several years. In 2017, prices for chemical commodities trended upward, and while not continuing in all of 2018, generated profit margins relatively higher than in the previous year.

  In conclusion, Chemicals Manufacturing and Specialties Businesses contributed US$17 million to CYDSA's EBITDA.



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Millions of Dollars	68	47	86	88	81	78	75	81	121	163 (▲ 34.7%)
Operating Cash Flow (EBITDA)/ Consolidated Sales	23.0%	15.1%	20.4%	21.0%	19.8%	19.1%	21.4%	21.7%	24.9%	29.4%

Note: To provide comparability, figures exclude all Divestitures and Discontinued Operations.

- **Increases of Operations and Productivity in Energy Processing and Logistics: US$25 million.**

  In most of CYDSA's Chemicals Manufacturing and Specialties Businesses, energy and steam consumption account for a significant share of production costs. To improve the competitiveness of these Businesses, the Group established the Electricity and Steam Cogeneration Business Unit to produce these energy resources internally at a lower cost than alternative suppliers, utilizing a natural gas combustion process.

  The Economic Environment section of this Report (page 17) noted a 28% rise in Southern Mexican natural gas prices for industrial users, from an average of US$3.98 per million BTUs in 2017 to US$5.09 in 2018, also causing electricity rates to rise, by roughly 11%.

  The operation of the two Electricity and Steam Cogeneration plants reduced the effect of higher energy prices on the Group's costs, more than offsetting negative impact of US$9 million in the year.

  Additionally, as mentioned at the beginning of this Report, in November 2017 the Hydrocarbons Processing and Underground Storage Business started up the LPG Processing and Underground Storage System in a salt cavern. In 2018, this System completed its first year of operations, in full compliance with design specifications and Pemex requirements.

  In summary, operational and productivity improvements in Energy Processing and Logistics Businesses exceeded the impact of the US$9 million energy cost, contributing US$25 million to CYDSA's EBITDA.

With improvements in sales, profit margins, and productivity, **CYDSA generated US$163 million of EBITDA in 2018, increasing US$42 million over the US$121 million reported the previous year.**

Financing Sources

In 2011, CYDSA launched the Competitiveness and Growth Strategic Plan to substantially enhance the competitive position of its Business Units and to establish the foundation for their medium- and long-term development. For this purpose, the Board of Directors approved an Investment Projects Program requiring outlays of more than US$600 million in pre-operating expenses for concept and design, as well as construction, machinery, and other fixed assets.

To fund the Program, drawdowns in 2014 and 2015, mainly in US dollars, from a Syndicated Loan contracted through the Valores Quimicos, S.A. de C.V. subsidiary, provided resources equivalent to US$270 million. At year-end 2015 the Bank Debt balance reached an equivalent of US$252 million.

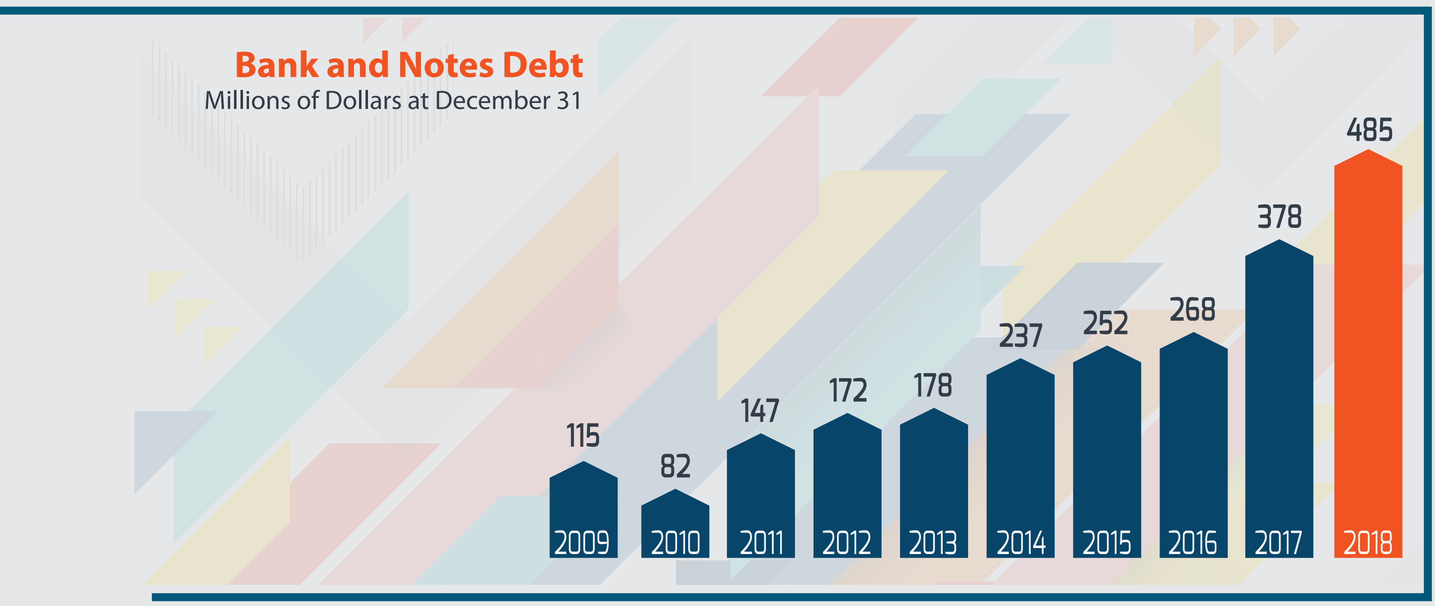
Subsequently, in 2016, the Group contracted peso-denominated loans. At the end of that year, after scheduled principal payments, Bank Debt totaled an equivalent of US$268 million.

In May 2017, a new Syndicated Loan contracted through the Valores Quimicos subsidiary liquidated the balance of the 2014 Loan. **On October 4, 2017, CYDSA issued in the international market US$330 million in Long-Term Senior Notes due in 10 years,** on October 4, 2027. The majority of the proceeds from the Notes issuance prepaid a significant portion of the outstanding bank debt of CYDSA and its subsidiaries. Lastly, CYDSA contracted a 1,900 million peso Syndicated Revolving Loan in December 2017, and drew down 950 million mainly to liquidate in advance the peso-denominated bank loans. At December 31, 2017, CYDSA's Bank and Notes Debt totaled an equivalent to US$378 million.

At the beginning of 2018, given that the Competitiveness and Growth Projects reached their operational or final implementation phase status, a new effort began aimed at simplifying the Group's financing, in order to provide enhanced long-term flexibility for debt management.

With this objective, on July 4 the Group signed an 18-year loan comprised of US$85.6 million and 1,356 million pesos, whose contractual and warranty clauses designate liability to the legal entities of the LPG Processing and Underground Storage System, thus the obligation excludes the holding company Cydsa, S.A.B de C.V. **The draw on this loan, realized on October 18, 2018, totaled the equivalent of US$157 million, to be paid in quarterly outlays over 18 years until October 2036.** A portion of the proceeds of the peso-denominated loan liquidated all outstanding financial obligations in that currency. In conclusion, as of December 31, 2018, the balance of CYDSA's outstanding Bank and Notes Debt comprised only this loan and the Senior Notes issued in 2017, and totaled an equivalent of US$485 million, as shown in the following graph.

Additionally, several hedging instruments contracted in 2018 aimed to assure stability in the financial cost, by covering exchange and interest rates. With regard to the US$330 million Senior Notes, issued at a fixed interest rate but denominated in US dollars, CYDSA contracted cancellable Call Spread hedges for the exchange rate, covering close to 70% of the Notes in order to minimize the medium-term uncertainty of the payments. For the Syndicated Loan, negotiated under variable interest rates, the Group acquired swaps to fix the rate for 13 years of the loan's dollar-denominated tranche and 75% of the peso-denominated portion.



Cash Flow

The table on the next page presents the components of **2018 Net Cash Flow[5],** with the first entry corresponding to Operating Cash Flow of US$163 million.

The use of these resources included Working Capital Investments of US$23 million, partially to liquidate a financial transaction executed in 2016 for the early reimbursement of certain trade receivables. Additional requirements comprise US$25 million in Capital Expenditures for Maintenance & Replacement to ensure optimal conditions for current production processes; and US$25 million for payment of Taxes for Normal Operations. Following these outlays, the **Net Cash Flow from Operations resulted in a positive balance of US$90 million.**

Cash Flow items related to financial aspects comprised US$7 million in Payments for the 2010 and 2014 Tax Consolidation Reforms. Net Interest and Financial Expenses of US$32 million also covered debt issuance fees and exchange and interest rates hedging costs. Dividend Payments of US$16 million encompassed US$11 million to CYDSA's shareholders and US$5 million for Minority Interest Partners. In addition, Share Repurchase Outlays totaling approximately US$9 million for 6,399,429 shares, reflect the acquisition of CYDSA's own stock under opportunistic conditions on the Mexican Stock Exchange to provide liquidity options for its shareholders. Lastly, after the US$107 million Increase in Bank and Notes Debt, as reported in the previous Financing Sources section, Cash Flow before Investment Projects totaled US$133 million.

Investment Projects

In 2018, investments in assets for Competitiveness and Growth totaled US$61 million. This amount covered pending payments of the LPG Processing and Underground Storage System in a salt cavern, that started up operations in November 2017, as previously detailed in this report.

Capital Expenditures for Competitiveness and Growth also covered the initial payments for projects to be completed in the coming two years, as well as funding for new business opportunities in the development stage.

After the US$61 million allocation for Capital Expenditures for Competitiveness and Growth, **2018 Net Cash Flow increased US$72 million, with a year-end Cash balance of US$138 million.**

5. Cash Flow figures are registered in current pesos. Comparisons are expressed in US dollars as most of the Bank and Notes Debt is dollar denominated.

Net Cash Flow 2018
Millions of Dollars

Net Cash Flow:		
Operating Cash Flow (EBITDA)	163	
Net Working Capital Investment	(23)	
Capital Expenditures for Maintenance & Replacement	(25)	
Taxes for Normal Operations	(25)	
Net Cash Flow from Operations		**90**
Payments from 2010 and 2014 Tax Consolidation Reform	(7)	
Net Interest and Financial Expenses	(32)	
Dividend Payments for CYDSA and Minority Interest Shareholders	(16)	
Share Repurchase Outlays	(9)	
Increase in Net Bank and Notes Debt	107	
Cash Flow before Investment Projects		**133**
Capital Expenditures for Competitiveness and Growth	(61)	
Net Cash Flow		**72**
Cash Balance as of December 31, 2018		***138***

Contents of the 2018 Annual Report

The **sections devoted to CYDSA's Strategic Business Units include the main accomplishments in 2018** and information on their products and markets (page 22).

The **Economic Environment** section summarizes the significant events of the year affecting CYDSA's markets (page 16). **Management's Discussion and Analysis of 2018 Results of Operations and Financial Condition** (page 48) precedes the Audited Financial Statements and Notes (page 55).

Outlook

Dear Shareholders: The achievements of 2018 derived mainly from Investment Projects approved by the Board of Directors and implemented over the last eight years. These projects arose from the strategy to improve CYDSA's competitive position and provide the Business Units with the foundations to successfully face future challenges in the economic environment.

It is a pleasure to report that implementation efforts for the first phase of the Competitiveness and Growth Capital Investment Program strengthened the Business Portfolio, with significant positive opportunities to evolve the Group towards Sustainable Profitability for the medium and long term. In addition, the second phase of this strategy started in 2018, focused on both consolidating certain realized investments and shaping the growth of Businesses created in recent years.

With regard to the three Strategic Business Units of Chemicals Manufacturing and Specialties, in addition to the improvements achieved in 2018, new advances provide the potential for favorable future results:

The Salt for Household Consumption and Industrial Applications Business Unit reaffirmed its position as the largest evaporated salt plant in the Americas. Additionally, a project to assure continuity in brine procurement started up with the drilling of two wells devoted to salt extraction. Opportunities identified included those to substantially increase evaporated salt production capacity and satisfy long term demand through manufacturing process conversions requiring no significant capital investments.

The Chlorine, Caustic Soda and Chemical Specialties Business Unit generates over half of its production with the most energy efficient technology available and with minimal environmental impact. A project starting in 2018 aims to manufacture all the Business' products in the medium term with the same minimal environmental impact.

The Refrigerant Gases Manufacturing and Commercialization Business Unit continued to adapt its management practices for participation in an industry greatly influenced by technological and environmental factors, and also accelerated the assessment of alternatives to reduce its cost structure by reforming the supply chain.

In the two Business Units of Energy Processing and Logistics, progress included stabilizing the new operations, as well as identifying projects for enhancing competitiveness and developing growth alternatives:

The Electricity and Steam Cogeneration Business Unit operates twin plants capable of satisfying all the Group's energy requirements and supplying electricity to other users in this new market. In 2018, together with a team of international technical specialists, the Business initiated an innovative project focused on both assuring optimal energy cogeneration under operationally unfavorable air conditions in the vicinity, and providing the possibility of incorporating adjustments to substantially increase capacity for electricity and steam production.

The Hydrocarbon Processing and Underground Storage Business Unit completed its first full year offering LPG processing and storage services in a salt cavern, complying with all Pemex requirements. This accomplishment corroborates the viable usage of CYDSA's salt caverns for such projects, utilizing either those already available or newly developed, thus offering significant growth potential for the medium- and long-term.

In 2018, all Businesses and Support Areas continued developing initiatives to supply innovative products and services that satisfy customer needs, as well as actions to systematically reduce cost. While this approach characterizes the Group's operating practic-

LPG Processing and Underground Storage

es, efforts intensified to develop competitive advantages based on Information Technology and Logistics to generate favorable results in the short term. These efforts encompass an important strategy to fully revamp Information Systems and upgrade technology infrastructure, transforming all administrative and operational processes into world-class standards and simultaneously incorporating best management practices. The improvement in Logistics capability and management included a project to establish Distribution Centers with facilities incorporating international designs and specialized technologies to support direct retail delivery and enhance customer service.

A fundamental phase in strengthening and transforming the Group's Business Units concluded in 2018. Nonetheless, as described in the new projects and initiatives, activities during the year also focused on future growth of the Business Portfolio based on Sustainable Profitability. These efforts involved the continued assessment of new opportunities in hydrocarbon exploitation, transformation and distribution, potentially incorporated into the Energy Processing and Logistics Business Group. With the same objective, ongoing analysis aims to optimize the Group's land holdings. Finally, the consolidation of the Bank and Notes Debt into long-term obligations provides flexibility and certainty in managing financial resources and the capacity to finance expansion plans if needed.

All Business Units continue to operate with the traditional business ethic distinguishing CYDSA since its founding. For that reason, meeting or exceeding safety, quality, and environmental standards will remain a fundamental principle[6].

As an example of the sustainable approach in the area of industrial safety, the US Chlorine Institute again granted a number of Chairman's Safety Excellence Awards to all of CYDSA's plants manufacturing chlorine, caustic soda and related specialties.

6. CYDSA's 2018 Social & Environmental Responsibility Report, published on the Group's website, includes information outlined according to combined rules and standards of the Global Reporting Initiative's (GRI) and the Mexican Stock Exchange.

The production plants and trading facilities updated their quality management systems to the ISO-9001:2015 standard to assure their ability to consistently provide products and services that meet customer and regulatory requirements. As for compliance with international management standards, and to assure environmental quality, all eligible facilities maintain ISO-14001 certification, with several now meeting the new 14001:2015 standard. The Sales del Istmo plant also renewed its FSSC-22000:2013 certification, a safety standard for food manufacturers utilizing salt in their processes. This Business continues to earn recognition as a world-class supplier meeting strict criteria for ethical and responsible business practices.

Additionally, to reinforce environmental preservation, all of CYDSA's production facilities renewed their Clean Industry Certification granted by the Federal Office for Environmental Protection (PROFEPA), an agency of the Mexican Ministry for Environment and Natural Resources (SEMARNAT). Furthermore, Quimobasicos, the Group's producer of refrigerant gases, and Iquisa Tlaxcala, a manufacturer of chlorine and caustic soda specialties, both received the Environmental Excellence Award from SEMARNAT. Lastly, the Efficient Cogeneration Investment certification, granted to the two plants in the Electricity and Steam Cogeneration Business Unit, provides flexibility in the production, consumption, and distribution of electricity.

The evolution of CYDSA in 2018 arose from actions and projects implemented in response to opportunities presented by the business environment, detected and evaluated on a timely basis. The foreseeable short-term outlook envisages volatile economic conditions and contingent risks. This requires precise and detailed assessment to assure continuous improvement, always supported by more and better competitive advantages.

The active participation of personnel from the operational and corporate areas represented a fundamental pillar in CYDSA's ability to obtain its 2018 economic and strategic results. We are confident that during 2019, the experience and professionalism of the Organization, as well as the support of our customers, suppliers, investors and financial institutions, will provide the necessary drive to enable us to undertake the new Sustainable Profitability stage of development. Furthermore, the investments to realize the Competitiveness and Growth strategy may form the foundation of new business areas, and will together advance the transformation of CYDSA and its objective of increasing Value Creation for Customers, Employees, Shareholders, and the Community in general.

Sincerely,

Tomás González S.

Tomas Gonzalez Sada
Chairman of the Board
and Chief Executive Officer