



**VERTICALLY INTEGRATED
TEXTILE COMPANY**

**EARNINGS RELEASE
2Q18**

MESSAGE FROM THE CEO

Dear Investor,

The second quarter of 2018 posted sales for MXN4,711 million, the highest quarterly sales since the fourth quarter of 2016, due to a combination of an 11% increase in prices and 10% in volume across products. The increase in price was implemented as a reaction to some costs increases experienced during the quarter, in order to protect our EBITDA.

In EBITDA terms, the second quarter of 2018 reached MXN344 million, an increase of 36% compared to MXN252 million generated during the first quarter of 2018. When compared to the second quarter of 2017, the EBITDA remained without change, with an increase of MXN0.5 million. This was a result of higher selling expenses, following some stores renovation in our retail division. In US Dollar terms, the revenues increased by 8%, while the EBITDA decreased by 5%, due to the devaluation of the Mexican Peso.

In terms of consolidated results:

- a) **Revenue** increased due to an increase in volume and prices, especially in Kaltex Textiles and Kaltex Internacional.
- b) **EBITDA** remained unchanged at MXN344 million compared to the second quarter of 2017 as a result of increased sales and higher sales expenses.
- c) **Net Income** decreased due to the exchange loss as a result of the quarterly 5% devaluation of the Mexican Peso.

In respect of the US\$320 million, 8.875% bond issued on April 11, 2017, we executed the second interest payment on April 11, 2018.

Looking forward, the trade war between the US and China, could benefit Kaltex as the US is considering imposing a 10% tariff on some Chinese products like fabric and fibers. This would increase the costs of such materials, leaving an opportunity to increase our exports to the US. Mexico could also benefit from a potential increase in the confection of garment made with fabric cut in the US.

Rafael Kalach Mizrahi
Chairman of the Board & CEO

Naucalpan, Estado de Mexico, August 7, 2018 – Grupo Kaltex S.A. de C.V. and subsidiaries (Ticker: KLTXMX), a leading company in the manufacture and marketing of textile products, announced today its results for the second quarter of 2018 ended June 30, 2018. The figures presented in this report are expressed in nominal Mexican pesos, are preliminary and non-audited, prepared in accordance with IFRS and current interpretations, and may vary due to rounding.

2Q18 HIGHLIGHTS

- 🌿 On Wednesday April 11, 2018, Grupo Kaltex executed the second interest payment of US\$14.2 million in respect of its US\$320 million, 8.875% bond issued on April 11, 2017.
- 🌿 2Q18 Consolidated Net Revenue recorded the highest quarterly sales since the fourth quarter of 2016 as it reached MXN4,711 million, an increase of 14.3% when compared to the MXN4,123 million reported in 2Q17. The increase was a result of an increase of 10.2% in volume and 10.9% in price implemented to pass-through the increase in our costs. This also was our best first semester since the first semester of 2015, amounting MXN8,743 million.
- 🌿 2Q18 Consolidated Cost of Goods Sold (COGS) registered a year over year increase of 17.9%, driven by an increase in volume following the higher sales, a larger volume purchased of chemicals and an increase in acrylonitrile price which is a raw material for producing synthetic fibers for our Kaltex Fibers segment. In a year-to-date basis costs were MXN6,902 million, and the increase amounted MXN325 million or 4.9% compared to MXN6,577 million for the first half of 2017.
- 🌿 2Q18 Gross Profit increased by 2.1% on a quarterly basis and 6.1% on a full year basis.
- 🌿 2Q18 EBITDA generation increased by 36.8% compared to 1Q18 amounting MXN344 million. Compared to 2Q17, the EBITDA remained without change with an increase of MXN0.5 million or 0.1%. Margin for the period stood at 7.3% compared to 8.3% recorded in the same quarter of last year. For the first half of 2018, the EBITDA amounted MXN596 million, an increase of MXN97 million or 19.3%, compared to MXN499 million in for the same period of 2017.
- 🌿 2Q18 Consolidated Net Loss reached MXN689 million compared to an income of MXN32 million recorded in the same period of last year, explained mainly by the exchange loss of MXN565 million during the quarter.

KEY CONSOLIDATED FINANCIAL INDICATORS

Indicator	Three months ended, June 30,			Six months ended, June 30,		
	2018	2017	Δ%	2018	2017	Δ%
Net Revenue	4,711	4,123	14%	8,743	8,322	5.1%
Gross Profit	829	813	2.1%	1,489	1,403	6.1%
Gross Margin (%)	18%	20%	-211bps	17%	17%	17bps
Operating Income	169	177	-4.5%	245	158	55%
Operating Margin (%)	3.6%	4.3%	-70bps	2.8%	1.9%	90bps
Consolidated Net Income	(689)	32	NA	(347)	300	NA
Net Margin (%)	-15%	0.8%	NA	-4.0%	3.6%	NA
EBITDA	344	344	0%	596	499	19%
EBITDA margin (%)	7.3%	8.3%	-103bps	6.8%	6.0%	82bps
CAPEX	(156)	(150)	4.1%	(288)	(294)	-1.9%
ROA (LTM)	-5.4%	0.3%	NA	-5.4%	0.3%	NA
ROE (LTM)	-19.0%	1.0%	NA	-19.0%	1.0%	NA
Total Debt / EBITDA (LTM)	5.59x	4.49x	-	5.59x	4.49x	-
Net Debt / EBITDA (LTM)	5.35x	4.15x	-	5.35x	4.15x	-
Interest Coverage	1.28x	0.74x	-	1.16x	0.74x	-
Working Capital	4,291	3,292	30%	4,291	3,292	30%
Free Cash Flow	(115)	(1,061)	-	(131)	(886)	-
Headcount (number)	18,459	19,735	-6.5%	18,459	19,735	-6.5%

REPRESENTATIVE COSTS

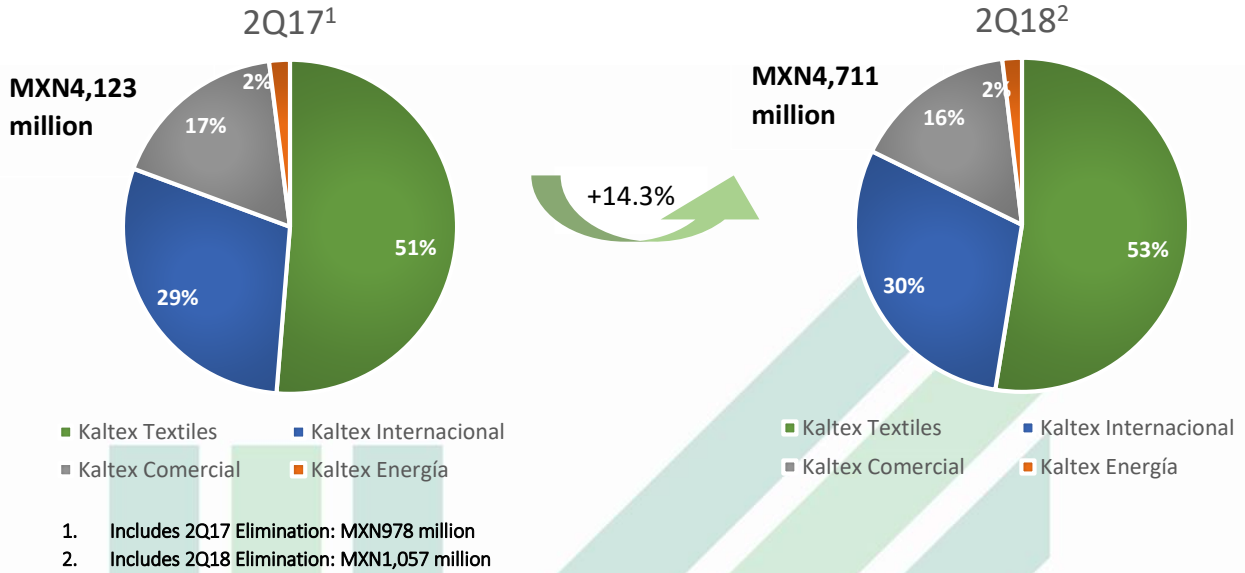
Indicator	Three months ended, June 30			Six months ended, June 30		
	2018 ¹	2017 ²	Δ%	2018 ¹	2017 ²	Δ%
Cotton (US\$ per pound) – Market	0.85	0.70	21%	0.81	0.71	14%
Cotton (US\$ per pound) – Kaltex	0.78	0.76	3.6%	0.78	0.75	5.2%
Energy (MXN\$ per kWh) – CFE	1.67	1.52	10%	1.48	1.56	-5.6%
Energy (MXN\$ per MWh) – Kaltex	1.56	1.58	-1.6%	1.39	1.53	-9.3%
Gas (MXN\$ per GJ)	80.67	76.46	5.5%	85.85	88.90	-3.4%

¹ Exchange rate at Jun 30, 2018: 19.8633

² Exchange rate at Jun 30, 2017: 17.8973

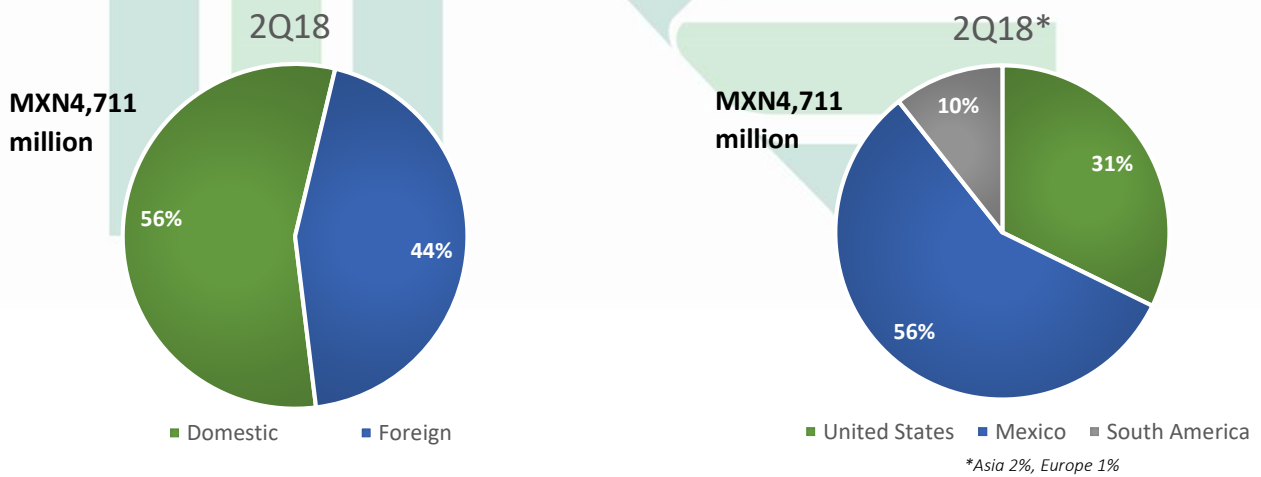
INCOME STATEMENT

Consolidated Net Revenue

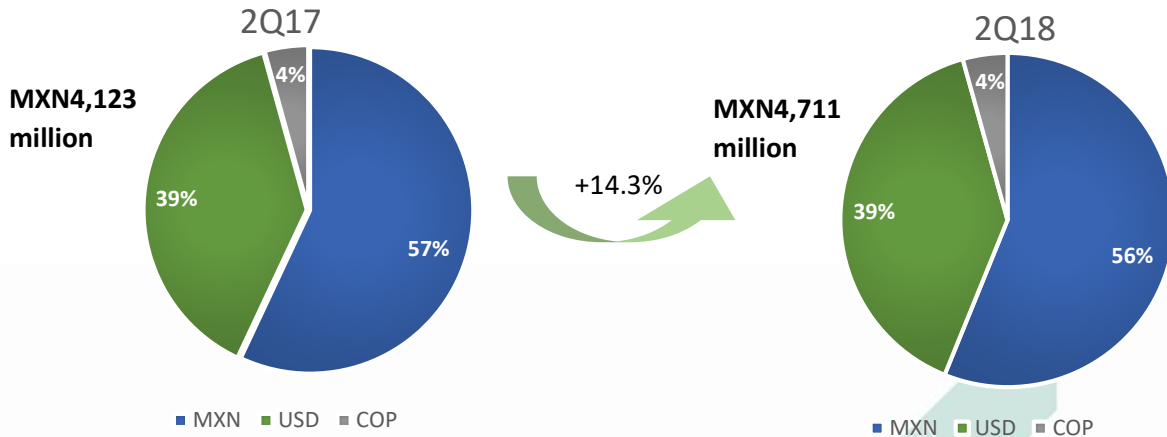


2Q18 Consolidated Net Revenue totaled MXN4,711 million, which represented an increase of 14.3% or MXN589 million compared to the MXN4,123 million recorded in 2Q17, a result of price increases implemented to pass-through the increase in some of our costs. On a year to date basis, revenues reached MXN8,743 million, an increase of 5.1% or MXN421 million.

Revenue analysis



Exports accounted for 44.3% of net revenue in 2Q18, 116 bps lower than those registered in 2Q17. The lower share of foreign income was due to higher domestic sales, especially in local apparel and fabric.

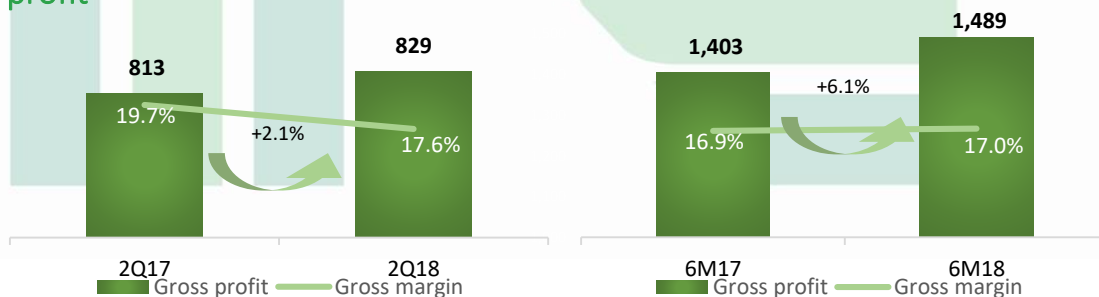


During 2Q18, the share of revenues by currency remained without major change, as the Dollar-denominated revenue reached MXN1,848 million and accounted for 39.2% of net revenue, compared to 38.6% in 2Q17. For the first six months of 2018 it was MXN3,553 million and accounted for 40.6% of net revenue, compared to 41.7% in 2017.

Cost of goods sold (COGS)

For the 2Q18 we recorded MXN3,707 million of cost of sales, which represents an increase of MXN564 million or 17.9%. This increase in costs was mainly due to higher purchases of chemicals and a 14% higher acrylonitrile price, which is a raw material for producing synthetic fibers for our Kaltex Fibers segment, and is related to the 16% increase of the international oil prices during 2018. In a year-to-date basis costs were MXN6,902 million, while the increase amounted MXN325 million or 4.9% compared to MXN6,577 million for the first half of 2017. Finally, these costs were effectively transferred through price increases, leaving our gross margin for the first half unchanged at 17%, when compared to the same period of 2017.

Gross profit



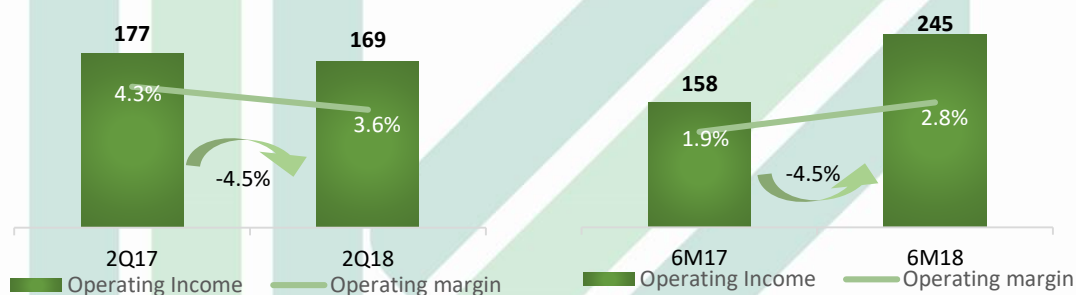
Consolidated Gross Profit amounted MXN829 million for the 2Q18, which represents an increase of MXN17 million or 2.1% compared to 2Q17. This results from an increase of MXN589 million in revenues and an increase of MXN564 million in costs. Gross margin for the 2Q18 stood at 17.6%, 123bps higher than 16.4% recorded in 1Q18, but 211bps below the 19.7% recorded in 2Q17. For the first six months of 2018, Gross Profit increased 6.1% or MXN86 million and gross margin remained unchanged at 17.0%.

Operational and Other Expenses

Concept	Three months ended, June 30,			Six months ended, June 30,		
	2018	2017	Δ%	2018	2017	Δ%
SG&A	683	637	7.3%	1,321	1,266	4.3%
Other Net Expenses	23	1	>100%	76	20	>100%
Total SG&A and other expenses	661	636	3.9%	1,245	1,245	0.0%
S&A and other expenses to sales	14%	15%	-140bps	14%	15%	-73bps

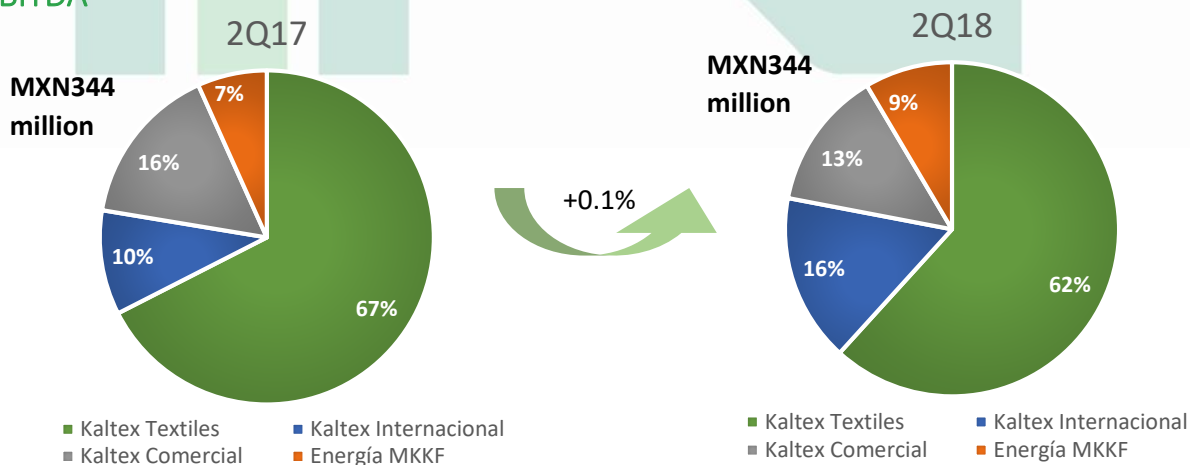
Operational expenses for the 2Q18 increased 3.9% or MXN25 million compared to 2Q17, in line with the increase in sales and modernization of 5% or our retail stores. The ratio of operational and other expenses to sales for 2Q18 was 14.0%, compared to 15.4% in 2Q17. Administrative expenses for the 2Q18 were MXN257 million a decrease of 8.3% or MXN23 million compared to 2Q17, while sales expenses amounted MXN427 million, an increase of 19.6% or MXN70 million compared to 2Q17. Year to date, operating expenses amounted MXN1,245 million, without change compared to the same period of last year.

Operating Income

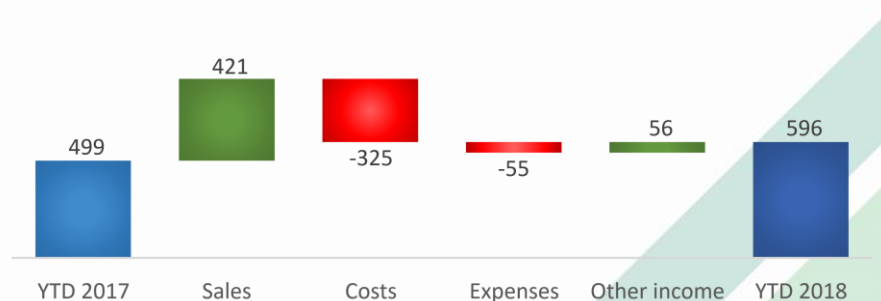


2Q18 Consolidated Operating Income was MXN169 million, a decrease of MXN8 million from MXN177 million reported on 2Q17. This decrease was mainly driven by higher sales expenses. Operating margin decreased by 70bps to 3.6% in 2Q18 from 4.3% in 2Q17. On a full year basis, Consolidated Operating Income increased by MXN86 million or 54.7% compared to the first six months of 2017.

EBITDA



Consolidated EBITDA totaled MXN344 million in 2Q18, 36.8% higher than the MXN252 million registered in 1Q18. Compared to 2Q17, the EBITDA remained without change with an increase of MXN0.5 million or 0.1%, as the increase in sales was compensated with higher expenses. For the first half of 2018, the EBITDA amounted MXN596 million, an increase of MXN97 million or 19.3%, compared to MXN499 million in for the same period of 2017, driven by lower costs.



Net Interest Expense and Forex

Figures in MXN millions

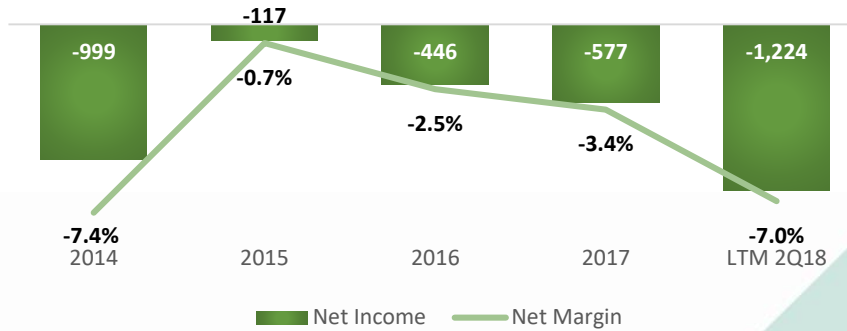
Concept	Three months ended, June 30			Six months ended, June 30		
	2018	2017	Δ%	2018	2017	Δ%
Interest income	1.1	0.9	24%	2	3	-15%
Interest expense	(268)	(427)	-37%	(512)	(677)	-25%
Foreign exchange result	(565)	350	NA	(38)	936	NA
Total Consolidated Financial Result	(832)	(76)	>100%	(548)	262	>100%

2Q18 Net Interest Expense was MXN267 million, a decrease of MXN159 million or 37.3%, due to a non-recurrent higher interest expense during 2Q17. This was offset by a Forex loss of MXN565 million during the quarter, due to the 5.2% devaluation of the Mexican Peso during 2Q18, going from MXN18.54/US\$ at the end of March 2017 to MXN19.86/US\$ at the end of June 2018. For the first half of 2018, Net Interest Expense was MXN509 million, a decrease of 24.5% or MXN165 million, while Forex expense amounted MXN38 million, coming from an income of MXN936 million, due the devaluation of the Mexican Peso.

Income Tax

Income Tax was MXN26 million for 2Q18, a decrease of MXN43 million or 62.3% when compared to 2Q17. On a full year basis, income tax amounted MXN44 million, a decrease of MXN76 million or 63.2% compared to MXN120 million reached in 2Q17.

Net Income



2Q18 Consolidated Net Loss for totaled MXN689 million, a decrease from the Net Income of MXN32 million recorded in 2Q17, representing a decrease of MXN721 million, explained mainly by the quarterly exchange loss of MXN565 million.

FINANCIAL POSITION

Cash and Cash Equivalents



The balance in cash and cash equivalents totaled MXN320 million as of June 30, 2018. This figure is MXN27 million lower than the MXN346 million reported in March 31, 2018. The average cash balance at the end of the second quarter in the previous three years has been MXN344 million.

Inventory

Inventory balance amounted MXN3,796 million as of June 30, 2018, an increase of 7.7% compared to March 31, 2018.

Debt

Debt Structure

<i>Figures in MXN millions</i>	<i>Month ended, June 30,</i>		
	2018	2017	Δ%
Concept			
Short-term	791	884	-10%
Long-term	6,536	6,331	3.2%
Gross Debt	7,327	7,215	1.6%
Cash	320	545	-41%
Net Debt	7,008	6,669	5.1%

Grupo Kaltex Net Debt amounted MXN7,008 million as of June 30, 2018, of which 97.2% was denominated in US dollars, and the remaining 2.8% in Colombian pesos.

Maturity Profile

<i>Figures in MXN millions</i>				
Division	1 year	1-3 years	>3 years	Total
Kaltex Textiles	143	247	0	390
Kaltex Internacional	673	15	-	688
Kaltex Comercial	-	-	-	-
GK ind & others	-	-	6,356	6,356
Amortization Sr. Notes	(24)	(83)	.	(107)
Total	791	180	6,356	7,327
%Total	11%	2.5%	87%	100%

The average maturity of Grupo Kaltex's debt at the end of the 2Q18 was 3.7 years, a decrease from 4.3 years at the end of 2Q17. The following table presents the details of the debt by segment.

Figures in USD millions

Division	Kaltex Comercial		Kaltex Internacional		Kaltex Textiles		Grupo Kaltex (Bond)		Consolidated	
Dec 2017										
Short-term	-	-	39.4	94.8%	7.8	35.2%	-	-	46.1	12.2%
Long-term	-	-	2.2	5.2%	14.4	64.8%	320	100%	331.7	87.8%
Total	-	-	41.6	100%	22.2	100%	320	100%	377.88	100%
Rate	-	-	7.5%		4.6%		8.9%		8.5%	
Jun 2018										
Short-term	-	-	33.9	96.5 %	7.2	37.5%	-	-	39,8	10.8%
Long-term	-	-	1.2	3.5%	12.0	62.5%	320	100%	329.0	89.2%
Total	-	-	35.1	100%	19.2	100%	320	100%	368.9	100%
Rate	-	-	2.6%		5.5%		8.9%		8.1%	
Av. Life (yrs)	-	-	1.8		3.4		3.9		3.7	
Dec 2017 vs Jun 2018										
Short-term	-	-	(5.5)		(0.6)		-		(6.2)	
Long-term	-	-	(0.9)		(2.4)		-		(2.6)	
Total	-	-	(6.5)		(3.0)		-		(8.9)	

Debt Ratio	2Q18	4Q17
Gross Debt / EBITDA	5.59x	6.14x

Gross Debt / EBITDA ratio decreased to 5.59x in 2Q18 from 6.14x in 4Q17. Since 97.2% of the debt is denominated in US dollars, the devaluation of the Mexican Peso during the quarter resulted in an increase in the debt in Mexican Pesos terms.

Our gross FX exposure was Us.628 million, of which financial exposure amounts Us.358 million, and operative exposure amounts Us.270 million. We have a natural hedge through our sales in USD of Us.346 million and a financial hedge of Us.120 million, for a total net exposure Us.162 million and a hedge ratio of 74.2%.

Shareholders' Equity

Shareholders' Equity amounted MXN6,162 million as of June 30, 2018.

FREE CASH FLOW

Concept	Three months ended, June 30,		
	2018	2017	Δ%
EBITDA	344	344	0.5%
CF from operating activities	296	155	91%
CF from investing activities	(156)	(148)	5%
CF from financing activities	(166)	(38)	>100%
Free Cash Flow	(115)	(1,061)	-89%

CAPEX

For the 2Q18, investments in fixed assets reached MXN156 million, mainly derived from investments in machinery and equipment in Manufacturas Kaltex. For 2Q17 the investment in fixed assets was MXN150 million. Year to date, CAPEX reached MXN288 million, a decrease of MXN6 million compared to the same period of 2017.

About Grupo Kaltex

Grupo Kaltex S.A. de C.V. is a 100% Mexican textile Company, vertically integrated with a business model that grants the highest standards of quality and service, which are also certified by international organizations. For almost a century, Grupo Kaltex has been dedicated to the manufacturing and marketing of textile and apparel products, processes in which innovation and growth are the main differentiators that currently place it as a leader in America.

Forward looking statements

The information presented by the Company in this report may contain statements regarding future events and / or projected financial results. The results obtained in the future could differ from those projected in this document, since past results do not guarantee future performance. Therefore, the Company does not assume liability nor obligation for external or indirect factors occurring in Mexico or abroad.

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2Q18 Conference Call



Conference Call

DATE: Wednesday, August 08, 2018
TIME: 12:00 P.M. (GMT -5, Mexico City)
 1:00 P.M. (GMT -4, N.Y.)
PHONE: +52 (55) 2881 4607
 +1 (833) 393 9566

Presenters

Jaime Morales Vazquez, CFO
 Alfredo Mora Arana, Kaltex Fibers Director
 Nuri Kalach Atri Massry, Kaltex Fibers Commercial Director

MP3 Recording Available on Thursday, August 09, 2018 at www.irkaltex.com

CONSOLIDATED FINANCIAL STATEMENTS

Grupo KALTEX S.A. de C.V. and Subsidiaries Consolidated Income Statement

Figures in MXN thousands

	<i>Three months ended, June 30,</i>			<i>Six months ended, June 30,</i>		
	2018	2017	Δ%	2018	2017	Δ%
Net Revenue	4,711,485	4,122,593	14%	8,742,714	8,321,628	5.1%
Cost of Goods Sold	3,882,207	3,310,073	17%	7,253,668	6,918,448	4.8%
Gross Profit	829,278	812,520	2.1%	1,489,046	1,403,180	6.1%
Sales Expenses	426,783	356,784	20%	819,193	745,914	10%
Administrative Expenses	256,535	279,748	-8.3%	501,423	519,708	-3.5%
Other (expenses) income net	22,801	661	>100%	76,088	20,486	>100%
Operating Profit	168,761	176,649	-4.5%	244,518	158,044	55%
Comprehensive Financial Result	(831,782)	(76,405)	>100%	(547,623)	261,826	NA
Interest Income	1,110	897	24%	2,378	2,783	-15%
Interest Expense	268,121	426,975	-37%	511,753	677,413	-24%
Foreign Exchange Result	(564,771)	349,673	NA	(38,248)	936,456	NA
Income Tax	25,825	68,486	-62%	44,152	119,979	-63%
Consolidated Net Result	(688,846)	31,758	NA	(347,257)	299,891	NA
Depreciation	175,445	167,051	5.0%	351,227	341,148	3.0%
EBITDA	344,206	343,700	0.1%	595,745	499,192	19%

**Grupo KALTEX S.A. de C.V. and Subsidiaries
Consolidated Statement of Financial Position**

Figures in MXN thousands

	June 30, 2018	December, 31 2017
Assets		
Cash & Cash Equivalents	319,567	431,734
Accounts Receivable, net	3,757,032	2,928,582
Accounts receivable to related parties	50,259	42,249
Inventories, net	3,796,213	3,533,342
Prepaid expenses	216,577	260,430
Current Assets	8,139,648	7,196,337
Property, Plant and Equipment, net	11,471,468	11,546,903
Investment in Properties	1,806,425	1,771,103
Deferred Income Tax	321,072	309,320
Other Assets, net	1,516,153	1,527,561
Non-current Assets	15,115,118	15,154,887
Total Assets	23,254,766	22,351,224
Liabilities		
Bank loans	791,282	907,684
Accounts Payable to suppliers	3,262,327	2,879,940
Accounts payable to related parties	1,624,179	1,187,985
Other accounts payable and accrued liabilities	1,560,247	1,347,018
Direct employee benefits	15,418	23,198
Advanced payments from customers	46,333	50,520
Current Liabilities	7,299,786	6,396,345
Long-term financial liabilities	6,535,944	6,545,840
Accounts payable to related parties	919,078	653,624
Employee benefits	484,807	487,542
Contingencies	30,110	30,771
Deferred Income Tax	1,822,764	1,815,633
Non-current Liabilities	9,792,703	9,533,410
Total Liabilities	17,092,489	15,929,755
Capital stock	4,017,990	4,017,990
Accumulated (losses) earnings	(1,265,617)	(826,699)
Accumulated other comprehensive loss	236,207	236,207
Controlling interest	2,988,580	3,427,498
Non-controlling interest	3,173,697	2,993,971
Total Equity	6,162,277	6,421,469
Total Liabilities and Equity	23,254,766	22,351,224

Grupo KALTEX S.A. de C.V. and Subsidiaries
Consolidated Statement of Cash Flow

<i>Figures in MXN thousands</i>	<i>Three months ended,</i>		<i>Six months ended,</i>	
	<i>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Cash flows from operating activities				
Consolidated net income (loss)	(688,846)	31,758	(347,257)	299,891
<i>Adjustments for:</i>				
Income tax expense recognized in net loss	25,825	68,486	44,152	119,979
Loss (gain) on disposal of property, plant and equipment	1,486	-	1,671	-
Depreciation and amortization	175,445	167,051	351,227	341,148
Contingencies	-	-	-	-
Fair value adjustment of investment properties	-	-	-	-
Interest income	(1,110)	(897)	(2,378)	(2,783)
Interest expense	276,238	426,975	511,753	677,413
Unrealized foreign exchange	309,879	(116,058)	(2,061)	(772,217)
	98,917	576,708	557,107	668,444
Changes in working capital				
<i>(Increase) decrease in:</i>				
Accounts receivable, net	(325,172)	(353,334)	(477,644)	(292,919)
Accounts receivables to related parties	-	(2,031)	-	-
Inventories, net	(222,937)	(194,775)	(295,919)	(92,276)
Prepaid expenses	(63,697)	29,759	(142,820)	(92,588)
Other assets	(18,746)	(91,519)	(25)	(88,535)
<i>(Increase) decrease in:</i>				
Accounts payable to Suppliers	535,805	282,071	398,873	531,117
Accounts payable to related parties	-	-	-	-
Other accounts payable and accrued liabilities	266,592	82,239	365,041	69,765
Direct employee benefits	-	(19,751)	-	(27,027)
Advance payments from customers	10,144	(29,784)	(10,277)	(51,851)
Income taxes paid	22,221	(129,337)	(38,145)	(161,137)
Employee benefits	(3,586)	18,149	(13,528)	10,692
Contingencies	(3,824)	(13,575)	(3,426)	(4,742)
Net cash flows generated by operating activities	295,717	154,820	339,237	468,943
<i>Cash flows from investing activities:</i>				
Interest received	21	1,431	1,335	3,317
Acquisition of property, plant and equipment	(155,720)	(149,545)	(288,121)	(293,831)
Sale of property, plant and equipment	-	235	-	(3,512)
Net cash flows (generated by) used in investing activities	(155,699)	(147,879)	(286,786)	(294,026)
<i>Cash flows from financing activities:</i>				
Proceeds from debt	213,388	6,417,677	400,162	7,130,746
Payments of debt	(317,052)	(5,239,561)	(725,186)	(6,120,616)
Proceeds from related parties	348,145	-	630,749	-
Interest paid	(410,830)	(1,215,769)	(470,167)	(1,355,211)
Purchase of non-controlling interest	-	-	-	-
Capital increase	-	-	-	-
Dividends paid	-	-	-	-
Expenses associated with bond issue	-	-	-	-
Net cash flow (used in) generated by financing activities	(166,349)	(37,653)	(164,442)	(345,081)
Net increase (decrease) in cash and cash equivalents	(26,331)	(30,712)	(111,991)	(170,164)
Effects of exchange rate changes on cash flows	(176)	110,386	(176)	(17,546)
Cash and cash equivalents at end of year	346,074	465,759	431,734	733,143
Cash and cash equivalents at beginning of year	319,567	545,433	319,567	545,433