[Translation for informational purposes only]

ANNUAL REPORT FILED IN ACCORDANCE WITH THE GENERAL PROVISIONS APPLICABLE TO ISSUERS OF SECURITIES AND TO OTHER PARTICIPANTS IN THE SECURITIES MARKET, FOR THE YEAR ENDED DECEMBER 31, 2018.

BECLE, S.A.B. DE C.V.

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"CUERVO"

Securities Representing the Capital Stock of the Issuer

Characteristics	Market in which they are registered
Single Series Shares of Common Stock	Bolsa Mexicana de Valores, S.A.B. de C.V.

The securities of the issuer referred to above are registered in the National Securities Registry (*Registro Nacional de Valores).*

Registration in the National Securities Registry (*Registro Nacional de Valores)* does not certify the soundness of the securities or the solvency of the issuer, or the accuracy or veracity of the information contained in the prospectus, and it does not validate the actions that, as applicable, have been performed in contravention of applicable law.

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EXHIBITS

This Report contains information on the industry, the demographic conditions, the market conditions (including forecasts with respect to it) and the competition, which derives in part from internal studies and research, public information and industry publications. The statements of the Company are based on information that comes from independent sources which the Company considers reliable and statistics commonly used in Mexico, including, among others, *The International Wine and Spirits Research*. Typically, government and industry publications specify that the information included in such publications comes from sources that are considered reliable, but that there is no guarantee that such information is accurate and complete. Although the Company does not have reasons to think that this type of information is inaccurate in any material sense, it has not verified such information in an independent manner and, therefore, cannot guarantee that it is correct, accurate and complete. Likewise, the most updated information published by *The International Wine and Spirits Research* to the date of this Report is as of December 31, 2017, which is duly specified throughout such document.

1) OVERVIEW

A) GLOSSARY OF TERMS AND DEFINITIONS

Except as otherwise defined in this report, capitalized terms used in this Report that are listed below, will have the following meanings, which will be equally applicable in singular or plural form:

Term	Definition
"Shares"	The single series, registered shares of common stock, with no par value shown, representing the variable part of the capital stock of the Issuer, which grant full corporate and property rights.
"Bushmills Acquisition"	The acquisition by JC Overseas, Ltd., a subsidiary of Casa Cuervo, S.A. de C.V., of the entire capital stock of Bushmills for an amount of US$718.7 million dollars ($10,665 million Pesos).
"Blue Agave" or "Agave"	Blue Agave Tequilana Weber.
"BMV"	Bolsa Mexicana de Valores, S.A.B. de C.V. (The Mexican Stock Exchange)
"Bushmills"	The Old Bushmills Distillery Company Limited.
"CETES"	Federal Treasury Certificates. (*Certificados de la Tesorería de la Federación*)
"Sole Circular Letter of Issuers"	General provisions applicable to securities issuers, and to other participants of the securities market, issued by the CNBV, as amended from time to time.
"CNBV"	The National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*).
"COFECE"	Federal Antitrust Commission (*Comisión Federal de Competencia Económica*).
"The Company" or "Issuer" or "Becle"	Becle, S.A.B. de C.V.
"Underwriting"	The underwriting of Shares among the investing public.
"Shareholders Agreement"	The shareholders agreement dated September 23, 2016, entered into by and between Juan Francisco Beckmann Vidal and Juan Domingo Beckmann Legorreta, with the participation and agreement of the Company.
"CNIT"	National Chamber of the Tequila Industry (*Cámara Nacional de la Industria Tequilera*).
"CRT"	Tequila Regulatory Council (*Consejo Regulador del Tequila*).
"Denomination of Origin"	General Declaration for the Protection of the "Tequila" Denomination of Origin, published in the Federal Official Gazette (*Diario Oficial de la Federación*) on December 9, 1974, as amended in 1997.
"Day"	With uppercase or with lowercase, calendar day.

"Business Day"	Any day that is not a Saturday, or Sunday and in which credit institutions in Mexico and New York are open to the public, according to the calendar published by the CNBV for such purpose.
"Diageo"	Diageo plc, and its affiliates.
"Australian Dollar"	Legal tender in Australia.
"Dollar" or "US$"	Legal tender in the United States of America.
"Don Julio"	Tequila Don Julio, S.A. de C.V. or the business of Tequila Don Julio, S.A. de C.V., as the context may require.
"Combined Entities"	Refers to Becle and Sunrise Holdings, and their respective subsidiaries.
"ERP"	The Company's own enterprise resource planning system.
"Audited Financial Statements" or "Financial Statements"	The Issuer's consolidated financial statements as of December 31, 2018, 2017 and 2016, respectively, and for the years ended on such dates.
"United States"	The United States of America.
"Merger with Proximo"	Refers to the merger by absorption between the former Becle, S.A. de C.V., as the surviving company, and Sunrise Holdings, S.A. de C.V., as the merged company, which disappeared, that became fully effective on October 13, 2016.
"i2i"	Island2island Beverage Co.
"Indeval"	Securities Depository Institution (*S.D. Indeval Institución para el Depósito de Valores, S.A. de C.V*)
"IWSR"	The International Wine and Spirits Research.
"Applicable Law"	The laws, regulations, decrees, circular letters and other legal regulations of a federal, state and/or municipal nature that are in force in Mexico.
"Pound Sterling"	Legal tender in the United Kingdom.
"Maestro Tequilero"	Maestro Tequilero, S.A. de C.V.
"Mexico"	The United Mexican States.
"2025 Notes"	The senior notes issued by the Company on May 6, 2015 in international markets for US$500 million ($7,631 million), maturing in May 2025, and at an annual fixed interest rate of 3.75%.
"IFRS"	The International Financial Reporting Standards, issued by the International Accounting Standards Board (IASB).

“Initial Public Offering”	The primary initial public offering for subscription and payment of 548,105,954 Shares (including 71,492,081 shares subject to overallotment options) that the Company carried out on February 8, 2017.
“Pesos” or “$” or “MXN”	Legal Tender in Mexico.
“GDP”	Gross Domestic Product
“Proximo”	Proximo Spirits, Inc., Proximo Spirits Holdings, Inc., Proximo Distribution Holdings Limited, and their respective subsidiaries Except as otherwise required by the context.
“Report”	This Annual Report.
“Rest of the World”	Refers to the Company's markets outside of Mexico and the United States.
“RNV”	The National Securities Registry (*Registro Nacional de Valores)* maintained by the CNBV.
“Sunrise Holdings”	Sunrise Holdings, S.A. de C.V., of which Proximo is a subsidiary.
“CAGR”	Compound Annual Growth Rate; calculation: (Last year/First year) Exponential (1/n)-1 where “n” is the difference of years.
“NAFTA”	North American Free Trade Agreement.
“USMCA”	United States-Mexico-Canada Agreement, which, if approved, will replace NAFTA.
“EBITDA”	Net income *plus* depreciation and amortization, income taxes, interest expense, *less* interest revenue plus net foreign exchange loss (gain) less joint business profit on sales and plus loss in joint venture. This metric is not defined by IFRS, which should not be deemed as a substitute for operating income shown in the Financial Statements, nor as an alternative to cash flow from operating activities.
“Sale of Don Julio”	Refers to the sale by JB y Compañía, S.A. de C.V. (formerly Becle's holding and parent company) to Diageo Mexico Comercializadora, S.A. de C.V. of its 50% interest in Don Julio, B.V.'s capital stock.

B) EXECUTIVE SUMMARY

Below is a summary that contains a description of the activities and the financial and operating position of the Company, which is not intended to be detailed or act as a substitute of the information contained in the remainder of this Report. This summary does not include all the information that may be important for the investors. Before deciding to invest in the Company's Shares, investors should carefully read this Report in its entirety in order to understand its activities, including the sections titled "Summary of the financial information and of other information", "Risk factors", "Selected Financial Information" and "Management's Discussion and Analysis on Financial Condition and Results of Operations" and the Audited Financial Statements, the notes thereto and included elsewhere in this Report.

The Company

The Company is a globally recognized company in the distilled alcoholic beverages industry and the world's largest producer of tequila. Its extraordinary portfolio of more than 30 alcoholic beverage brands, some of them owned brands, distributed globally, and some of them owned by third parties and distributed only in Mexico, have been developed throughout the years to participate in key categories with a solid growth outlook, serving the most relevant markets of alcoholic beverages in the world and satisfying the consumers' preferences and key trends. The strength of the Company's brand portfolio is based on the deep legacy of its internally-developed iconic brands, such Jose Cuervo, combined with complementary acquisitions such as *Three Olives, Hangar 1, Stranahan's, Bushmills, Boodles* and *Pendleton*, and key focus on innovation, which throughout the years has helped the Company to internally develop worldwide known owned brands, such as *1800, Maestro Tequilero/Dobel, Centenario, Kraken, Jose Cuervo Margaritas* and *B:oost*, among the Company's brands, some of which are marketed and distributed in more than 85 countries. The Company is one of the oldest in Mexico, led by the same family for eleven generations, whose legacy and tradition still defines its business, brands and culture. The Company's history begins more than 250 years ago, since its founding in 1758. In 1795, the king Charles IV of Spain granted José María Guadalupe de Cuervo y Montaño a royal dispatch to produce and sell "mezcal wine", known currently as tequila, which is generally considered as the first license to sell tequila. Likewise, the Company has been for centuries at the forefront of tequila's evolution, its first export to the United States was in 1852, in 1880 it became the first distillery to bottle tequila in glass bottles and in 1945 margaritas were invented using *Jose Cuervo* tequila.

The Company operates as a producer, marketer and distributor of a broad portfolio of internationally renowned brands of distilled alcoholic beverages, ready to drink cocktails, and non-alcoholic beverages. Within the distilled alcoholic beverages, the Company is the world's leading producer of tequila in terms of sales volume with more than twice the market share of its nearest competitor and the world's third largest producer of Irish whiskey in terms of volume and sales according to IWSR in 2017. Most of the Company's sales are generated in the United States, which country the Company regards as the most profitable and dynamic region of the distilled alcoholic beverages industry. In addition to being its domestic market, Mexico is the second most relevant market for the Company, in terms of sales. The Company's acquisition of Bushmills and the growth of Kraken, position the company for continuous growth of its business outside of the American Continent.

In Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia, the Company controls and operates a direct distribution model. In Mexico and the United States in particular, the Company maintains the second and tenth largest distribution network of distilled alcoholic beverages in terms of sales value, respectively. In the case of Mexico, the company distributes directly to the channels, self-service stores, price clubs, wholesalers and convenience stores through its own sales force, covering a high percentage of stores that sell alcoholic beverages in the country. Additionally, the marketing force reaches 2,800 most important self-service and wholesale stores to control the display and promotion at the point of sale. In the United States, there is a three-level system implemented by federal and state laws known as "tied house laws", which limit the nature and scope of the relations between the importers of distilled alcoholic beverages, the producers and the wholesalers, on one hand, and the retailers of distilled alcoholic beverages, on the other. These laws and provisions prohibit transactions and relations that are common in the distilled alcoholic beverages industry in other parts of the world, and in other consumer sectors in the United States. In 22 states of the United States, the Company distributes mainly through wholesalers that are associated with four important distribution companies (Republic National Distributing Company, Southern Glazer's Wine and Spirits, Young's Market Company and Johnson Brothers Liquor Company), in 12 states of the United States, the company distributes through independent distributors that do not belong to the above-mentioned distribution networks and in the remaining 17 states of the United States, the state controls the distribution of distilled alcoholic beverages. In countries in which the Company currently does not have the capacity to operate a direct distribution model, generally, the Company's distribution strategy consists in entering into distribution agreements in each country, which are exclusive with respect to one or more of the Company's brands.

As of December 31, 2018, the Company had consolidated net sales of $28,158 million, operating income of $5,543 million and net income of $4,033 million. In 2018, the United States represented 64% of the Company's consolidated sales, Mexico represented 22% and the rest of the markets outside of Mexico, and the United States, which altogether constitute the "rest of the world" region, represented the remaining 14%.

The Company's tequila portfolio represented 57.4% of its consolidated sales value for the year ended December 31, 2018. The Company's leading brand of tequila, in terms of volume, is Jose Cuervo (including the sub-brands Jose Cuervo Especial, Jose Cuervo Tradicional, Jose Cuervo Reserva de la Familia and Jose Cuervo Platino), which, with more than 19.3% of market share in the global tequila market in terms of volume and more than twice the size of its nearest competitor according to the IWSR, is, in the Company's opinion, the world's best-known tequila brand. The products of the Jose Cuervo brand are sold in more than 85 countries. In addition to Jose Cuervo, the Company has successfully developed other tequila brands that are sold and are internationally recognized, including the 1800, Centenario and Maestro Tequilero/Dobel brands. With a portfolio made up of 4 brands, the Company competes in all of the relevant price segments for tequila. In the two most important markets of the Company, the United States and Mexico, the Company maintains the leading position, with a market share of 24.5% and 37.4%, respectively, of the total volume of tequila of each country in 2017, according to the IWSR.

The following table contains the sales volume and level of the different brands of the Company during 2018:

	9 liter cases	**Sales (in thousands of Pesos)**	**Percentage of Sales**
JOSE CUERVO FAMILY	**6,691,696**	**9,591,571**	**34.06%**
1800 FAMILY	**1,403,729**	**3,652,910**	**13.21%**
OTHER TEQUILAS FAMILY	**1,864,713**	**2,920,503**	**10.13%**
TEQUILA PORTFOLIO	**9,960,138**	**16,164,984**	**57.41%**

BUSHMILLS	**857,945**	**1,525,587**	**5.42%**
KRAKEN	**747,878**	**1,203,101**	**4.27%**
OTHER ALCOHOLIC BEVERAGES	**2,630,534**	**3,853,274**	**13.68%**
NON-TEQUILA PORTFOLIO	**4,236,357**	**6,581,962**	**23.37%**
READY TO SERVE COCKTAILS	**2,808,162**	**2,301,740**	**8.17%**
NON-ALCOHOLIC BEVERAGES AND OTHERS	**4,274,193**	**3,109,524**	**11.05%**
TOTAL	**21,278,850**	**28,158,210**	**100.0%**

The Company has a vertically integrated supply chain for the production of tequila, which goes from obtaining raw material to the distillation process, ageing and bottling of the finished product, and its distribution. The essential raw material for the production of tequila is the Blue Agave and the Company considers that it currently owns the largest plantation of Blue Agave in Mexico, within the region of the Denomination of Origin. The Company considers that its vertical integration strategy in the supply chain is a cornerstone of its value proposition, because it allows it to ensure the quality and consistency of the product, and to control its sourcing of Blue Agave.

In Mexico, the Company operates two state of the art tequila distilleries, and a processing and bottling plant. The Company's distillery, La Rojeña, is the oldest distillery in Mexico and is dedicated to the production of 100% Agave tequila with an annual capacity of 17.6 million liters. Its distillery, Los Camichines, is the largest distillery in Mexico and specializes in the production of tequila with an annual capacity of 47 million liters. The Company's bottling plant, EDISA, has six automatic bottling lines including a high-speed line, enabling the Company to have a total annual capacity of 14 million 9-liter cases. Additionally, in the United States, as a result of the merger with Proximo, the Company operates two distilleries (one of whiskey in Colorado and one of vodka in California) and three bottling plants (in Colorado, California and Indiana). In addition, the Company has a distillery and bottler of Irish whisky in Northern Ireland, as a result of the Acquisition of Bushmills.

In February 2015, in line with its strategy to continue its expansion in other categories of high-growth distilled alcoholic beverages and incorporating renowned iconic brands to its portfolio, the Company acquired 100% of Bushmills' shares, including its brands and the facilities in which it produces and bottles this Irish whiskey, in Northern Ireland. The Irish whiskey, the first whiskey created in the world, has recently had a high growth in key markets and within the distilled alcoholic beverages market, it belongs to categories with less competition (in number of participants). *Bushmills* is the third largest Irish whiskey brand in the world and the third largest in the United States, in both cases in terms of sales volume according to the IWSR. The *Bushmills* brand is particularly appreciated in Europe and the United States, where it distributes approximately 97% of its volume, backed by its important legacy as an Irish whisky producer. Such legacy dates back to 1608, when the king James I of England granted Sir Thomas Phillips a distillation license, making Bushmills, as far as the Company knows, the world's oldest Irish whiskey distillery. Bushmills represented 5.4% of the Company's consolidated sales value for the year ended December 31, 2018.

Also, on June 30, 2017, Proximo Australia PTY, Ltd, a subsidiary of JC Overseas, Ltd., acquired from L.I.P.S. PTY Limited, the capital stock of island2island Beverage Co. PTY, Ltd, (i2i) for $189,576 (AUD$12,343).

i2i was founded in 2007, and since that year it has continued to expand its portfolio. i2i is based in Sydney and has sales infrastructure in each of Australia's states. It also has a strong presence both in consumer centers and with distributors, with Woolworths and Coles being the two that stand out the most.

In 2015, Casa Cuervo, S. A. de C. V. appointed i2i as distributor of the Jose Cuervo, 1800, Bushmills, The Kraken and Boodles brands.

The acquisition of i2i was an essential step in ensuring the future growth of the Company's portfolio in the region.

On the other hand, on February 22, 2018, the Company completed the acquisition of the Pendleton Whisky brand assets from Hood River Distillers, Inc. Pendleton Whisky is one of the main premium whiskey brands in the United States. Becle agreed to pay US$212.8 million ($3,999,259) for these assets. Pendleton Whisky was launched in 2003 and has since increased its annual sales volume to more than 250,000 nine-liter equivalent cases. In addition to the main Pendleton Whisky presentation, the acquisition included the Pendleton Midnight, Pendleton 1910 and Pendleton Directors' Reserve presentations.

To complement the tequila and whiskey leader categories, the Company has, throughout the years, developed its innovation capacities, through brand creation, packaging improvements and the introduction of line extensions. This is one of the Company's most important strengths, both in innovation/speed and in the capacity to react.

In the rum category, in 2009, the Company developed and launched *Kraken* onto the market, which is a premium rum that is currently one of the most dynamic brands of the segment. *Kraken* represented 4.27% of the consolidated sales value for the year ended December 31, 2018.

In the vodka segment, the Company is present with its brands *Three Olives*, *Hangar 1* and *Oso Negro*; in the gin segment with *Boodles*; in the segment of ready to drink cocktails with *Jose Cuervo* and *1800*; in the non-alcoholic beverages segment with *B:oost* and *Jose Cuervo Margarita Mix* and *Sangrita Viuda de Sánchez*. As of the date of this Report, the Company sells more than 30 brands around the world, including owned brands and third party brands which the Company distributes only in Mexico, as an agent.

Jose Cuervo Tradicional Cristalino, to participate in this dynamic category of Crystalline tequilas, b) Jose Cuervo Special Silver, to compete in the growing market for white tequilas, and c) We relaunched Gran Centenario Leyenda, with a new package, to compete in the segment of luxury Ultra aged (*Extra Añejo*).

On October 1, 2016, the Company's shareholders approved the merger of Sunrise Holdings (of which Proximo is a subsidiary) (the "Merger with Proximo"). The Merger with Proximo took place through the Company's merger, as the surviving company, with Sunrise Holdings, as the merged company. The merger became fully effective on October 13, 2016 and, at that moment, all of the assets, shares and rights, and all of Sunrise Holdings' liabilities, obligations and responsibilities were transferred to the Company. Proximo, a US company dedicated to the production, import and distribution of distilled alcoholic beverages, was founded in 2007 by the Beckmann family, and began with the distribution of the products of the *1800* brand in the United States in 2008 and in 2013 it acquired the distribution of the *Jose Cuervo* brand products, previously operated by Diageo. Currently, Proximo is the tenth largest distributor of distilled alcoholic beverages by sales value and the eleventh largest distributor of distilled alcoholic beverages by volume in the United States according to IWSR, managing more than 14 *premium* brands of tequila, rum, gin, vodka, whiskey, liqueurs, ready-to-drink cocktails and non-alcoholic beverages. Proximo's distribution network includes the United States area, Canada and the United Kingdom, and is made up by a team with vast experience in the distilled alcoholic beverages industry. Proximo currently operates the two distilleries and the three bottlers in the United States, according to what was previously described.

Tequila and the Denomination of Origin.

Tequila must be produced through the fermentation and distillation of a specific species of Agave – the blue variety, Tequilana Weber species Agave – cultivated in the territory included in the Declaration of Protection of the Tequila Denomination of Origin. Such territory includes all the state of Jalisco, certain municipalities of the states of Guanajuato, Nayarit, and Michoacán and certain municipalities of the state of Tamaulipas. According to the Denomination of Origin, tequila cannot be produced with any other type of Agave or in any other region in the world.

There are two types of tequila: (i) tequila distilled from sugars of the Blue Agave in a proportion not less than 51%, known as "tequila"; and (ii) tequila distilled from sugars of the Blue Agave in 100%, known as "100%-Agave tequila". Tequila may be bottled outside the territory included in the Denomination of Origin (if the bottler has a certificate of approval), while the 100%-Agave tequila must be bottled in facilities located within the territory included in the Denomination of Origin.

The term Tequila became protected in Mexico in 1974 through the General Declaration for the Protection of the "Tequila" Denomination of Origin, published on December 9, 1974 in the Federal Official Gazette, as amended in 1997 and 2001. To this date, the Tequila Denomination of Origin is protected in 50 countries through international treaties, in some cases, under the figure of denomination of origin, in others, under the figure of the geographic indication, the certification mark or under the figure of collective mark.

The production of tequila is subject to the provisions of the applicable regulations, which establish the characteristics and specifications that the producers and bottlers of tequila must comply with. The ownership of the Denomination of Origin corresponds to the Mexican State and is regulated and protected by the Mexican Government. The Company's operations comply with the provisions of the regulations applicable to the Denomination of Origin and, therefore, it can use the "tequila" and "100%-Agave tequila" denominations for its products.

There are five types of tequila according to the characteristics of the product which are acquired in the distillation and in the processes following its distillation: (i) white or silver , which may be subject to a shorter process of two months; (ii) young or gold, which is the result of a mix of white tequilas with rested (*reposado*), aged or ultra-aged tequilas it may also be white rested tequila ; (iii) rested, which is subject to an aging process of at least two months; (iv) aged, which is subject to an aging process of at least one year; and (v) ultra-aged, which is subject to an aging process of at least three years.

Competitive Advantages

The Company considers that the following competitive advantages are the ones that distinguish it from its competitors and contribute to its constant success:

- *Global leader in the tequila market.*
- *Portfolio of renowned brands focused on rapid growth categories.*
- *Presence established in the most profitable and dynamic markets of distilled alcoholic beverages in the world.*
- *Vertically integrated model and a robust "route-to-market" strategy and owned-distribution capacities.*
- *Track record of profitable growth and superior capacity of cash flow generation.*
- *Legacy built on the foundation of continuous creation of value and solid family leadership base.*

Global leader in the tequila market.

The Company is the world's largest producer of tequila and, according to the IWSR, in 2017 its brands represented 29.4% and 24.4% of the sales volume and of the sales value at the global level, respectively. In 2017, the Company generated a tequila sales value of approximately US$1,940 million of the global market of USA $7,957 million, according to IWSR. The Company is the undisputed leader in the largest markets of tequila in the world: United States, where it has 24.5% of the total sales volume of tequila and 19.7% of the total sales value in 2017, and Mexico, where it has 37.4% of the total sales volume of tequila and 38.7% of the total sales value in 2017, according to IWSR. The Company is also a leader in the “rest of the world” region, in which its products represented during 2017, 32.4% of the total sales volume according to IWSR.

The Company's tequila portfolio comprises solid brands of great tradition, including three of the five main brands of tequila in terms of global sales volume in 2017, according to IWSR (*Jose Cuervo, 1800 and Centenario*). In 2017, the Company's flagship brand family, Jose Cuervo, sold more 9-liter tequila cases than any other brand, according to IWSR. The *1800* brand is the world's second brand of 100%-Agave tequila in terms of sales volume, according to IWSR. In addition, and in line with the current trend towards the industry's premiumization, the Company continues developing its rapid-growth portfolio of ultra-premium and prestige tequila brands, which to this day includes *Maestro Tequilero/Dobel* and *Reserva de la Familia*, among others.

Throughout its history, the Company has received international awards for the quality of the tequila it produces. Among the countries and cities that have granted awards to the Company are: Madrid in 1907, Spain in 1907, Paris in 1909, London in 1910, Barcelona in 1912, Rome in 1923 and Rio de Janeiro in 1923. Today, the Company continues to actively participate in the Diosa Mayahuel awards in Mexico, which can be considered the most expert panel in tequilas and where it has been recognized with multiple awards over the years.

Renowned brands portfolio focused on rapid-growth categories.

The Company considers that its brands are its most valuable and important assets. Throughout the years, the Company has developed an extraordinary portfolio of more than 30 brands in 9 different categories of distilled alcoholic beverages and other ready to drink cocktails and non-alcoholic beverages, led by internationally renowned brands with leader market positions in rapid growth categories, such as *Jose Cuervo, 1800, Centenario, Bushmills* and *Kraken*, among others.

The Company's world leading tequila brands, which include *Jose Cuervo, 1800* and *Centenario*, among others, maintain solid market shares in most of the markets in which these are currently distributed. The Company's tequila portfolio, made up of 5 brands, covers most of the price range segments, focusing in a wide range of consumers.

The Company's main business of tequila is supplemented by a diversified portfolio of appealing brands of distilled alcoholic beverages, covering multiple categories and prices throughout the Company's key markets. The *Bushmills* brand has been developed through years of tradition and positions the company as one of the world's leading producers of Irish whiskey, the highest growth category in sales volume within the global market of distilled alcoholic beverages between 2012 and 2017, with a CAGR of 11.3% according to IWSR. In the Unites States, *Kraken*, the rum developed by the Company, enjoys a dynamic expansion, with volume and sales increases at a greater pace than those of the same rum category. Likewise, the Company has acquired a brand portfolio focused on premium segments, including the *Three Olives* and *Hangar 1* vodkas and the *Stranahan's* Colorado whiskey, among others. The Company considers that its brand portfolio allows it to capture consumption through various price segments, and to address changes in consumption trends providing stability to its cash flow generation through various economic cycles.

The Company considers that its brand portfolio positions the Company as a key player in some of the most dynamic categories of the distilled alcoholic beverages industry. For example, the global sales of tequila, which represent 57.4% of its sales value as of December 31, 2018, has achieved a CAGR of 7.7%, for the 2012-2017 period, according to IWSR. Irish whiskey, category where the Company competes through *Bushmills*, and represents 5.4% of its sales value as of December 31, 2018, has achieved a CAGR of 11.7% in terms of sales value for the 2012-2017 period, according to IWSR. The Company considers that many of its brands are well-aligned with the demographical and consumption trends that motivate, and are expected to continue motivating, the current consumption in its key markets, including a prevailing trend towards the *premiumization*, and brands and products with a unique tradition and origin, and for products with innovative and distinctive characteristics.

Additionally, the Company continuously invests in marketing and promotion to support its brands and develop their value and recognition. The Company understands that consumers require more than a good product to identify with, for which it innovates in the elaboration of different personalities and cultures for each brand, which allows it to relate with the consumers on all levels and through all the means of communication.

The strength and success of its brands has allowed the Company, and it considers that in the future they will allow it, to continue penetrating the existing markets and to access new markets.

Presence established in the world's most profitable and dynamic markets of distilled alcoholic beverages.

The Company is a distilled alcoholic beverages company with a worldwide presence, selling its products in more than 85 countries. Throughout the years, the Company has consistently increased its international exposure through organic growth and specific acquisitions. For the year ended December 31, 2018, the Company generated 78% of its sales value outside of Mexico, compared with a 78% in 2017, and 75% in 2016.

The Company is a leading and solidly established participant in the United States, the world's second largest market, after China, in terms of sales value as of 2016 according to IWSR, and which the Company considers as the most profitable, dynamic and trend definer in the world's distilled alcoholic beverages market. For the year ended December 31, 2018, the Company's sales in the United States amounted to 12.0 million 9-liter cases, respectively, while the sales value was $18.0 billion, representing 64% of its total sales. Furthermore, with the integration of Proximo, the Company is benefiting from Proximo's first-hand experience in the distribution within this market and which it considers will enable it to continue increasing its reach in such market.

The Company considers that it is well-positioned to achieve a greater international expansion. The Company considers that its key categories continue with a low penetration within the distilled alcoholic beverages and outside of its main markets, such as tequila, which represents 0.9% of the retail sales of distilled alcoholic beverages in the European Union in 2017 against 33.1% for Mexico and 11.0% for the United States, or Irish whiskey which represented 1% of the global retails sales of whiskey in 2017, according to the IWSR. The Company considers that an increase of 1% in the market share of tequila net sales in the European Union market and Irish whiskey in the global market of whiskey, may represent a sales opportunity for the industry of approximately US$511 million and US$3,186 million, respectively, according to estimates and information from IWSR.

Vertically integrated model and robust "route-to-market" strategy and owned distribution capabilities.

The Company operates a widely integrated platform with a direct distribution in its main markets. For tequila, in particular, the Company operates an integrated model that comprises from the cultivation of Agave, distilleries, processing and bottling plants and aging cellars to warehouses and distribution centers. This vertical integration model enables the Company to control its sourcing of key raw materials, and the quality in each stage of the production, from the raw materials to the distribution to the end consumer.

- ***Agriculture and sourcing**.* The Company has its own Agave plantations with the purpose of controlling the cultivation process and (i) ensuring its access to a sufficient quantity of Blue Agave, (ii) controlling the profile and quality of the product and (iii) having visibility regarding the raw material costs.

  The Company is considered the largest producer of Blue Agave in Mexico, according to the plantation register kept by the CRT.

  In addition, the Company maintains relationships with independent Agave producers that allow it to acquire Agave in market terms, under its quality standards, also strengthening its relations with the local communities.

The fact that the regulations prevent the production of tequila outside the Denomination of Origin territory, along with its experience in the production of Agave, provides the Company significant competitive advantages from the first phases of the value chain.

- ***Distillation and bottling processes***. The Company controls its distillation and bottling processes. This control, along with the fact that the distillation and, in the case of 100%-Agave tequila, also the bottling, have to be performed within the territory of the Denomination of Origin, provide the Company a unique strength in the subsequent phases of the value chain. Overall, the Company has five distilleries and five bottling plants in Mexico, the United States and Northern Ireland. In addition, it has as an internal policy to make capital expenditures to upgrade and maintain its plants, in line with the technological advances and the strictest standards, in order to ensure that they operate in an efficient and sustainable manner.

- **Direct distribution to the consumer ("route-to-market").** The Company has a direct "route-to-market" distribution model. In 2017, more than 92% of its global sales were made through direct distribution, which in 2007 represented 25%.

  In Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia, the Company controls and operates a direct distribution model. Particularly, in Mexico and United States, the Company maintains the second and eighth largest distribution network of distilled alcoholic beverages in terms of sales value, respectively. In the case of Mexico, the Company distributes directly to the channels of self-service stores, price clubs, wholesalers and convenience stores through its own sales force. Additionally, it operates a network with four distribution centers, one in each of Guadalajara, State of Mexico, Monterrey and Tijuana.

  With Proximo, the Company integrated the platform in charge of distributing its products in the United States, Canada, the United Kingdom and the Republic of Ireland. In the United States, it also has a distribution network managed by itself, which turns the Company in the eighth largest distributor of distilled alcoholic beverages in terms of sales value and the tenth largest distributor of distilled alcoholic beverages in that country in terms of volume. The Company has a large warehouse located in the mid-west corridor in order to optimize the transportation of products, and third-party warehouses in Denver, Colorado, Oakland, California and Hebron, Kentucky. As a result of its owned distribution in the United States, the Company has the capability of (i) focusing on the company's strategic priorities, (ii) providing certainty to the producer of the medium-term continuity of the distribution of its brands and (iii) creating the image and positioning of its owned brands generating brand loyalty in consumers. The clear example of this is that since Proximo is in charge of the distribution of Jose Cuervo Especial in the United States in July 2013, the tequila sales trend reverted.

  The distribution in the "rest of the world" region, beyond the afore-mentioned markets, is made through third parties. The Company dedicates substantial time and attention to managing its relationships with its distributors, in order to ensure that they adequately represent the Company's objectives and goals in their respective local markets.

History of profitable growth and outstanding capacity of cash flow generation.

The Company's sales growth history has been developing through a combination of organic initiatives and strategic acquisitions. For the year ended December 31, 2018, the Company's consolidated sales amounted to $28,158 million, respectively, compared to $25,958 million in 2017 and $24,396 million in 2016. This evolution represents a CAGR of 7% between 2016 and 2018. For the year ended December 31, 2018, the Company's EBITDA was $6,074 million, compared to $7,171 million in 2017 and $6,075 million of 2016.

The Company's business generated an EBITDA margin of 22% as of December 31, 2018.

The Company considers that is solid capacity of cash flow generation will allow it to continue with growth initiatives for its current business, to seek value-creating and complementary acquisitions within the distilled alcoholic beverages industry and to create value for its shareholders.

Legacy built over foundations of continuous value creation and a solid base of family leadership.

The Company's current legacy results from more than two centuries of family tradition with the leadership and innovation of the Company's products. The Company was founded in 1758 and in 1795, the king Charles IV of Spain granted José María Guadalupe de Cuervo y Montaño a royal dispatch to produce and sell “mezcal wine”, known currently as tequila, which is generally considered as the first license to sell tequila. La Rojeña, the Company's flagship Tequila distillery, is the oldest distillery in Mexico, where after 250 years, tequilas are still being produced. The Bushmills distillery, located in the Bushmills village, is the oldest operating distillery in Ireland, where the same working philosophy has been maintained for over 400 years. The Company is convinced that the uniqueness of its legacy is a cornerstone of its brand quality, business culture and strategic philosophy.

The Company's management has been led for over 250 years by eleven generations of the Cuervo family. Currently, Juan Domingo Beckmann Legorreta holds the position of CEO. The Company has solid principles of corporate governance and its senior management has an extensive working experience in companies belonging to the distilled alcoholic beverage and consumer goods industries. The main executives of the company have, mostly, an average experience of over ten years in international consumer products companies. As a team, such executives have established a record of proven success in the generation of profitable growth and an increase of the Company's market share.

Corporate Responsibility

The Company is convinced that its success will only be complete in a context of economic, social and environmental sustainability. Therefore, it has publicly assumed the commitment of implementing a socially responsible and continuous improvement management within the company, as a part of its culture.

During 13 consecutive years, the Company has fulfilled the standards in the strategic areas of the corporate social responsibility, established by the Mexican Center for Philanthropy (*Centro Mexicano para la Filantropía, A.C.*) (CEMEFI). This compliance has been acknowledged every year, since 2007, through the distinction as a Socially Responsible Company, which backs the actions performed by the company to promote the quality of life among its employees, and in terms of Ethics and Corporate Governance and Community Engagement. Among the actions and initiatives of each strategic area, the following stand out:

***The Community*.**

The Company's shareholders have supported the community of Tequila, Jalisco, during many years, through the Jose Cuervo Foundation (*Fundación Jose Cuervo, A.C.*). These efforts are focused on producing a positive impact in the lives of the individuals and families of the community, through programs that promote values, art, culture and education, among others. In addition, the Company's shareholders have actively promoted Tequila's “magical town”, tourist attraction, thereby supporting its long-term independent and sustained growth. The Company, as a business has visualized to continue supporting the communities in which it operates as it has done in the past.

Furthermore, in all the Company's facilities, the Company strives to exceed the legal standards and maintain safe working places, and inclusive and respectful work environments.

***Responsible Drinking*.**

The Company actively participates in campaigns and programs to prevent the harmful use of alcohol and promote a responsible consumption, simultaneously promoting a balanced and healthy lifestyle.

One of the corporate purposes of the Company is to promote responsible drinking, for which it continuously performs campaigns to avoid or prevent the harmful use of alcoholic beverages, mainly: (i) fighting the informal market and therefore the consumption of beverages that may not comply with the health and quality controls; (ii) discouraging the combination of alcoholic beverage consumption and car driving; (iii) not supplying alcoholic beverages to minors; and (iv) promoting respect for abstinence from the consumption of alcoholic beverages. As an example, in 2001 "Imagina Cuervo" (Imagine Cuervo) was created with the purpose of creating awareness about the responsible consumption of alcohol through the creativity and the talent of young university graduates in the country. "Imagina Cuervo" aims to become the first platform that looks for real and tangible solutions for problems associated with the harmful use of alcohol, through incentives and support to the ideas of young people.

Environmental Sustainability.

The Company considers essential for its growth to take place in the context of an effective environmental responsibility and sustainability. To this date, the Company has made significant investments in the improvement of waste disposal, water saving and the decrease in the emission of polluting gases. The Company strives to fulfill the applicable environmental normativity and, where possible, to exceed it. The Company's plants have awards with regard to environmental matters such as Clean Industry certifications, ISO 9000 and APPCC.

Share Behavior in the Stock Market

The following chart shows the maximum and minimum quoting prices of the Shares in the BMV.

Monthly Behavior

Period 2018	Maximum	Minimum	Closure	Stocks (Daily Average Volume)	Stocks (Total Operated)	Amount ($)
January	34.10	31.50	33.86	1,219,233	26,823,131	886,851,899
February	34.77	32.16	34.77	1,157,107	21,985,037	740,656,192
March	36.90	35.46	36.90	2,115,777	42,315,546	1,542,570,096
April	36.49	31.68	31.68	2,312,532	48,563,166	1,682,902,854
May	32.36	30.31	32.36	2,655,595	58,423,088	1,831,729,026
June	31.96	28.43	28.73	3,090,353	64,897,406	1,944,351,569
July	30.25	25.97	25.97	5,889,131	129,560,880	3,550,975,769
August	27.05	25.60	27.05	5,062,619	116,440,240	3,035,065,462
September	30.33	27.13	30.33	2,854,224	57,084,477	1,643,404,119
October	31.34	24.69	24.95	3,240,426	74,529,787	2,035,741,614
November	25.61	22.40	25.61	3,438,573	68,771,467	1,627,956,474
December	26.26	23.39	26.26	1,669,446	31,719,483	780,082,651

Period	Volume	Maximum	Minimum	Closing
2017				
February (as of February 9th, 2017)	2,275,958,223	35.90	30.63	32.95
March	2,193,469,759	33.07	30.79	33.07
April	1,222,440,252	32.99	30.51	31.50
May	1,627,990,037	32.84	31.16	32.28
June	2,826,277,745	33.45	30.93	30.93
July	2,529,475,157	31.44	29.67	30.01
August	2,003,726,042	31.85	30.31	31.29
September	1,965,757,041	31.94	29.99	30.60
October	899,863,006	30.71	28.58	30.71
November	939,537,177	32.29	30.58	31.00
December	622,160,827	31.89	30.65	31.50

The quoting prices of the Shares will be affected by the Company's financial position, results of operations, resource requirements and prospects, and other economic and financial factors and market conditions. See “1) *Overview*-c) *Risk Factors*” The Company cannot guarantee that the quoted prices of the Shares will remain within the margins indicated above.

Summary of Financial Information

The following summary of selected consolidated financial information, as applicable, derives from, and therefore shall be read together with the Financial Statements of the Company, including the relevant notes, and the information contained in the sections "Selected Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Report.

The financial information corresponding to the years ended December 31, 2018, 2017 and 2016, and for the years ended on those dates, derives from the Audited Financial Statements which have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Consolidated statements of comprehensive income for the years ended December 31, 2018, 2017 and 2016

	Years ended December 31,		
	2018	**2017**	**2016**
	(in thousands of Pesos)		
Statement of comprehensive income information			
Net sales	$28,158,210	$25,957,942	$24,396,212
Cost of goods sold	11,974,906	9,836,675	9,935,796
Gross profit	16,183,304	16,121,267	14,460,416
Expenses:			
Advertising, marketing and promotion	6,580,182	5,644,060	6,038,909
Distribution	1,241,703	917,865	750,008
Selling	937,774	962,969	771,720
Administrative	1,821,079	1,659,593	1,436,312
Other expenses (income), net	59,625	201,224	(160,440)
Total expenses	10,640,363	9,385,711	8,836,509
Operating profit	5,542,941	6,735,556	5,623,907
Financing result:			
Interest income	(193,097)	(109,760)	(49,362)
Interest expense	431,558	485,492	394,201
Foreign exchange loss, net	148,561	397,061	590,873
Financing result, net	387,022	772,793	935,712
Loss from equity investment in associate	9,445	7,522	-
Profit before income taxes	5,146,474	5,955,241	4,688,195
Income taxes:			
Current	782,180	1,669,629	1,284,988
Deferred	331,294	(911,877)	255,459
Total income taxes	1,113,474	757,752	1,540,447
Net income	4,033,000	5,197,489	3,147,748
Non-controlling interest	8,121	4,304	-
Controlling net income	4,024,879	5,193,185	3,147,748
Other comprehensive income:			

Items that are or may be reclassified subsequently to profit or loss:			
Foreign operations – Foreign currency translation reserve	(1,040,587)	217,441	2,253,065
Items that will not be reclassified to profit or loss:			
Employee benefits, net of income taxes	72,238	66,899	45,530
Other comprehensive income, net of taxes	(968,349)	284,340	2,298,595
Net Comprehensive income	$3,056,530	$5,477,525	$5,446,343
Other comprehensive income attributable to:			
Controlling interest	3,056,530	284,199	5,446,343
Non-controlling interest	-	141	-
Basic earnings per common share	1.12	1.48	0.34

Consolidated Statements of Financial Position

Consolidated statements of financial position as of December 31, 2018, 2017 y 2016

	As of December 31,		
	2018	**2017**	**2016**
	(in thousands of Pesos)		
Statements of financial position information:			
Current assets			
Cash and cash equivalents	$12,027,931	$19,995,891	$5,128,137
Accounts receivable, net	8,536,421	7,259,530	6,396,412
Related parties receivable	96,870	221,412	197,555
Other receivable, mainly recoverable taxes	1,600,364	1,022,618	1,376,853
Inventories, net	8,162,349	7,418,994	5,942,639
Prepayments	804,562	679,098	683,564
Total current assets	31,228,497	36,597,543	19,725,160
Non-current inventory	6,859,315	3,878,169	3,178,318
Investments in associates	311,397	90,008	66,364
Property, plant and equipment, net	5,506,305	5,280,479	4,640,601
Deferred Income Taxes	1,454,055	944,380	-
Employment benefits, net	269,798	99,910	94,927
Intangible assets and trademarks,	14,663,673	11,364,885	11,771,208
Goodwill	6,353,738	6,274,189	5,992,347
Other assets	46,762	400,146	219,022
Security Deposits	17,849	2,947	-
Total non current assets	35,482,892	28,335,113	25,962,787
Total assets	$66,711,389	$64,932,656	$45,687,947

Current liabilities

Current installments of notes payable to Banks	48,182	48,311	53,142
Trade accounts payable	2,593,980	2,106,047	2,407,235
Other liabilities	43,769	803,580	256,565
Accruals	2,347,576	2,086,810	1,708,428
Employee statutory profit sharing	9,345	14,344	16,395
Related parties	48,801	43,926	14,851
Total current liabilities	5,091,653	5,103,018	4,456,616
Long-term debt excluding current installments	9,745,014	9,780,523	10,206,842
Environmental reserve	121,125	124,751	117,760
Other long-term liabilities	314,036	118,644	95,062
Deferred income taxes	3,567,750	2,820,410	2,759,236
Total liabilities	$18,839,578	$17,947,346	$17,635,516
Stockholders' equity			
Capital stock	28,048,959	28,048,959	10,051,666
Retained earnings (1)	14,587,615	12,745,476	12,118,201
Other comprehensive income	5,168,448	6,136,797	5,852,598
Total controlling interest	47,805,022	46,931,232	28,022,465
Non-controlling interest	66,789	54,078	29,966
Total shareholders' equity	47,871,811	46,985,310	28,052,431
Contingent	–	–	–
Total liabilities an stockholders´ equity	$66,711,389	$64,932,656	$45,687,947

(1) On April 27, 2018, through a shareholders' meeting of the Company, a cash dividend payment was declared in the amount of $1,819 million, which was paid on May 9, 2018.

	Years ended December 31,		
	2018	**2017**	**2016**
	(in thousands of Pesos, except for ratios and percentages)		
Other financial information:			
Operating profit	$5,542,941	$6,735,556	$5,623,907
EBITDA(1)	$6,073,629	$7,170,571	$6,075,377
Cash flow generated by operating activities	(179,220)	$2,421,563	$3,442,619
Cash flow used in investment activities	($5,247,994)	($1,154,565)	($1,126,687)
Cash flow (used in) generated by financing activities	($2,481,510)	$13,069,484	($1,327,177)
Net cash flow(2)	($7,908,724)	$14,336,482	$988,755
Operating margin(3)	20%	26%	23%

EBITDA margin(1)(4)	22%	28%	25%
Debt ratio(5)	1.61	1.36	1.69

	Years ended December 31,		
	2018	**2017**	**2016**
	(In thousands of 9-liter cases sold)		
Other information			
Volume(6)			
United States and Canada(6)	12,015,517	11,843,824	12,450,549
México(6)	6,745,734	6,355,062	5,980,875
Rest of the world(6)	2,517,598	2,292,609	1,992,580
Total volume(6)	21,278,850	20,491,495	20,424,005

(1) For the Company's purposes, EBITDA represents the net income *plus* depreciation and amortization, income taxes, interest expense, *less* interest revenue, plus net foreign profit exchange loss (gain) less joint business profit on joint venture sales. The Company presents its EBITDA since it constitutes a generally accepted indicator of the available funds to service its debt. However, EBITDA is not recognized by IFRS as financial items or as indicators of the liquidity or performance. Although EBITDA provides useful information, it must not be assessed on an isolated basis, or be considered as substitutes of the Company's net income when assessing its operating performance, or as a substitute of the cash flows generated by the Company's operations when assessing its liquidity. The Company may calculate its EBITDA differently than other issuers do, which may affect the comparison of such information. The following table contains a calculation of EBITDA:

	Year ended December 31		
	2018	**2017**	**2016**
	(in thousands of Pesos)		
Net Income	**4,033,000**	**5,197,489**	**3,147,748**
Depreciation and Amortization	530,688	435,015	451,470
Total income taxes	1,113,474	757,752	1,540,447
Interest expense	431,558	485.492	394,201
Interest collected	193,097	109,760	49,362
Foreign exchange loss, net	148,561	397,061	590,873
Loss from equity investment in associate (note 13)	9,445	7,522	
EBITDA	**6,073,629**	**7,170,571**	**6,075,377**

(2) The net cash flow is equal to the sum of (i) the cash flow generated by operating activities, (ii) the cash flow used in investment activities and (iii) the net cash flow generated by (used in) financing activities.

(3) The operating margin represents the operating income/sales ratio.

(4) The EBITDA margin represents the EBITDA/sales ratio.

(5) The debt ratio represents the total debt ratio at the end of the period/ EBITDA of the last 12 months of the period.

(6) The sales volume represents the number of 9-liter cases sold.

(C) RISK FACTORS

Investments in the Company's Shares involves a high level of risk. Investors should carefully consider the risks described in this section, and the rest of the information contained in this Report, including the Company's financial statements before making any investment decision. The Company's activities, financial position, results of operations, cash flows and/or outlook may be adversely and significantly affected by any of these risks. The market price of the Company's Shares may decrease due to any of these risks or due to other factors, and the investors may lose all or a part of their investment. The risks described in this section are those that in the current opinion of the Company may adversely affect it. There may be additional risks and factors that the Company does not know of or does not consider currently important, which may also adversely and significantly affect its activities, financial position, results of operations, cash flows, projects and/or the market price of its Shares. In this section, the expressions in the sense that a particular risk or uncertain factor can, may have or will have a "material adverse effect" on the Company, or may affect or will affect the Company in an "adverse and significant manner", mean that such risk or uncertain factors may have a material adverse effect on the activities, financial position, results of operations, cash flows, projects and/or market price of the Company's Shares.

Risk factors related to the Company's activities and industry.

The existence of conditions or the development of adverse events of economic, political or business nature, or the appearance of other risks in the countries in which the Company operates, may have a material adverse effect on the Company's sales, profitability and results of operations.

The global economic and political conditions and, in particular, the economic and political conditions of the United States, Canada and the main markets of Europe, Latin America (including Mexico) and the Asia-Pacific region in which the Company operates, may significantly affect the Company's sales and profitability. Although the Company considers that the difficult economic conditions experienced at a global level in the last years is improving, the level and pace of recovery are uncertain, and they will probably vary from one place to another. The instability of the credit markets, including the uncertainty regarding the payment of the sovereign debt of certain European Union member countries, the instability of the geopolitical environment in many parts of the world and the existence of other disruptions, may continue exerting pressure on the global economic conditions. The Company is exposed to risks related to the existence of adverse economic conditions, including the risk of economic slowdown, rising inflation and the disruption, volatility and contraction of the credit markets and the capital markets. Additionally, the changes in the economic and financial position of the countries in which the Company operates and markets its products may affect the confidence level and the purchase power of the consumers.

The recovery level of the financial markets continues to be uncertain and there is no guarantee that market conditions will continue improving in the near future. Even when the economy recovers in certain markets, it is possible for the consumers to decide to cut expenses, make purchasing decisions based mostly on factors related to the value and the price and choose to consume distilled alcoholic beverages in their homes instead of restaurants, bars and hotels. In addition, governmental authorities may establish taxes and implement other austerity measures to control the economic condition, which may have an adverse effect on the Company's operations. The persistence or impairment of the financial and macroeconomic condition, or of some or several of the trends described above, may have a material adverse effect on the Company's sales, profitability and results of operations and may force it to recognize impairment charges of its brands in order to reflect any reduction in their fair value.

The Company's operations are also subject to various risks and uncertain factors related to the fact that their products are sold in many countries, including the political, economic and social instability risk; the imposition of restrictions to imports, investments or foreign exchange trading, including the establishment of import tariffs and quotas; and the imposition of restrictions in the repatriation of capital and earnings. There is also the possibility of political, tax or social unrest, health problems (including pandemics) and threats or terrorist acts in several parts of the world, which would affect the commercial activity, tourism and travel. These disruptions may affect the Company's capacity to import or export products and repatriate resources; and may also affect the consumer's demand and, therefore, the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The demand of the Company's products may be adversely affected by the changes in consumer preferences and tastes.

The maintenance of the Company's competitiveness level depends on its capacity to offer attractive products for the consumers. Consumer preferences may change as a result of several factors, including changes in the demographic and social trends, holiday and leisure activities patterns and economic position impairment, which may affect their purchasing decisions of the Company's products. The Company's future success will depend on its capacity to foresee the changes in the consumer's behavior and tastes and to efficiently respond to such changes. Additionally, the concerns related to the health effects of consuming alcohol (including the concerns arising from negative publicity), the negative dietary effects of consuming distilled alcoholic beverages, the steps taken by the regulatory authorities and the filing of disputes or complaints by the consumers against companies belonging to the alcoholic beverages industry, may also have an adverse effect on the Company's operations. The competitiveness of the Company's brands may also be adversely affected by the lack of consistency in the quality of the products or services offered to the consumers (including the bottles in which the beverages are offered).

In addition, both the introduction of new products and their lasting success, are by definition of an uncertain nature, particularly in terms of their appeal to consumers. The inability to successfully introduce new products may result in the discount in books of such products' inventory, the generation of other costs and the effect on consumers' opinion of other brands. Growth in the Company's operation has been based both on the introduction of new products and on the acquisition and continuous development of existing products. There is no guarantee that the Company will continue having success in the development and introduction of new products or variations of already existing products, or regarding the term in which the newly created products or recently developed products will be profitable.

Any significant change in consumer preferences, or any lack of anticipation and response to such changes, may affect the demand of the Company's products and cause an impairment in the Company's activities, financial position, results of operations, cash flows and outlook, and in the market price of its Shares.

The reduction in the social acceptance of the Company's products, the adoption of governmental policies against distilled alcoholic beverages or the reception of negative publicity may have a material adverse effect on the Company's operations.

The Company's capacity to market and sell its distilled alcoholic beverages largely depends on the attitudes of the society regarding alcohol consumption and on the governmental policies derived from such attitudes. In recent years, the distilled alcoholic beverages industry has been subject to an increasing level of attention at a social and political level. This attention has been focused to a large extent on public health issues related to alcohol's harmful effects, including driving under the influence of alcohol, underage drinking and the health consequences of the harmful use of alcohol. In the United States and Europe, those who criticize alcohol consumption have been exerting a growing pressure for the adoption of governmental measures that raise the price of distilled alcoholic beverages, limit their availability and hinder their advertising and promotion. If the social acceptance of distilled alcoholic beverages were to decrease substantially, the sales of the Company's products would be significantly affected. The Company's sales could also decrease if the governmental authorities prohibit or restrict promotional activities, increase the minimum age to consume alcohol, increase taxes on distilled alcoholic beverages or adopt other measures aimed at reducing the levels of alcohol consumption. In addition, the articles published by the press or the reports of other media regarding the Company's operations, brands, products, personnel, operations, organization, performance or outlook, may have an adverse effect on the Company's operations, regardless of the veracity of the information contained in such articles or reports. Since the Company produces consumer goods of renowned brands, the reception of negative publicity may affect its operations if the consumers move away from the brands or products subject to such publicity.

The Company's market share or margins may decrease due to the level of competition.

The Company faces a strong competition from several international, local or regional companies in the countries in which it operates. The Company competes with producers of distilled alcoholic beverages for a broad range of consumption occasions. Over the last two decades, the distilled alcoholic beverages industry has consolidated itself in a significant manner, and as a result of this, there are many companies – including the Company's main competitors – that offer several brands and have global presence, creating an extremely competitive environment. Notwithstanding the foregoing, there are still various categories in which consolidations or realignments may occur. Additionally, in many countries, the Company's clients are also consolidating themselves. The appearance of new competitors in the markets in which the Company operates, the changes in the marketing levels or in the pricing policies of its competitors, the unexpected actions by its competitors or clients, the additional consolidation of its competitors or clients, or the introduction of new products or brands, or of products or brands that compete with its products or brands, the operational or other type of limitations in the product distribution, may exert pressure on the Company's prices or cause a reduction in its market share, which could have a material adverse effect on the Company's operations.

The establishments that sell the Company's products, both wholesale and retail, also offer other products that compete directly with the Company's products in terms of shelf space, placement of displays and attraction of buyers. The pricing policies designed to attack one or several brands of the Company (including offering sales and discounts, the implementation of marketing activities, the introduction of new products and the adoption of other competitive measures by other suppliers or by the distributors or establishments that sell the Company's products) and the policies or decisions of the establishments in which the products are offered, could also have an adverse effect on the Company's sales and financial results. During the periods of economic slowdown, consumers tend to be more price-sensitive and make more purchases in stores and other discount establishments. Therefore, the effects of the competition could be aggravated upon the existence of an unfavorable economic environment, affecting the Company's financial position and results.

The potential responsibilities and costs resulting from disputes against the distilled alcoholic beverages industry may an adverse effect on the Company's activities.

The filing of disputes or complaints by consumers or governmental authorities as a result of quality problems, the development of diseases or the suffering of injuries, from the harmful effects of alcohol, the illegal sale of distilled alcoholic beverages to minors, the advertising or promotion of distilled alcoholic beverages targeted to minors, health concerns and other matters related to the harmful use of alcohol, may affect the distilled alcoholic beverages industry. In the event such disputes result in the imposition of fines, generate damage compensation obligations or affect the prestige of the Company's brands, the Company's operations may be adversely and significantly affected.

The decisions of regulatory authorities and the reforms in the laws and regulations of the countries in which the Company operates, may limit their activities or increase their operating costs or liabilities.

Since the Company participates globally in the distilled alcoholic beverages industry, its activities in each one of the countries in which it operates are subject to an extensive regulation, including regulations in terms of production, responsibility, distribution, imports, marketing, promotion, labelling, packaging, advertising and, more generally, labor relations, economic competition, commercial and pricing practices, sales, pensions, anti-corruption, money laundering and environmental performance. Both, the decisions of the regulatory authorities and the amendment to the requirements established in the applicable laws and regulations, may force the Company to incur in significant costs or liabilities which could have an adverse effect on its operations. The governmental authorities of the countries in which the Company operates may establish new taxes; new requirements in terms of labelling, products or production; new restrictions regarding advertising and the promotional activities used to trade distilled alcoholic beverages; new restrictions to commercial establishments; other types of restrictions in terms of marketing, promotion and distribution; restrictions regarding the places, schedules or occasions in which the sale or consumption of alcohol is permitted; or other restrictions regarding the minimum age to consume alcohol. Any of the above may, directly or indirectly, limit the sales of the Company's products. In addition, it is possible that the regulatory authorities of the jurisdictions in which the Company operates have powers to force it to adopt measures such as the withdrawal of products from the market, seizure of products, suspension or revocation of the required licenses for the operation of its business, fines and the imposition of other sanctions which may involve significant costs and may have an adverse effect on the Company's sales and prestige.

Tax increases and tax reforms may have an adverse effect on the demand of the Company's products.

Distilled alcoholic beverages are subject to the payment of import tariffs or special taxes in many countries in which the Company operates. Many states of the United States and other jurisdictions are assessing proposals to increase special taxes on alcoholic beverages; some governments have already substantially increased the rates of such taxes. The additional increase of the import tariffs or the special taxes may cause price increases and affect the consumption levels of distilled alcoholic beverages in general or induce the consumers to change to beverage categories subject to lower taxes or of a lower price, which could have an adverse effect on the sales, profit margin, sales and financial position and results generated by the Company's sales. In addition, the Company may become involved in tax conflicts related to income taxes in different markets, which if resolved unfavorably, may generate significant costs for us.

***Payment obligations of taxes on the sale of distilled alcoholic beverages as a result of third-party fraudulent acts, may affect the Company's activities*.**

Cross-border sales of distilled alcoholic beverages, particularly in the European Union, involve tax obligations. The elimination of internal borders and the resulting elimination of the customs inspections in the European Union have facilitated the emergence and development of the so-called “gray markets”. The considerable differences in the taxation of distilled alcoholic beverages sales in the various member states of the European Union may give rise to administrative documents falsification in order to avoid paying taxes. Although the Company has implemented procedures for the approval of new clients and carries out a periodic audit process of its clients to reasonably ensure that they are entities with legitimate transactions, the Company cannot guarantee that it will uncover the commission of fraudulent acts by third parties. Such acts may cause the Company to result responsible for the payment of taxes on the sale of its products. In addition, the development of gray markets further increases competition. Tax evasion allows the operators of the gray markets to offer products at much lower prices, which puts pressure on the prices of the Company's products.

The Company may be unable to protect its industrial property rights.

The success of the brand products industry in general and the success of the Company's operation in particular, largely depends on its capacity to protect its brands, trade names, names and designs and to defend its industrial property rights. The Company has made important investments to protect its industrial property rights, including investments in the registration of its brands, industrial designs and domain names. However, the Company cannot ensure the measures adopted to protect its industrial property rights will be sufficient or that such rights will not be violated or unduly used by third parties. Given the level of appeal of the Company's brands for the consumers, the Company is exposed to the risk that third parties falsify their products, produce similar products or use its brands or trade names. The Company cannot ensure that the measures adopted to prevent, detect and eradicate the sale of falsified products will effectively protect it against the significant loss of earnings or against the impairment of their brand value as a result of the placement in the market of falsified products, of lower quality or, even, dangerous. Moreover, the level of protection of industrial property rights in some countries in which the country operates is lower than the level of protection of such rights in North America and Europe and, in general, requires using significant resources to obtain an effective protection. If the Company cannot protect its industrial property rights against their violation or improper use, this could have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

Tequila's Denomination of Origin could deteriorate.

Tequila's Denomination of Origin dates back to 1974. The territory covered by the Denomination of Origin includes the entire State of Jalisco, and certain municipalities of Guanajuato, Nayarit, Michoacán and Tamaulipas. The Denomination of Origin forces tequila producers within this region to follow very stringent rules in the cultivation of Blue Agave and the production of tequila.

Additionally, mezcal has a Denomination of Origin since 1995. In the case of mezcal, it can only be produced in the states of Oaxaca, Guerrero, Zacatecas, Durango, San Luis Potosi, Tamaulipas, Guanajuato and Puebla.

The denomination of origin that covers both tequila and mezcal is essential for the protection of the Company's brands. Even though the Company looks after the strict compliance of the rules imposed by Mexican authorities in order for its products to be protected by such rules, the Company may involuntarily infringe them or such denominations may deteriorate or lighten their standards, which may affect its consumers' perception, and, therefore, its sales, even when the quality of its products is maintained.

The contamination of the Company's products or the development of other events that affect the integrity of its brands or the loyalty of its customers may have an adverse effect on the sales of such brands.

The success of the Company's brands depends on the consumers having a positive image of such brands. The contamination of its products, whether accidentally or as a result of intentional actions from third parties, or the occurrence of other similar events that affect the integrity of such brands or the loyalty of the consumers to such brands, may have an adverse effect on the sales of such brands. Except for the Blue Agave used by the Company, which is mostly produced by the Company, it purchases many of the raw materials used in the elaboration of its products, whether in the domestic market or in the imports market. The Company has a quality validation process of the raw materials when these are received, however, as it is performed by sampling, such process offers a reasonable, but not a total assurance in terms of compliance with the quality standards. The presence of contaminants in such raw materials, or the existence of defects in the distillation or bottling processes, may result in the production of low-quality beverages, contaminated, or with foreign bodies, among others, resulting in the voluntary or mandatory withdrawal of such beverages from the market or in injuries to the consumers, which may cause a decrease in the sales of the affected brand or in the sales of all the Company's brands.

The increase in the cost of raw materials or energy resources may affect the Company's profitability.

The Company, in the ordinary course of its business, purchases certain amount of raw material for the production of its products in the domestic market and in international markets. The prices of such raw materials may fluctuate and are determined mostly by global demand and supply, and by other factors that are beyond the Company’s control, including the exchange rate. The changes in the prices of the supplies may result in increases in the cost of raw materials, glass bottles and the other packaging materials for the Company's products. In addition, the increase in the costs of energy resources may lead to the increase of transportation costs, freight costs and other operating costs. In the past, the Company has experienced important increases in the costs of its supplies and energy resources, and such costs may continue to increase. It is possible for the Company to not be able to increase its prices in order to offset the increase of these costs without experiencing a reduction in its sales volumes, in the revenue generated from its sales or in its operating income.

The disruption in the operations of any of the main production facilities or warehouses, may have an adverse effect on its results of operations.

The Company's operations would be adversely affected if any of the main distilleries, bottlers or warehouses, or any of the distilleries, plants or bottlers of the third parties' products that the Company distributes, has a failure. Particularly, the products that would be affected are those tequila products aimed at the global market, which in 2018 represented 57% of the Company's sales value, which are exclusively produced in two distilleries located in Mexico and are bottled in two bottling plants, one located in Mexico and the other located in the United States. The Company's capacity to supply tequila products would be adversely affected by an extended closure, the destruction or the inability to operate of any of such facilities, for reasons attributable to the Company or to third parties' actions, such as widespread unrest or actions directed to harming the Company. Any of these disorders, along with the loss of the production capacity, may generate legal responsibilities and damage the Company's prestige, adversely affecting its results of operations. Similarly, the loss of the aged Irish whiskey that is stored in Northern Ireland would have an adverse effect on the Company's financial results.

The Company's inability to obtain its main raw materials through independent suppliers may affect its financial results.

The Company's capacity to produce and sell its products depends to a large extent on the availability of quality raw material, including water, energy, Blue Agave and sugar for Tequila, barley for Irish whiskey, grain for US whiskey, aging barrels, packaging materials (glass, cap, label and cardboard). If the Company does not obtain sufficient quantities of all or the main materials it uses, its operations and financial results may be affected. If any of the Company's main suppliers ceases to comply with the requirements of necessary timeliness, quality or capacity, or stops doing business with the Company or increases its prices and the Company is not able to identify alternative suppliers under efficient terms regarding costs, this may a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

In the event of raw material shortages or an increase in labor costs or other operational costs, the Company's results may be adversely affected, mainly due to the potential inability to transfer the increase in costs or the shortage costs to the Company's consumers, through a price increase, without affecting its demand or sales.

Water constitutes an essential raw material for the elaboration of tequila products and is of great importance for the Company's operations. Water is essential, not only as an ingredient for the elaboration of tequila, but also as a source of steam for the distillation process and is an important element of the rest of the Company's beverages, both alcoholic and non-alcoholic. Additionally, the quality and the quantity of water available is important for the supply of Blue Agave. The state of Jalisco has a limited amount of water. If climate patterns change and droughts increase, or the Company's water supply is affected by any other factor, there could be a shortage or lack of water of the appropriate quality, which, in turn, could affect the Company's costs and production capacity. Regarding tequila, in accordance with the requirements of the applicable provisions, the Company's facilities have water usage concessions granted by the competent authority. However, the Company may be subject to actions or claims from the respective authorities that may affect its capacity to have the corresponding water concessions. The loss or limitation of the Company's water supply sources may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

Specifically, the Company's capacity to produce sufficient amounts of Blue Agave may affect its financial results.

To this date, tequila is the category that represents the greatest part of the Company's sales in volume and sales. Tequila is a distilled beverage from the Blue Agave. The Company produces the largest part of its Blue Agave supply in its plantations. The Company's capacity to elaborate tequila products depends on the availability of sufficient amounts of Blue Agave. If the Company is not able to produce or obtain from third parties sufficient amounts of Blue Agave, at competitive prices, the Company's operations and financial results may be significantly affected. Blue Agave, the growth cycle of which, for its optimal use is seven years in average, must be planted and cultivated within the territory covered by the Denomination of Origin. If such territory is affected by significant climate changes or by natural disasters such as droughts, heavy rains, earthquakes, pestilence or other adverse factors, the Company may be incapable of producing enough amounts of Blue Agave, which could result in a reduction of its tequila production volumes or an increase in its costs, which could in turn have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The occurrence of natural disasters may have an adverse effect on the Company's activities.

Periodically, several regions in Mexico (including in particular the Pacific coast and the central region) and certain areas of other countries in which the Company operates, suffer heavy rains and hurricanes (especially from July to September), and earthquakes. This type of natural disasters may prevent the completion of the Company's activities, damage its facilities and adversely affect the levels of consumer demand. In addition, any of these events may force the Company to make greater capital expenditures to reestablish the operating condition of its facilities. Therefore, the occurrence of natural disasters in the places where the Company's facilities are located may have an adverse effect on its activities, results of operations and financial position.

Although the Company has insurance policies that cover the entirety of its assets against risks related to natural disasters and other types of risks, the Company cannot guarantee that the losses derived from the damages suffered by the Company's infrastructure will not exceed the insured limits and will not significantly affect its activities, results of operations and financial position. In addition, even when receiving the payment of the corresponding insurance, it is probable that the repair of the damages caused by a natural disaster involves a considerable period of time, which could have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The physical effects of the climate changes and the resulting reforms to the applicable regulations may have an adverse effect on the Company's operations and its financial performance.

There is a growing concern in the sense that carbon dioxide and greenhouse atmospheric gases may have an adverse effect on the temperatures, climate patterns and frequency and severity of extreme events and natural disasters globally. In the event that climate change has adverse effects on the agricultural production, the availability of certain raw materials required for the elaboration of the Company's products -including sugar and Blue Agave- may decrease or their price may increase. The changes in the frequency or intensity of climate events could also disrupt the Company's supply chain, which may affect its production operations, the cost of raw materials and the coverage levels of its insurance and the delivery of products to its clients. In addition, since water is one of the main ingredients in the Company's products, its capacity to carry out its operations depends on the quality and quantity of water available. If the patterns of water cycles change and droughts become more frequent and severe, the regions where the Company's production facilities are located may suffer water scarcity. To the extent there is water scarcity and the quality of water available decreases, the Company's production costs may increase and its production capacity may decrease. Although the legislative and regulatory processes regarding climate change involve uncertainty, the enforcement of additional regulatory measures and the costs related to the compliance of such measures, may result in an increase in the Company's operating costs.

If the Company's forecasts regarding demand levels, production or other factors related to its inventories prove to be incorrect, such inventories may result insufficient or excessive.

The growth cycle of the Blue Agave plants -which constitute an essential raw material to produce the Company's tequilas- until their maturing and harvest, is of five to eight years. The Company has reserves of tequila stored in its warehouses in Mexico and has substantial reserves of Irish whiskey in the Bushmills warehouses. Rested and aged tequilas are subject to an aging process of at least two months and one year, respectively, and Irish whiskey is subject to an aging period of at least three years. The loss of all or a part of the Company's Blue Agave plants (including as a result of pests, diseases, droughts or heavy rains) may be irreparable and, therefore, may result in a substantial decrease in the supply of such products. Similarly, the loss of all or a part of the tequila or whiskey reserves inventory (including as a result of its contamination, fire, natural disasters or destruction due to negligence or actions of third parties), could also result in a substantial decrease in the supply of such products.

The forecast of the amount of Blue Agave plants that need to start being cultivated in a particular year in order to meet the future demand, entails inherent inaccuracy risks. The prediction of the Irish whiskey inventories that need to be stored in a given year for their future consumption, involves the same type of risks. The strategies used by the Company to forecast the consumer demand fluctuations, may result inefficient in certain years or regarding certain products or markets. This could result in the Company being unable to meet the future demand of its products and suffering losses of sales and market share, or in its future inventories resulting excessive and causing a reduction in its profit margin.

The Company's activities are subject to seasonal factors which may cause volatility in its results of operations from one quarter to another.

Just like the operations of the rest of the companies that belong to the distilled alcoholic beverages industry, the Company's operations are characterized by being subject to seasonal fluctuations in the demand levels, according to the consumption habits in the various geographical areas where the Company operates. In Mexico, the Company has higher sales between September and December of each year. In the United States, the Company generally experiences a sales increase from May 5th to July 4th. In the Rest of the World region, the consumption of Irish whiskey typically increases during November and December, resulting in a sales increase during the fourth quarter. While the effect of seasonal factors on the annual results may be limited when considering the entire operations of the Company, the Company's results of operations can vary considerably from one quarter to another, making it difficult to compare different periods, and the Company's net sales could be better during some quarters.

The termination of the distribution rights of the third-party brands that are currently part of the Company's product portfolio may have an adverse effect on its activities.

In addition to its owned brands, the Company sells and distributes products of other brands in representation of the owners of such brands in certain specific markets. The distribution rights of these products as an agent are derived from agreements entered into with the owners of the brands in question, which are subject to different terms regarding term, renewal, termination and other matters. As a consideration for the distribution of such products, the Company receives a margin on their sales (which is why the gross income attributable to such sales generally represents a smaller percentage of their sales value and its sales value less special taxes, than the gross income attributable to the sales of owned brand products) and in some cases, the Company also obtains efficiencies in its distribution costs. As a result, the termination of the distribution rights of third-party brands that are currently part of the Company's product portfolio may have an adverse effect on the Company's activities.

The inability to maintain good relationships with unions to which the Company's workers belong, may have an adverse effect on its financial position.

Certain events such as the Senate's ratification of Convention 98 concerning the right to free association and collective bargaining, the labor chapter of the United States-Mexico-Canada Agreement, which could replace NAFTA, and the initiatives submitted to the Congress to amend the Federal Labor Law (*Ley Federal del Trabajo*), have caused a destabilization of the collective labor environment in Mexico that, among other things, has been manifested in around 45 strikes in the city of Matamoros, Tamaulipas. Most of the companies that have been affected by these strikes have responded to the demands of the unions with significant wage and benefit increases. Additionally, the creation of new labor unions for the purpose of disputing collective bargaining agreements with the current unions, the 16.21% increase in the general minimum wage and 100% in the minimum wage applicable in the municipalities of the northern border strip of the country have contributed to such instability.

Approximately 11% of the Company's workers belong to unions. If the Company is involved in labor conflicts that cause stoppages, strikes or other disorders, the Company's operating costs may increase, its sales may decrease and the relationships with their clients may deteriorate, which may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The increase in the costs related to the personnel may have an adverse effect on the Company's results of operations.

The Company's results of operations may be adversely affected by an increase in the costs related to its personnel. Labor shortages, the existence of other general inflationary pressures and the amendment to laws and regulations applicable to labor matters, may increase the costs related to the Company's personnel, which may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The Company's inability to attract and retain qualified personnel may have an adverse effect on its operations.

The Company's success partially depends on the efforts and the capacity of its management team and its key employees. There is no guarantee that the Company will continue to have the capacity to recruit, retain and develop the human capital required to implement its strategies. The loss or retirement of relevant executives or other key employees, or the inability to identify, attract and retain qualified personnel in the future, may hamper the Company's operations management and may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares.

The estimated amount of the Company's obligations for pensions is based on assumptions that may change in the future.

The Company has significant obligations for retirement benefits under the protection of pension plans and other benefits to employees. These obligations are described in the notes to the Audited Financial Statements. Most of the Company's pension payment obligations are covered by funded plans. The obligations for retirement benefits that are not covered by funded plans, are recognized as liabilities in the Company's combined statement of financial position. The amount of these liabilities is determined based on actuarial assumptions, including, for example, discount factors, demographic trends, pension trends, future salary trends and expected return on the plans' assets. If the real circumstances divert from these assumptions, the retirement benefit liabilities recognized in the Company's combined statement of financial position may have a substantial increase.

It is possible that the Company's strategy regarding the acquisition and integration of new brands, do not work, in which case the Company's results of operations may be adversely affected.

The Company periodically acquires additional brands if it considers that they will provide a strategic advantage. There is the possibility that the Company is not successful in the production, marketing or sale of the products under the acquired brands, or that it is difficult for it to incorporate such brands to its operations in a way that they adapt to its business standards. The Company's capacity to increase the volumes of the brands acquired and to maintain or increase the profit margins generated by such brands, is important for its future performance. These acquisitions may expose the Company to unknown liabilities, may force it to incur additional debt and interest expense on such debt and may cause an increase in the Company's contingent liabilities. In addition, the afore-mentioned acquisitions may originate an impairment of the brands, and of the goodwill recognized on such transactions. In the future, the Company may not be able to identify acquisition opportunities of adequate brands under acceptable terms and conditions.

The law on economic competition and the establishment of other barriers for the integration of acquisitions may affect the Company's future opportunities to grow through mergers, acquisitions or co-investments.

The Company may look for other acquisition opportunities in the future. However, the Company cannot predict if it will be able to materialize the acquisition opportunities it identifies (among other reasons, due to restrictions regarding economic competition), to integrate the operations of the companies it acquires to its existing operations, or to retain the main employees, suppliers or distributors of such companies. In addition, there is no certainty that the acquisitions that the Company wishes to carry out in the future will not be challenged based on arguments related to economic competition matters. In such case, the Company may be forced to sell or transfer a part of its operations or may be precluded from consummating a particular acquisition. The Company's capacity to successfully grow through acquisitions depends on its capacity to identify, negotiate, consummate and integrate appropriate acquisitions and to obtain the necessary funding. These efforts may involve significant costs, require a large amount of time, cause disruption in the Company's existing operations or divert its management's attention.

It is possible for the Company to not obtain the expected benefits from the change programs installed in its systems, and their failure may disrupt its operations.

The Company's long-term strategy regarding its information technology includes the use of certain change programs designed to increase the effectiveness and efficiency of its systems and operating, administrative and financial processes at a company level, including, mainly, the development of a common technological platform that uses the SAP software globally. These programs may have a higher cost than expected and may not produce the expected operating benefits. The Company's production processes and possibly, the administrative processes and financial systems, may experience disruption as changes are implemented on such processes. In addition, such changes may cause unfavorable reactions from the Company's clients and consumers. Any failure in the Company's information systems may affect its capacity to perform its operations. As other large-sized systems, the Company's information systems may be infiltrated by third parties in order to obtain information, corrupt information or interrupt the production processes. The unauthorized access to the Company's information systems may disrupt its operation or result in asset losses.

The Company carries out related party transactions, who may create conflicts of interest and may result less favorable for the Company.

In the ordinary course of its activities, the Company carries out transactions with subsidiary companies and related parties. Particularly, the Company has carried out and will continue carrying out transactions with subsidiary companies for the distribution of its products abroad, and to distribute in Mexico certain products of brands that belong to related parties. The likelihood that the transactions with related parties will generate conflicts of interest is greater than in the transactions with third parties.

The inability to extend the Company's distribution agreements upon their expiration date, or the material changes in the terms of such agreements, may have an adverse effect on the Company's activities and financial performance.

Broadly speaking, in markets other than Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia, the Company has distribution agreements entered into with independent distributors. The Company selects distributors for each market individually and they generally include exclusivity regarding such brands. If it is not able to renew a significant portion of these agreements or to identify new suitable distributors, the global distribution of its products may be affected and that could have an adverse effect on its operations and financial performance.

Risk Factors related to Mexico

The existence of unfavorable economic and political conditions in Mexico may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and/or outlook, and the market price of its Shares.

The Company is organized under the laws of Mexico and carries out most of its productive operations in Mexico, for which it depends to a large extent on the performance of the Mexican economy. As a result, the Company's activities, financial position, results of operations, cash flows and outlook, and the market price of its Shares, may be adversely affected by the country's general economic conditions, which is beyond its control. In the past, Mexico has gone through economic crisis periods as a result of both internal and external factors, which have been characterized by the instability of exchange rates (including significant devaluations), high inflation and unemployment rates, interest rate increases, contraction of the economic activity, reduction of capital cash flows from abroad and lack of liquidity of the banking sector. These conditions may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows, and/or outlook, and on the market price of its Shares.

Currently the Mexican government does not limit the capacity of Mexican natural or legal persons to convert Pesos into Dollars (subject to certain restrictions in the case of cash transactions that involve the payment of amounts in Dollars to Mexican banks) or other currencies. In the past, the Peso has suffered substantial devaluations against the Dollar and may substantially devaluate in the future. Significant devaluations or depreciations of the Peso may give rise to the establishment of restrictive foreign exchange policies by the Mexican government, as has previously occurred in Mexico and in other Latin American countries. Fluctuation in the value of Peso against the Dollar affects the value, considered in Dollars, of the securities listed in the BMV, including the Company's shares. Therefore, fluctuations in the value of the Peso against other currencies, including particularly the Dollar, may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows, and/or outlook, and on the market price of its Shares. See the section “Exchange rates”.

As a result of the substantial effects of the global economic crisis that broke out in 2008, in 2009 Mexico's Gross Domestic Product (“GDP”) decreased 6.1%, which is the highest reduction percentage reported since 1932 according to World Bank statistics. However, in 2016, 2017 and 2018, the GDP grew 2.7%, 2.3% and 2.0%, respectively. In the event the national economy suffers a new downturn, the inflation rate or the interest rates increase substantially, if the Mexican government bonds' rating is downgraded or the national economy is affected by any other cause, the Company's activities, financial position, results of operations, cash flows and/or outlook, and the market price of its Shares, may be significantly and adversely affected.

The changes in the Mexican government's policies may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows, and outlook, and the market price of its Shares.

The Mexican government has had and continues having a substantial influence on the national economy. The measures adopted by the Mexican government with respect to the economy and the State productive companies may have a significant effect on private sector companies in general, and particularly on the Company, and on market conditions and prices and on the yields of Mexican issuers' securities, including the Company's Shares.

The last presidential and congressional elections were held in July 2018. Andrés Manuel López Obrador, candidate of the National Regeneration Movement (*Movimiento de Regeneración Nacional*), or Morena, party, was elected President of Mexico and took office on December 1, 2018. Likewise, Congressional elections in Mexico, also held in July 2018, resulted in an absolute majority for Morena as a result of Morena's “Together We'll Make History” strategic coalitions with the Labor Party (*Partido del Trabajo*) and the Social Encounter Party (*Partido Encuentro Social*). Mexico's next federal legislative elections will be in July 2021. During the political campaign, several proposals were submitted by candidates to the executive branch, and by candidates to federal legislatures, including some that contemplated the possibility of amending and/or repealing certain reforms introduced by the previous administration. In this sense, as has historically happened in any change of administration and/or legislature, the government may introduce important changes in the laws, policies and regulations, and reduce or eliminate the independence of semi-autonomous or decentralized bodies or agencies, which may have an effect on the country's economic and political conditions. As usually occurs in administration and legislative changes, the Company cannot predict if the new administration and legislature may implement substantial changes on Mexico’s existing laws, policies and regulations, and, if applicable, if such changes may have a material effect on the Company's business and its financial position results of operations, cash flows and/or outlook, and the market price of its securities. As a result of the foregoing, the Company cannot guarantee the effect that the political environment in Mexico may have on the securities of the Company.

The aforementioned coalition will control an absolute majority of the legislature, which could result in further reforms and secondary regulations in key sectors of the Mexican economy. As part of the new administration's policies, continuing with the construction of the so-called “New Mexico City International Airport (*Nuevo Aeropuerto Internacional de la Ciudad de México*) (NAICM)” was submitted for national public consultation. The outcome of the consultation, announced on October 28, 2018, was to discontinue construction of the NAICM and, instead, build a new airport network consisting of three airports near the metropolitan area of Mexico City. In statements following the announcement of the outcome of the consultation, the new administration stated, among other things, that during its six-year term more similar consultations will be held on issues of national interest. The potential consequences of these consultations, if carried out or adopted, on the Mexican economy or financial markets cannot be prevented at this time. As with any change in administration where new government policies are implemented, the Company cannot predict whether, and to what extent, such policy will affect it or whether its operations, financial position, results of operations or the legal framework under which it operates will be affected by such measures.

Unexpected tax reforms may be approved.

Tax law in Mexico suffer constant amendments for which it cannot be ensured that the tax regime will not suffer amendments in the future that may affect the Company's activities, financial position, results of operations, cash flows and/or outlook, and the market price of its Shares.

The Company cannot guarantee that the current political conditions or the future events in Mexico will not have a material adverse effect on its activities, financial position, results of operations, cash flows, outlook and/or the market price of its Shares.

The development and consolidation of the collective actions system may adversely affect the Company's operations.

Since 2011, there is a legal framework in Mexico that enables the exercise of collective actions with respect to goods and services' consumer relations and the environment. This may result in the filing of collective actions against the Company by its clients or other market participants (including organizations seeking to protect the environment). Due to the lack of legal precedent in the interpretation and enforcement of such laws, the Company cannot anticipate the filing of collective actions against it, the result of any collective action filed against it according to such laws, including the scope of any liability and the effect of such liability on its activities, financial position, results of operations, cash flows, outlook and/or the market price of its Shares.

Fluctuation in the value of the Peso against the Dollar and other currencies may have an adverse effect on the Company's financial position and results of operations.

As of December 31, 2018, 100% of the Company's total debt with cost was denominated in Dollars. In the event of a devaluation or depreciation of the Peso, the sales and profits for the Mexican market would be adversely affected, but the revenue from the sales of tequilas abroad would be benefitted if invoiced in Dollars. Since the Company bills the great majority of the tequilas and of Bushmills abroad, the Company considers that the devaluation of the Peso would not have an adverse effect on the Company's results or threaten its liquidity, however, this could change to the extent the Company were more dependent on the Peso in the future. While the interests or amortization of foreign currency debt are lower than the profit obtained from sales abroad, the Company would maintain a natural hedge for debt in Dollars.

The Mexican Central Bank (*Banco de Mexico*) may participate in the foreign currency market to minimize the volatility and promote and orderly market. The Mexican Central Bank and the Mexican government have also promoted mechanisms based on the market to stabilize exchange rates in foreign currency and provide liquidity to the exchange market. However, the Peso is currently subject to significant fluctuations against the Dollar, and may be subject to these fluctuations in the future.

The decision of the U.S. Federal Reserve to increase the interest rates in bank reserves may also affect the Peso-Dollar exchange rate.

Fluctuations in exchange rates may have an adverse effect on the Company's capacity to acquire assets denominated in other currencies and may also have an adverse effect on the performance of the investments in these assets. Therefore, the value denominated in Dollars of the Company's investments may be adversely affected as a result of the reductions in the value of the Peso with respect to the Dollar.

The Group's functional currency is the Mexican peso, except for some of its subsidiaries that reside in the United States of America ("USA"), the United Kingdom ("UK"), Europe ("EU"), Canada ("CAN") and Australia ("AUS"), where the functional currencies are their local currency, specifically, the American Dollar ("USD"), the Pound Sterling ("GBP"), the Euro ("EURO"), the Canadian Dollar ("CAD") and the Australian Dollar ("AUD"), respectively. Transactions in foreign currency are converted to the respective functional currency of the Company's entities at the exchange rates on the date of the Audited Financial Statements. Monetary assets and liabilities denominated in foreign currencies as at the date of the Audited Financial Statements are converted to the functional currency at the exchange rate on such date. The Company is exposed to exchange risk for the sales, purchases and loans denominated in a currency that is different from the functional currency of the Company's subsidiaries.

While most part of the Company's cash flows are generated in foreign currency, which provides a natural economic hedge without the need of entering into derivative agreements regarding foreign currency cash outflows, the Company may not have a hedge regarding all its foreign currency risk. In addition, the Company has other monetary assets and liabilities denominated in foreign currency, with respect to which, the Company seeks for its net exposure to be maintained within an acceptable level through the purchase and sale of foreign currencies at exchange rates of spot transactions, however, there is no certainty that such purchases will be able to eliminate the exchange rate volatility risk.

Severe devaluations or depreciations to the Company's functional currency and its subsidiaries may also result in the interruption of the international currency exchange markets. This may limit the Company's capacity to transfer or to convert Pesos into Dollars and into other currencies. For example, in order to make timely interest and principal payments of the Company's securities, and of any debt denominated in Dollars in which the Company may incur in the future, devaluations or depreciations may have an adverse effect on the Company's financial position, results of operations and cash flows in future periods.

An increase in the interest rates in the United States may have an adverse effect on the Mexican economy, and therefore, have an adverse effect on the Company's financial position or performance.

A decision of the U.S. Federal Reserve to increase the interest rates in bank reserves may result in an increase of the interest rates in the United States. This, instead, may re-direct the flow of capital from emerging markets to the United States, since investors may obtain greater yields adjusted to the risks in larger and more developed economies, instead of Mexico. Therefore, for the companies in markets of emerging economies, such as Mexico's, obtaining loans or refinancing their existing debt, could be more difficult and costly. This could have an adverse effect on the Company's economic growth potential and the possibility of refinancing its existing debt and may have an adverse effect on the Company's activities, financial position, results of operations, cash flows and/or outlook, and the market price of its Shares.

Any renegotiation of the commercial agreements or other changes in the foreign policy in the United States may affect imports and exports between Mexico and the United States, and other economic and geopolitical effects may adversely affect the Company.

As a result of the November 2016 U.S. elections and the change in U.S. presidential administration in January 2017, there has been uncertainty regarding U.S. policies relating to trade, tariffs, immigration and foreign relations, including with respect to Mexico. Although on September 30, 2018, the United States, Mexico and Canada signed a new trade agreement to replace NAFTA, the USMCA, will not be effective until the relevant legislative approvals are obtained in each country. It is possible that the USMCA will not be approved and implemented. Additionally, as long as NAFTA remains in effect, both the U.S. and Mexican administrations have mentioned their willingness to withdraw from NAFTA under certain circumstances. The Mexican economy has become very dependent on the U.S. economy due to the high level of economic activity between the two countries, including trade and investment, which is facilitated by NAFTA. The NAFTA renegotiation process has slowed economic growth in Mexico because of the uncertainty it has created. The current status of the USMCA creates even more uncertainty. Any withdrawal from trade agreements or additional negotiations of the terms of trade agreements between the United States and Mexico could have a material effect on the Mexican economy, including the level of imports and exports, national and foreign investment, economic activity and employment. Such impacts could have a material effect on the Company's activities, financial position, results of operations, cash flows and/or outlook, and the market price of its securities, other economic and geopolitical effects, including those related to U.S. trade policies, may adversely affect the Company.

Inflation in Mexico, along with governmental measures to control the inflation, may have an adverse effect on the Company's investments.

The current level of inflation in Mexico continues being higher than the annual inflation rates of its main business partners. High inflation rates may have an adverse effect on the Company's business, its financial position and its results of operations. If Mexico suffers again a high level of inflation in the future, the Company cannot ensure that it will be capable of adjusting the prices it charges its clients for its product to compensate its adverse effects.

Mexico has suffered an increase in the criminal activity, which has caused an effect on the national economy, which may affect the Company's operations, and its financial position and performance.

In the past few years, Mexico has suffered a period of increase in criminal activity, mainly as a result of the organized crime. The increase in violence has had adverse effects on the country's economic activity.

In addition, the social instability and the adverse social and political events developed in Mexico or that affect the country, may also have a significant effect on the Company and its performance. Violent criminal actions could result in an increase in the Company's insurance and safety expenses. The Company cannot guarantee that the violence level in Mexico -which is beyond its control- will decrease or will not increase. The increase in crime may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and/or outlook, and on the market price of its Shares.

Interest rates in Mexico could increase the Company's financial costs.

Historically, Mexico has had high real and nominal interest rates. Interest rates of 28-day CETES for 2015, 2016, 2017 and 2018 at closing were 3.16%, 2.74%, 3.05%, 5.69%, 7.22% and 8.25%, respectively. As a result of the economic slowdown in Mexico during 2013 and the convergence with a 3.1% inflation, the Mexican Central Bank decreased its reference interest rate, in an effort to promote credit and stimulate the economy. In the medium term, recently the Mexican Central Bank has increased its reference interest rate by virtue of the country's current economic condition. As a result, if the Company incurs debt denominated in different currencies, including the Peso in the future, it could be at higher interest rates.

The Company is subject to different accounting and disclosure of information principles compared to companies of other countries.

One of the main purposes of the securities market regulations in Mexico, the United States and other countries, is to promote the complete and fair disclosure of all the corporate information, including the accounting information. However, there could be less or different public information available regarding foreign securities issuers compared to the information that is regularly published by securities issuers listed in the United States. The Company is subject to obligations related to the filing of reports regarding its Shares in Mexico. The accounting standards of disclosure of information required by the BMV and the CNBV in Mexico may be different than those established by the stock exchanges of other countries or regions such as the ones of the United States. As a result of this, the level of information available may not correspond to the level of information that foreign investors usually receive. In addition, the accounting rules and information requirements in Mexico differ from those in the United States.

The events occurring in other countries and the risk perceptions of the investors, especially with reference to the United States and to countries with emerging markets, could have an adverse effect on the market prices of the securities issued by Mexican issuers, including the Company's Shares.

The market prices of the securities issued by Mexican issuers are affected to different extents by the economic and market condition in other places, including the United States, China, the rest of Latin America and other countries with emerging markets. Therefore, investors' reactions in light of the events occurred in any of these countries, may have an adverse effect on the market price of the securities issued by Mexican issuers. The crisis occurring in the United States, China or in countries with emerging markets, may cause reductions in the interest levels of securities issued by Mexican issuers – including the Company's Shares – by the investors.

In the past, the emergence of adverse economic conditions in other emerging countries has caused capital flights resulting in reductions in the value of foreign investment in Mexico. The financial crisis that arose in the United States during the third quarter of 2008, unleashed a global economic downturn that affected directly and indirectly Mexico's economy and stock markets and caused, among other things, fluctuations in the purchase and selling prices of the securities issued by companies listed in the BMV, credit crunch, budget cuts, economic slowdown in Mexico, exchange rates volatility and inflationary pressures. The recent crisis in other economies such as Europe and China, may have such effect. The re-emergence of any of these conditions would adversely affect the Company's market price of its Shares and would hinder the Company's access into the capital markets to finance its future operations, which in turn may have a material adverse effect on the Company's activities, financial position, results of operations, cash flows and/or outlook, and on the market price of its Shares.

The national economy is also affected by the economic condition of the global markets, and in the United States in particular. For example, historically the price of securities listed in the BMV have been sensitive to fluctuation in interest rates and the levels of activity in the main stock markets of the United States.

In addition, as a result of the NAFTA and the increase in the levels of economic activity between Mexico and the United States, over the last few years, the national economic conditions has been increasingly linked to economic conditions in the United States. The existence of adverse economic conditions in the United States and other similar events, may have an adverse effect on Mexico's economic conditions, which could, in turn, have a material adverse effect on the Company's activities. As a result of the discussions to renegotiate NAFTA, on November 30, 2018, the United States, Canada and Mexico signed the Mexico-United States-Canada Agreement ("USMCA"). Although the USMCA is intended to replace NAFTA, the USMCA has not yet become effective as it is still subject to ratification, including legislative approval in all three countries. In this regard, NAFTA remains effective. However, the U.S. and Mexican administrations have indicated their willingness to withdraw from NAFTA under certain circumstances. Additionally, it is possible that the USMCA will not be approved and implemented. If such events occur, they could have an adverse effect on the Company's business and operations. Any action taken by the current U.S. or Mexican administration, including termination of or any change to NAFTA or the USMCA, could have an adverse effect on the Mexican economy, such as reductions in remittance levels, reduced trade activity, bilateral trade, or reduced direct foreign investment in Mexico. Additionally, increased or perceived economic protectionism in the United States and other countries could lead to lower levels of trade, investment, and economic growth, which in turn could have an adverse effect on the Mexican economy. These economic and political consequences could have an adverse effect the Company's business and results of operations.

The Company cannot guarantee that the events in the United States, in countries with emerging markets or in other places, will not have a material adverse effect on its activities, financial position, results of operations, cash flows, outlook and/or the market price of its Shares. Additionally, there is uncertainty in the global markets due to the referendum of June 2016 regarding the permanence of the United Kingdom in the European Union and to the voting result of abandoning the European Union ("Brexit"). The terms of the UK's exit from the European Union are not clear. The UK's formal notice to the European Union in terms of Article 50 of the Treaty on European Union took place on March 29, 2017, starting the two-year period during which, the Brexit terms will be negotiated. In March 2018, the United Kingdom and the European Union announced an agreement in principle to transitional terms under which EU regulations will remain in force in the United Kingdom until the end of December 2020, however, this is subject to a final agreement on Brexit. In the absence of the abovementioned agreement, there would be no transitional terms and Brexit would occur on 31 October 2019. It is possible that the choice of the United Kingdom of leaving the European Union will have a significant effect on the macroeconomic conditions of the United Kingdom, the European Union and the rest of the world. Immediately after the Brexit vote there were significant devaluations of the Pound Sterling. In the days following the Brexit vote, the performance of global financial markets, particularly the international equity markets, were significantly affected. Even when the long-term effects of the Brexit on the capital markets, on the exchange markets and on the macroeconomic policies and condition are uncertain and will largely depend on the outcome of the Brexit negotiations, it is likely that there will continue to be a period of instability and volatility of the global financial markets until the terms and timing of the exit of the United Kingdom from the European Union are clear. As a result of this, Brexit can adversely affect the political, regulatory, economic or market conditions and contribute to the instability of global political institutions, regulatory agencies and financial markets, having an adverse effect on the Company's business, results of operations and financial position.

Risk Factors related to the Company's Shares.

If securities or industry analysts do not publish investigations or reports on the business, or they publish negative reports on the business, the price of shares and the volume of listings may decrease.

The Company's Shares trading market depends partly on the research and reports that the securities or industry analysts publish on the Company or its business. If one or more analysts covering the Company review its Shares downwards or publish inaccurate or unfavorable research on the Company's business, the price of the Shares could decrease. If one or more such analysts stops covering the Company or does not regularly publish reports on it, the demand for its Shares may decrease, which may cause a reduction in the price of the Company's Shares and in the volume of listings.

It can be considered that the Company is controlled by a single family.

Most of the Company's shares outstanding belong to the Beckmann family. Therefore, the Beckmann family has the power to appoint most of the members of the Company's Board of Directors and to approve matters that need to be voted by the shareholders. The interests of the Company's majority shareholders may be different than the interests of the rest of the investors.

Future securities offerings or future securities sales by the Company's controlling shareholders, or the perception that such sales can occur, may result in a reduction in the market price of the Company's shares.

In the future, the Company could issue additional securities, including shares or instruments that are convertible into or exchangeable for shares, for financing, acquisitions or any other purpose. In addition, the Company's controlling shareholders could reduce their shareholding interest in the Company.

Such issues or sales, or their prospect, may result in a dilution of the economic and corporate rights of the shareholders with respect to the Company, or in a negative market perception and, potentially, in a decrease in the market value of the Company's Shares.

Future securities offerings with preemptive rights to the Shares may limit the Company's operating and financial flexibility and may adversely affect the market price of the Shares and dilute their value.

If the Company decides to issue debt instruments in the future with preemptive rights to its Shares, the terms of such debt instruments or financing could impose liabilities on the Company that restrict its operating flexibility and limit its capacity to make distributions to its shareholders. In addition, any convertible or exchangeable securities that the Company issues in the future could entail preemptive rights or benefits, including with respect to the payment of dividends or distributions, greater than those of the holders of the Company's Shares and which may result in a dilution of the Shares' value. Since the Company's decision to issue securities in the future will depend on market conditions and other factors that are beyond the Company's control, it cannot predict or estimate the amount, timing or nature of any future offering or financing, which may result in a decrease in the market price of the Shares and the dilution of their value.

The Company may incur additional debt in the future, which may affect its financial position and its capacity to generate enough cash to comply with its payment obligations.

As of December 31, 2018, 2017 and 2016, the Company had $9,793 million, $9,829 million and $10,260 million in total debt, respectively. In 2015, the Company issued senior notes for US$500 million ($7,631 million) at a fixed rate of 3.75%, maturing in 2025. In the future, the Company may incur additional debt which may lead to the following effects:

- Limit the Company's capacity to pay its creditors;
- Increase the Company's economic vulnerability and the conditions of the industry in general;
- Require for the Company to use an important portion of its cash flow to repay debt, which may put it in a disadvantaged position with respect to its competitors with less total existing debt;
- Limit the Company's flexibility to plan or respond to changes of the business or the industry;
- Affect the Company's capacity to make acquisitions or implement expansion plans;
- Limit the availability of cash for the payment of dividends;
- Limit the Company's capacity to obtain additional financing;
- Limit the Company's capacity to be guarantor; and
- Increase the cost of additional financing.

In addition, if there is a change of control (in accordance with the defined terms of the 2025 Notes), the Company must offer to buy all the remaining 2025 Notes at 101% of the principal amount plus the unpaid accrued interest as of the repurchase date. As of the date of such change of control, the Company may not have enough funds available to repurchase all the remaining 2025 Notes according to these requirements. The failure to purchase the remaining 2025 Notes would be deemed as a default according to the obligations under the 2025 Notes. To avoid the repurchase obligation of the 2025 Notes, the Company may have to avoid certain change of control transactions that would otherwise be beneficial for the Company or its shareholders.

Dividends may be less than those historically declared, or the Company may determine that it will not pay dividends, and if applicable, these may be paid in Pesos.

Dividend payments and their amount are subject to the approval of the Company's shareholders meeting based on a recommendation by the Board of Directors. While the Beckmann family holds most of the Shares representing the Company's capital stock, the Beckmann family will have the power to decide if dividends are paid and, if applicable, to determine their amount. Dividend payment and the adoption of a dividend policy will depend on a series of factors, including results of operations, financial position, cash flow requirements, business outlook, tax implications, financing terms and conditions which may limit the Company's capacity to pay dividends and other factors that the Company's Board of Directors and shareholders meeting may consider. The Company cannot ensure the terms and the time in which the dividend policy will be approved, or that this approval will occur.

In addition, under Mexican law, dividend payments are subject to tax withholding, to the losses in previous years being paid or absorbed, and prior to a dividend distribution, at least 5% of the Company's net income must be separated from the legal reserve fund, until such reserve fund is equal to 20% of the capital stock. Additional amounts may be allocated to other reserve funds as determined by the shareholders, including the amounts to be allocated to a share repurchase fund. The balance, if any, may be distributed as dividends.

Dividend distribution to the Company's shareholders will be in Pesos. Any material fluctuation in the exchange rates between Pesos and Dollars or any other currency, may have an adverse effect on the amount received in Dollars or any other currency by the holders of the Shares when doing the conversion. In addition, the amount paid by the Company in Pesos may not be easily convertible to Dollars or to any other currency. Although currently the Mexican government does not restrict the capacity of Mexican or foreign natural or legal persons to convert Pesos into Dollars or any other currency, the Mexican government may introduce restrictive conversion control policies in the future. The Company cannot predict future fluctuations in exchange rates and the effect of any restrictive conversion policy or measure by the Mexican government.

The Company's bylaws include provisions which may delay or prevent a change of control and establish liquidated damages and restriction in the corporate or attainment rights in the event that persons acquire Shares in violation of the provisions of the Company's bylaws or enter into agreements that require prior authorization, without having obtained it.

The Company's bylaws provide that every transaction or disposal of 10% or more of its Shares by any person or group of persons acting concertedly, shall be previously approved the Board of Directors. Therefore, investors will not be able to acquire or transfer 10% or more of the Shares representing the Company's capital stock without the approval of the Board of Directors. Such provisions may discourage, delay or prevent a change of control of the Company or a change in its management, which could, in addition, have an effect on the Company's minority shareholders and, as applicable, the Share price. Generally, the Securities Market Law requires any person or group of persons with the intention of acquiring control of the Company, to conduct a public tender offer regarding all the Shares outstanding and to pay the same amount to all the holders selling the Shares. This provision may discourage potential future buyers of the Company’s Shares, or of a significant percentage of the Shares, and, as a result, may adversely affect the liquidity and the Share price.

Each person acquiring the Shares representing the Company's capital stock or entering into agreements that require prior authorization, in violation of the provisions of the Company's bylaws, will be required to pay the Company liquidated damages of up to an amount equal to the price of all the Shares representing the Company's capital stock owned directly or indirectly by them, plus the amount corresponding to the Shares representing the Company's capital stock that was subject matter of the forbidden transaction (including subject matter of the relevant agreements), on the date on which the last acquisition occurred. If the transactions that gave rise to the unauthorized acquisition of a percentage of Shares representing the Company's capital stock, equal to or greater than ten percent (10%) of the capital stock or the corresponding agreement, are conducted gratuitously, the liquidated damages will be equal to the highest market value of such Shares, on the date of submission of the request to the Board of Directors or on the date occurring 3 (three) business days after the Board of Directors had knowledge of the forbidden acquisition or agreement. In addition, the Shares representing the Company's capital stock acquired in contravention to the provisions of the bylaws will not grant any right to vote in any shareholders meeting and the transfers of such Shares will not be registered in the Company's share register, and the previous registrations on which the corresponding authorization was not obtained will be cancelled, and the certificates or lists referred to in Article 290 of the Securities Market Law will not be recognized or given any value, therefore, such certificates or lists will not be proof of ownership of the Shares or the right to attend to shareholders meetings, or legitimize the exercise of any action, including those of a procedural nature.

The Company is a holding company that although it generates revenue on its own, depends on dividends and other resources originating from its subsidiaries in order to, to the extent it decides to do it, pay dividends.

The Company is a holding company and its transactions are mainly performed through the Company's subsidiaries. As a result of the foregoing, the Company's capacity to pay dividends depends mainly on the subsidiaries' capacity to generate revenues and pay dividends to the Company. The Company's subsidiaries are different and separate legal entities. Any payment of dividends, distributions, credits or advances by the Company's subsidiaries is limited by the general provisions of the laws of Mexico in connection with the distribution of the corporate earnings, including those related to the payment of profit sharing to employees. If a shareholder sues the Company, the enforcement of any ruling would be limited to the available assets of the Company's subsidiaries. Dividend payment by the Company's subsidiaries also depends on the subsidiaries' earnings and business considerations. Additionally, the Company's right to receive any assets from any subsidiary as a shareholder of such subsidiaries, its winding-up or reorganization, will be effectively subordinated to the Company's subsidiaries creditors' rights, including trade creditors. The failure to comply with the requirements of keeping the Company's shares listed in the BMV may result in the suspension of the trading of the Shares.

There are requirements to maintain the Shares listed in the BMV, the non-compliance of which may result in the suspension of the Shares trading in the BMV.

The applicable law sets forth the requirements that the Company must fulfill in order to keep its Shares trading in the list of securities authorized for trading, which provide, among others, that the percentage of capital stock that the Company must maintain among the investing public shall not be in any case less than 12% of its capital stock. In the failing to comply with such requirements, the CNBV and the BMV may, after a prior hearing of the Company, suspend the trading of its Shares. In the event that the Company's shares are delisted, there may not be an active market for them and the investor may not be capable of selling them at a favorable price or of selling them at all.

The rulings issued against the Company in Mexico will be payable in Pesos.

According to the provisions of Article 8 of Mexico's Monetary Law (*Ley Monetaria*), an obligation payable in Mexico in a currency other than Peso, as a result of a claim initiated in Mexico or of the enforcement in Mexico of a ruling obtained abroad, may be done in Pesos at the current exchange rate on the date the payment is made. Such exchange rate is determined by the Mexican Central Bank and is published the following Business Day in the Federal Official Gazette. However, it is unclear if the exchange rate applied by a judicial authority will be the exchange rate corresponding to the date when the ruling is issued or when the payment is made. The provisions that have the purpose of restricting the Company's capacity to perform obligations in Mexico as described above, or that have the purpose to grant any interested party an additional right to seek indemnity or compensation for potential deficiencies arising out of, or resulting from fluctuations in the exchange rates, may be unenforceable in Mexico.

Risk Factors related to forward-looking statements

This Report contains forward-looking statements. Example of such forward-looking statements include, among others: (i) statements regarding the Company's results of operations and financial position; (ii) statement of plans, objectives or goals, including those related to the Company's operations; and (iii) statements of underlying assumptions to such statements. Words such as “advises”, “anticipates”, “seeks”, “considers”, “contemplates”, “believes”, “depends”, “should”, “expect”, “estimates”, “attempts”, “goal”, “objective”, “could”, “forecasts”, “projects”, “intends”, “foresees”, “may”, “plans”, “potential”, “predicts”, “suggest”, “will be”, “would have”, “will have”, and similar expressions, have the purpose of identifying the projections and forward-looking statements, but are not the only means to identify such projections and statements.

Although the Company considers that these forward-looking statements and estimates are based on reasonable assumptions, due to their own nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and there are risks that the predictions, forecasts, projections and other forward-looking statements will not be achieved. The Company warns the investors that a significant number of factors could cause the actual results to differ materially from the plans, objectives, expectations, estimates and intents, whether explicit or implicit in such statements, including the following factors:

1. The Company's capacity to implement its corporate strategies;
2. The competitive environment in which the Company operates, especially the competition in the industry in which it operates;
3. Losses, including uninsured or uninsurable losses beyond the insurance policies purchased by the Company;
4. The Company's capacity to maintain or increase its sales and revenues;
5. The Company's capacity to successfully participate in strategic acquisitions and to successfully expand towards new markets in Mexico or abroad;
6. The Company's capacity to sell or to dispose in any other way of any of its products;
7. The integration of companies that the Company may acquire in the future;
8. The Company's capacity to successfully perform strategic acquisitions;
9. The Company's capacity to generate cash flows sufficient to satisfy any present or future service debt obligation;
10. The economic performance, and the politics and business in Mexico, the United States and the rest of the countries in which the Company operates;
11. Limitations in the Company's access to financing sources under competitive terms;
12. The performance of the financial markets and the Company's capacity to pay or refinance its financial obligation, as required;
13. Restrictions in the convertibility of currencies and remittances;
14. Restrictions to interest rates and the regulations regarding the Company's credits and transactions;
15. The amount and profitability of any additional investments;
16. Fluctuations in exchange rates, market interest rates or the inflation rate;
17. The effect of the modifications to the International Financial Reporting Standards, new regulations, the intervention of the regulatory authorities, normative or governmental provisions and the monetary or fiscal policy in Mexico, the United States and the United Kingdom;
18. Amendments to the laws that have an effect on the industry in which the Company participates, absence of permits such as those related to denominations of origin, brands, licenses and other administrative provisions that may affect the Company's operations;

19. Implementation of a price control by the Mexican government, import tariffs and other measures to facilitate the access to raw materials used by the Company;
20. Loss of key personnel;
21. Terrorist and criminal activities, and geopolitical events; and
22. Risk factors included in the section “Risk Factors”.

If one or more of these factors or uncertainties were materialized, or if the underlying assumptions turned out to be incorrect, the actual results may differ materially from those described in this Report as anticipated, considered, estimated, expected, forecasted or intended.

Potential investors should read the sections of this Report titled “Summary”, “Risk Factors”, “the Company” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” for a detailed explanation of the factors that may affect the Company's performance in the future, the price of Shares in the future, and the markets in which it operates.

In light of these risks, uncertainties and assumptions, the future events described in this Report may not be verified. These forward-looking statements are expressed solely with respect to the date of this Report and the Company does not assume any obligation of updating or revising any projection or forward-looking statement, whether as a result of new information or future events or developments. At any time, additional factors may arise that affect the Company's business, and it is not possible to predict all these factors or to assess the effect that they will have on the Company's business or to what extent any factor or combination of factors can cause the actual results to differ materially from those contained in any forward-looking statement. The Company cannot ensure that its plans, intentions or expectations will be achieved. Additionally, the statements regarding past trends or activities shall not be interpreted as assertions that these trends or activities will continue in the future. All the written, oral and electronic forward-looking statements that may be attributed to the Company or may be attributed to persons acting in its representation, are expressly subject in their entirety to this precautionary statement.

D) OTHER SECURITIES

As of the filing date of this Report, the Company does not have other securities registered in the RNV. In accordance with the LNV and the Sole Circular Letter of Issuers, the Company is required to provide the CNBV and the BMV, both quarterly and annual financial information, and information regarding relevant events and other kind of information. As of the date of this Report, the Company has complied, in an appropriate and timely manner, with the filing of reports regarding relevant events and the rest of the information required by applicable law.

The 2025 Notes issued by the Company in the international markets during 2015, are listed in the Official List of the Irish Stock Exchange and are negotiated in the Global Exchange Market, the regulated securities market of the Irish Stock Exchange. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Financing Sources".*

E) MATERIAL CHANGES TO THE RIGHTS OF SECURITIES REGISTERED IN THE NATIONAL SECURITIES REGISTRY

In the past three years, there has not been any significant change to the rights of the Company's securities registered in the RNV.

F) PUBLIC DOCUMENTS

The Company will provide copies of this document to any shareholder and/or investor that proves its capacity in terms of the applicable law and requests it to the Company's Investor Relations Directorate. Mariana Rojo Granados is the person in charge of investor relations and can be contacted at her offices located in Guillermo González Camarena No.800-4, Col. Zedec Santa Fe, C.P. 01210, Mexico City, Mexico, or on the telephone number +52 (55) 5258-7000 or the email: mrojo@cuervo.com.mx

Investors who wish so, may consult the public documents that have been filed to the CNBV and the BMV, including periodical information regarding the Company's financial position and results, and certain relevant events that the Company discloses through the BMV. This information is available for the public at the BMV's Information Center located in the Stock Exchange Center (*Centro Bursátil*), located in Paseo de la Reforma No. 255, Colonia Cuauhtémoc, C.P. 06500, Mexico City.

The Company has a website that contains its general information, the address of which is www.ircuervo.com. Such webpage contains information of the Company that is not a part of this document.

2) THE COMPANY

A) HISTORY AND DEVELOPMENT OF THE COMPANY

The Company was organized by means of public instrument number 74,489, dated November 5, 2002, granted before Carlos Pablo Serna, notary public number 137 of Mexico City, registered in the Public Registry of Commerce under electronic commercial folio number 295,310, under the name "Becle" as a variable capital corporation (s*ociedad anónima de capital variable*). The Company's duration is unlimited. Guillermo González Camarena No. 800, Floor 4, Col. Santa Fe, Zip Code 01210, Mexico City, Telephone 5258 -7000.

The Company is one of the oldest companies in Mexico, led by the same family during eleven generations, the legacy and tradition of which, still define its business, brands and culture. The Company's history begins more than 250 years ago, since it was founded in 1758. In 1795, the king Charles IV of Spain granted José María Guadalupe de Cuervo y Montaño a royal dispatch to produce and sell "mezcal wine", currently known as tequila, which is generally considered as the first license to sell tequila.

The Company made its first export of tequila to the United States in 1852, and was the first distillery to bottle tequila in glass bottles in 1880. In 1945, the Company invented "margaritas" using *Jose Cuervo* tequila.

The Company is the result of the integration of Becle, S.A. de C.V. and Proximo, resulting from the Merger with Proximo. Proximo was founded in 2007 as an independent distribution company that began distributing local brands in the United States in a quite successful way. In 2008, Proximo began distributing 1800 tequila in the United States, increasing the sales of this tequila from less than 400,000 cases to more than 900,000 in less than 5 years. Its direct presence in the United States has allowed the Company to approach the consumers of such country, which the Company regards as the most profitable, dynamic and trend definer in the world's distilled alcoholic beverages market. The Company's advertising campaigns have generated empathy with the consumer, which has resulted in the growth of its flagship brand, Jose Cuervo since Proximo took over its distribution in the United States in 2013.

Pendleton Acquisition.

On February 22, 2018, the Company completed the acquisition of the Pendleton Whisky brand assets from Hood River Distillers, Inc. Pendleton Whisky is one of the main premium whiskey brands in the United States. The Company agreed to pay US$205 million ($3,825,177) for these assets. Pendleton Whisky was launched in 2003 and has since increased its annual sales volume to more than 250,000 nine-liter equivalent cases. In addition to the main Pendleton Whisky presentation, the acquisition includes the Pendleton Midnight, Pendleton 1910 and Pendleton Directors' Reserve presentations.

Australia Distributor Acquisition.

On June 30, 2017, Proximo Australia PTY, Ltd, a subsidiary of JC Overseas, Ltd., acquired from L.I.P.S. PTY Limited, the capital stock of i2i. Such company was founded in 2007, and since that year has continued to expand its portfolio.

i2i was founded in 2007, and since that year it has continued to expand its portfolio. i2i is based in Sydney and has sales infrastructure in each of Australia's states. It also has a strong presence both in consumer centers and with distributors, with Woolworths and Coles being the two that stand out the most.

In 2015, Casa Cuervo, S. A. de C. V. appointed i2i as distributor of the Jose Cuervo, 1800, Bushmills, The Kraken and Boodles brands. The acquisition of i2i was an essential step in ensuring the future growth of the Company's portfolio in the region.

Cholula Spin-Off

On October 1, 2016, the Company's shareholders agreed to spin-off the company Salsas de Jalisco Cacu, S.A. de C.V., which is owner of the Cholula hot sauce. The spin-off became fully effective on November 26, 2016. According to the terms of such spin-off, at the time the spin-off was approved, the Company's shareholders became shareholders of the spun-off company. Except for the resources received in connection with a new distribution agreement described below, the Cholula brand and its operations, from the date the spin-off became effective, are not a part of Becle or contribute to the Company's results. Notwithstanding such spin-off and according to what is described in the Unaudited Proforma Consolidated Statements, the Company entered into a distribution agreement whereby it will maintain Cholula's distribution.

Maestro Tequilero Contribution

On September 23, 2016, the Company's shareholders subscribed and paid a capital stock increase, which was paid through the non-cash contribution to the Company of 78.09% of the shares of Maestro Tequilero, S.A. de C.V. ("Maestro Tequilero Contribution"), of which they were owners personally. As a result of such contribution, as of such date, Maestro Tequilero is a subsidiary of Becle. See *"Capital Description and the Company's Bylaws – Capital Stock".*

The Maestro Tequilero/Dobel brand was established in 2005 and includes the products Maestro Tequilero Blanco, Maestro Tequilero Reposado, Maestro Tequilero Añejo, Maestro Dobel Diamante, Maestro Tequilero Atelier and Maestro Tequilero Humito.

Bushmills Acquisition.

During the first quarter of 2015, the acquisition of the Bushmills brand and its facilities, from Diageo plc, was completed, which provided the Company the opportunity to enter into the Irish whiskey market, which is one of the fastest growing categories of distilled alcoholic beverages in the industry. The Acquisition of Bushmills represented a new step in the constant diversification of the Company's product categories and geographical segments.

Sale of Don Julio.

Simultaneously to the Bushmills Acquisition, the Company sold to Diageo its 50% interest in the family of Don Julio premium tequilas, which it had previously acquired in 2003, and through which it distributed such tequila only in Mexico.

Additionally, in November 2014, as a result of the Sale of Don Julio, the Company granted its consent for the anticipated termination of the production and distribution agreement for *Smirnoff* vodka in Mexico, which it had entered into with an affiliate of Diageo. As a result of the combined effect of the Bushmills Acquisition, the termination of the distribution agreement of the Smirnoff vodka and the sale of the 50% shareholding interest in Don Julio, a net amount of US$399 million was paid to Diageo.

Strategies

The Company's objective is to continue increasing its global presence, the cash flow and profitability generation, focusing on the following strategies:

- *To continue leading the development of the tequila category.*
- *Brand construction.*
- *To continue investing in innovation, product development and premiumization.*
- *Business expansion and diversification through organic and inorganic growth initiatives and route-to-market expansion.*

To continue leading the development of the tequila category.

Based on its leadership in the tequila category, the Company aims at continuing the development and expansion of the global tequila consumption. The Company is focused on continuing penetrating existing markets in which tequila consumption offers a significant growth potential, as in the case of the United States market. It is estimated that the distilled alcoholic beverages market in the United States is the most profitable market in the world, and tequila consumption continues being low compared to other categories of distilled alcoholic beverages.

The Company's marketing and distribution strategies are also designed to be directed to other locations where Jose Cuervo brands are in attendance, but where tequila consumption remains low, as in the case of Europe and the Asia-Pacific region. For example, with the Bushmills and island2island Acquisitions, the Company has strengthened its distribution platform in the United Kingdom, the Republic of Ireland and the Asia-Pacific region and is currently implementing initiatives to increase its tequila sales in Europe.

In addition, the Company intends to continue leading and developing the *premiumization* trend for tequila through brand positioning in Mexico and the Unites States. The Company created the "crystalline" category (rested/aged products that are filtered for a crystalline appearance) and continues developing the premium and ultra-premium segments in the category. For example, in Mexico, where the tequila category has high levels of penetration, the Company has identified and expanded a consumer segment that was eager for more refined premium products, which set trends. The focus on the *premiumization* trend is well represented, among others, by Maestro Tequilero/Dobel and 1800 Cristalino; both "crystalline" tequilas, introduced in 2009 and 2015, respectively, directed to ultra-premium segments, and focused on one of the highest growth segments within the tequila category.

Brand Construction.

The Company promotes the development of its brands through differentiated and defined positioning and marketing strategies for each product, trying to provide a different brand essence and avoid positioning coincidences. The Company intends to prioritize and focus on its own premium brands, since they provide greater profitability and allow the direct control of brand value. One of the Company's main purposes consists of ensuring that its brands are a synonym of quality, innovation and style, in order to increase their value and permanence over time. Brand construction involves a lot of time and important investments to position brands and to be adopted by our consumers through the deployment of marketing programs that help developing the image and positioning of each brand. In order to continue expanding its brand portfolio in the categories of the most attractive distilled alcoholic beverages and premium segments, such as Irish whiskey and spiced rum, the Company plans to continue investing in Bushmills' and Kraken's positioning in order to construct and develop these important brands.

The Company believes in sustained long-term investment as a foundation of the value of its brands, for example, through new and better packages and innovative advertising campaigns, in addition to the innovation within existing brands with premium variants that improve the perception of the existing brands. Currently, the Company's marketing and distribution strategies are focused, among other aspects, on improving the image of its products in order for them to be perceived as high-quality brands, a strategy that is expected to be translated in an increase in its sales volume and to allow it to improve its prices and generate value. Historically, the Company's sustained investments in marketing, promotion and distribution have increased in accordance with its sales. The Company considers that it can take advantage of the benefits resulting from its capacity as a global organization to increase the efficiency of its marketing strategy even more.

Additionally, the Company is focused on the demographic changes of consumers and is designing new ways of approaching and creating links with the different generations, considering their specific characteristics. The Company actively participates in social networks and digital campaigns, seeking to impact the preferences of current generations and to increase the popularity of its brands in this segment.

Continue investing in innovation, product development and premiumization.

Innovation is a part of the Company's DNA; the Company has successfully built its product portfolio through a combination of organic growth, including the improvement and expansion of both existing and new brands and products, and disciplined inorganic growth, through complementary acquisitions that generate value.

The Company considers that it is one of the companies with greater innovation in the industry, from the creation of new categories and brands, line extensions. Examples of this innovation are the creation of the ready to drink margaritas category, where the Company used the Jose Cuervo brand to introduce a mix without alcohol called Jose Cuervo Margarita Mix, which is the world's most sold brand of margarita mix, and several ready-to-drink categories, including Jose Cuervo Authentic Margaritas, Jose Cuervo Golden Margaritas and 1800 Ultimate Margaritas. At the same time, the Company has developed and launched new brands through price categories and segments, including Maestro Tequilero/Dobel, Kraken rum, Creyente Mezcal and B:oost, among others. The Company has developed extensions of product lines such as 1800 Cristalino and Bushmills Steamship. The Company's inorganic growth path is evidenced through acquisitions, such as the Bushmills Irish whiskey, which represented an important step for its diversification in new product categories and geographical regions, Stranahan's Colorado whiskey and Hangar 1, Three Olives vodkas and Pendleton.

The Company is focused on maintaining and increasing its efforts in the innovation of products to expand its offering to “super-premium”, “ultra-premium” and “prestige” price segments. The Company is a consumer-oriented company and it is convinced of the importance of developing new products and extensions of its existing brands, remaining as a trend-setting company that understands and anticipates the changing consumer preferences and tastes. The recent launching of Jose Cuervo Tradicional Cristalino, is an example of an extension of the brand at a price almost 60% higher than the rested JC Tradicional with the intention that the consumers can make a trade up to this more recent and premium variant.

The Company has vast experience in the successful launching of products to the market and will continue investing in product development and in innovation, with the purpose of improving its responsiveness to the constant changes in consumer preferences and needs. During 2018, the Company launched a variety of new products, including new brands and extensions of existing lines which are focused on consumer trends such as the Proper No. Twelve Irish whiskey launched in collaboration with an athlete/celebrity. In the US market, whiskey Black Dirt was launched. Likewise, during 2018, the Company also launched new extensions such as Centenario Leyenda, a premium ultra-aged tequila.

Business expansion and diversification through organic and inorganic growth initiatives and route-to-market expansion.

Key markets have been identified, which can provide the Company solid organic growth opportunities. The Company increases its distribution and marketing efforts in markets where it still does not have leadership. It is also focused on opening markets which it considers offer great potential for the penetration of its products.

The Company intends to continue expanding its brand offering in existing segments and in segments in which it currently does not have an active participation. Additionally, the Company considers that its distribution platform is highly efficient. The Company's critical mass and efficiency allows it to constantly enrich and increase its product portfolio with products and categories of greater value and profitability which, at the same time, help it optimize its cost base. Therefore, the Company will continue exploring new options to take advantage of its distribution network.

While the Company's priority is the organic growth of its portfolio, it is continuously looking for innovations and assessing business opportunities that satisfy its strict criteria. This, while always maintaining as a principle the financial discipline and the creation of value for its shareholders. The Company considers that the distilled alcoholic beverages industry offers consolidation and expansion opportunities and is continuously assessing opportunities that enable it to expand its product offering and geographical reach in markets that are profitable and that result in a larger scale.

Its presence in Europe, expanded through the Bushmills Acquisition, allows the Company to increase its focus on such region, generating opportunities to improve the Company's route-to-market strategy, to have a greater penetration in existing markets and to enter new markets.

B) BUSINESS DESCRIPTION

i) Main Activity

The Company is a globally recognized company in the distilled alcoholic beverages industry and the world's largest producer of tequila. Its extraordinary portfolio of more than 30 alcoholic beverage brands, some of them owned brands, distributed globally, and some of them owned by third parties and distributed only in Mexico, have been developed throughout the years to participate in key categories with a solid growth outlook, serving the most relevant markets of alcoholic beverages in the world and satisfying consumer preferences and key trends. The strength of the Company's brand portfolio is based on the deep legacy of its internally-developed iconic brands, such as the family of brands Jose Cuervo, combined with complementary acquisitions such as Three Olives, Hangar 1, Stranahan's, Bushmills and Boodles, and key focus on innovation, developing owned brands such as 1800, Maestro Tequilero/Dobel, Centenario, Kraken, Jose Cuervo Margaritas and B:oost, among the Company's brands, some of which are marketed and distributed in more than 85 countries. The Company is one of the oldest companies in Mexico, led by the same family during eleven generations, the legacy and tradition of which, still define its business, brands and culture.

The Company operates as a producer, marketer and distributor of a broad portfolio of internationally renowned brands of distilled alcoholic beverages, ready to drink cocktails, and non-alcoholic beverages. Within the distilled alcoholic beverages, the Company is the world's leading producer of tequila in terms of sales volume with more than twice the market share of its nearest competitor and the world's third largest producer of Irish whiskey in terms of volume and sales according to IWSR. Most of the Company's sales are generated in the United States, which the Company regards as the most profitable and dynamic region of the distilled alcoholic beverages industry. In addition to being its domestic market, Mexico is the second most relevant market for the Company, in terms of sales. The Company's recent acquisition of Bushmills uniquely positions the Company for a continuous growth of its business outside of the American Continent.

In Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia, the Company controls and operates a direct distribution model. In Mexico and the United States in particular, the Company maintains the second and tenth largest distribution network of distilled alcoholic beverages in terms of sales value, respectively. In Mexico's case, the Company distributes directly to the channels, self-service stores, price clubs, wholesalers and convenience stores through its own sales force, covering a high percentage of stores that sell alcoholic beverages in the country. Additionally, the marketing force reaches the most important 2,630 self-service and wholesale stores to control the display and promotion at the point of sale. In the United States, there is a three-level system implemented by federal and state laws known as "tied house laws", which limit the nature and scope of the relations between the importers of distilled alcoholic beverages, the producers and the wholesalers, on one hand, and the retailers of distilled alcoholic beverages, on the other. These laws and provisions prohibit transactions and relations that are common in the distilled alcoholic beverages industry in other parts of the world, and in other consumer sectors in the United States. In 22 states of the United States, the Company distributes mainly through wholesalers that are associated with four important distribution companies (Republic National Distributing Company, Southern Glazer's Wine and Spirits, Young's Market Company and Johnson Brothers Liquor Company), in 12 states of the United States, the company distributes through independent distributors that do not belong to the above-mentioned distribution networks and in the remaining 17 states of the United States, the state controls the distribution of distilled alcoholic beverages. In countries in which the Company currently does not have the capacity to operate a direct distribution model, generally, the Company's distribution strategy consists of entering into distribution agreements in each country, which are exclusive regarding one or more of the Company's brands.

Geographical regions

The Company's operations are divided in three geographical regions (Mexico, the United States and the rest of the world) which already include the operating segment (duty-free global). In 2018, United States represented 64% of the Company's consolidated sales value, while Mexico represented 22% and the rest of the world represented the remaining 14%.

Mexico

In Mexico, the Company's tequila brands portfolio – which includes, among others, the Jose Cuervo, Gran Centenario, 1800 and Maestro Tequilero/Dobel brands – holds the first place in terms of sales volume. In addition, the Company participates in other 8 product categories: rum, vodka, gin, US whiskey, Irish whiskey, mezcal, liquors, and ready to drink cocktails.

The Company's tequila brands have the first or second place in each price segment. The Company is focused on maintaining its market share in terms of sales volume and sales amount.

The Company has its own distributor in Mexico and is one of the largest distributors of premium alcoholic beverages in terms of volume and sales value according to IWSR. For a description of the distribution system in Mexico, see *"- Distribution network- Mexico"* of this section.

United States

According to IWSR, during 2017, the United States was the third largest market of distilled alcoholic beverages based on the retail sales volume, after China and India, and the Company considers that the United States is the world's most profitable, dynamic and trend-defining market of distilled alcoholic beverages. The Company's tequila brands portfolio in the United States – which includes, among others, the Jose Cuervo and 1800 brands – rank first and fourth, respectively, in terms of sales volume of the tequila category, according to IWSR. In 2017, the Company ranked first in the tequila category in the United States, with a market share of approximately 24.2% in terms of sales volume, according to IWSR. In the United States, the Jose Cuervo brand had the first place in the tequila category, with a market share of 16.8% in terms of sales volume. Although tequila is a relatively small category in the United States - representing only 7.8% of the industry's total sales volume-, IWSR's projections indicate that the tequila category will grow at a faster pace than the rest of distilled alcoholic beverages and, therefore, the Company considers it has a great growth potential in the United States.

The Company's portfolio in the United States also includes brands such as Kraken rum, Stranahan's Colorado whiskey, Hangar 1 vodka, and Boodles gin, Three Olives vodka and the recent acquisition of the Pendleton whisky.

Rest of the world

The Company's products are sold in more than 85 markets of the rest of the world. The main markets of the "rest of the world" region in terms of sales volume are Brazil, Japan, the United Kingdom, Spain, Greece and Australia. The Company plans to continue focusing on the expansion of its penetration level in select markets to stimulate the growth of the Jose Cuervo, 1800, Bushmills and Kraken brands. The Company selectively chooses the markets based on the growth opportunities they offer; and focuses on increasing its share in such markets and its penetration level among the consumer groups to which its brands are targeted.

The Company considers that tequila has great growth opportunities in terms of sales volume outside of Mexico and the United States, which provides a growth platform for the *Jose Cuervo and 1800 brands.*

Generally, the Company distributes its products in the rest of the world (without including the United Kingdom, Northern Ireland and Australia) through strategic alliances and distribution agreements with the main distributors of premium brands in each country, which are exclusive with respect to such brands.

Bushmills' Activities

Bushmills has a long tradition in the production of whiskey, dating back to 1608, when King James I of England granted the region a new distillation license. All the operations related to the production of Bushmills are conducted in the old Bushmills distillery, in the village of the same name, located in the north coast of Northern Ireland. The Bushmills plant includes a malt whiskey distillery, 17 aging warehouses, a mixing area, bottling lines, a warehouse for packaged products and a dispatch area. The plant has the capacity to produce approximately 5 million liters of whiskey with an alcohol level of 100% and to bottle more than 3 million 9-liter cases of whiskey per year. The Company retained the main employees, took over the processes of distillation and acquired the technical knowledge related to the operation, which helps it to maintain Bushmills' long tradition in the production of whiskey.

Bushmills is the world's third largest brand of Irish whiskey and ranks third in the United States, in both cases in terms of sales volume. The main markets for the Bushmills brand are the United States and Europe. In the year ended December 31, 2018, Bushmills sold 857,945 9-liter cases. Irish whiskey is the category with the third highest sales growth within the distilled alcoholic beverage global market, reporting a compound annual growth rate in sales volume of 9.0% between 2012 and 2017, according to IWSR.

Product and brand portfolio

In the international markets, the Company offers a wide variety of brands in all the price segments, in addition to ready to drink cocktails. The Company's products comprise a great number of market segments, enabling it to effectively compete while having the most important tequila brand portfolio in this growing category. The Company offers other 9 categories of products under several brands: rum, vodka, gin, Canadian whiskey, US whiskey, Irish whiskey, mezcal, liquors, and ready to drink cocktails.

Although the Company owns most of the brands it offers, the Company also acts as a distributor in Mexico of brands belonging to other alcoholic beverages companies. Some of these brands are owned by subsidiaries of the Company or by persons related to the Company, while other are owned by third parties. Generally, distribution agreements of the brands belonging to persons related to the Company, grant the Company the exclusive right to market, distribute and, in some cases, manufacture and produce such brands in Mexico. Typically, the Company pays all the costs related to the manufacture and distribution of products with brands belonging to related parties, including all the marketing and promotion costs, although in some cases the brand's owner covers a portion of such costs.

Owned brands

Tequila

Jose Cuervo

The *Jose Cuervo* brand is the world's most widely distributed premium tequila brand in terms of sales volume. The main markets for Jose Cuervo tequila are the United States and Mexico. In addition, the Jose Cuervo brand is sold in more than 85 countries in the rest of the world. Its main markets in the “rest of the world” region in terms of sales are Brazil, Japan, the United Kingdom, Spain, Greece and Australia.

The best-selling Jose Cuervo products at the international level are Jose Cuervo Especial Gold and Jose Cuervo Especial Silver, which together constitute the tequila brand with the largest sales volume in the United States and the rest of the world. The best-selling Jose Cuervo products in Mexico are Gran Centenario, Jose Cuervo Especial and Jose Cuervo Tradicional. According to IWSR, the Jose Cuervo brand ranks first in Mexico in terms of sales amount and also ranks first in terms of sales volume within the tequila category.

The *Jose Cuervo* brand includes tequilas for all types of consumption occasions, allowing the Company to compete with a solid portfolio of tequilas in this competitive and growing segment. For example, the Jose Cuervo Especial Gold premium tequila is used frequently to prepare tequila-based cocktails; the Jose Cuervo Tradicional Silver and Jose Cuervo Tradicional Reposado super premium tequilas are frequently served as aperitifs; and the Jose Cuervo Reserva de la Familia super premium tequila is frequently consumed after eating.

The *Jose Cuervo* line includes the following products: *Jose Cuervo Especial Gold, Jose Cuervo Especial Silver, Jose Cuervo Tradicional Silver, Jose Cuervo Tradicional Reposado, Jose Cuervo Tradicional Cristalino, Jose Cuervo Platino, Jose Cuervo Reserva de la Familia and Jose Cuervo 250 Aniversario.*

Gran Centenario

The *Gran Centanario* brand includes several super premium tequilas, including Gran Centenario Plata -which is the leading brand in the white, 100%-Agave tequila in Mexico in terms of sales volume- and Gran Centenario Reposado -which is the leading super premium brand in terms of sales in wholesale establishments, also in terms of sales volume. In addition, the Company has the Gran Centenario Azul tequila, which has a softer taste and is designed to prepare cocktails and have a greater mixability. This product is targeted to consumers who enjoy cocktails, to encourage them to adopt it as a substitute in the preparation of rum and vodka-based cocktails.

On the other hand, the Gran Centenario Leyenda and Gran Centenario Azul Gran Reserva brands are aspiring products that contribute to brand development in the Global Travel Retail segment.

The Gran Centenario line includes the following products: Gran Centenario Plata, Gran Centenario Azul, Gran Centenario Reposado, Gran Centenario Añejo, Gran Centenario Azul Gran Reserva and Gran Centenario Leyenda del Tequilero.

1800 Tequila

In 2017, the *1800* super premium tequila, which is one of the oldest and most representative tequila brands in Mexico, ranked first in the United States in terms of sales volume in the super premium segment, according to IWSR.

The *1800* brand has a long record of innovation regarding products and marketing. The most recent innovations include *1800 Coconut* and *1800 Cristalino*, an aged tequila introduced in 2015 to compete in the ultra-premium segment, which is the second fastest growing segment in the tequila market.

The *1800* line includes the following products: *1800 Blanco, 1800 Reposado, 1800 Añejo, 1800 Cristalino, 1800 Essentials, 1800 Select Silver, 1800 Milenio* and *1800 Coconut*.

Maestro Tequilero/Dobel

The Maestro Tequilero/Dobel brand, established in 2005 is the newest tequila brand of the product portfolio distributed by the Company. Maestro Tequilero/Dobel is an ultra-premium tequila inspired in the art of producing a great tequila.

The Maestro Tequilero/Dobel brand, which was developed to break the existing paradigms in the tequila category, is developed through an exclusive process and uses packaging that is distinguished by its design. Maestro Dobel Diamante is the first crystalline tequila made with a mix of rested, aged and extra aged tequila. Recently, the Company introduced the Maestro Dobel 50 in Cristalino and Extra Añejo products.

The Maestro Tequilero/Dobel line includes the following products: Maestro Tequilero Blanco, Maestro Tequilero Reposado, Maestro Tequilero Añejo, Maestro Dobel Diamante, Maestro Tequilero Atelier, Maestro Tequilero Humito and Maestro Dobel 50.

Ready to drink cocktails

Ready to drink cocktails are prepared alcoholic beverages of different flavors that are sold in different presentations. These products include *Jose Cuervo Authentic Margaritas*, *Jose Cuervo Golden Margaritas* and *1800 Ultimate Margaritas*. The Company has taken advantage of the solid position of the *Jose Cuervo* and *1800* brands in the market to expand its line of ready to drink cocktails, for example, the launching of the *Jose Cuervo Especial* cans in 2016.

Jose Cuervo Authentic Margaritas, which were launched in 1993, is the world's number one margarita brand of the category “ready to drink cocktails” and is available in seven popular flavors, and two additional ones from the low-calorie line, with the purpose of satisfying the consumers' needs. These products are focused on satisfying the needs of those consumers who do not have the time or the ability of mixing their own cocktails and are perfect for enjoying anywhere and at any time. The base of these products is exclusively *Jose Cuervo Especial Gold* and they are currently in a market relaunching process with new and improved premium packaging.

Whiskey

Bushmills

States, in both cases in terms of sales volume. The main markets for the Bushmills brand are the United States and Europe. The Company aims to expand the level of geographic coverage of the Bushmills products’ distribution functions and to increase the brand's sales and market share.

In the United States, the largest market for Irish whiskey, Bushmills has received a revitalized marketing support program since the brand was acquired. This program is focused on Black Bush as the leading variant to grow and capture share, not only of Irish whiskeys, but also of other whiskeys that represent a wider business opportunity. The program includes a new TV and digital advertising campaign, new premium packages, new size offerings, and innovation in the offerings of new products.

The Bushmills brand portfolio includes six whiskeys: *Bushmills Original, Black Bush, Bushmills 10 Year Old Single Malt*, *Bushmills 16 Year Old Single Malt, and Bushmills 21 Year Old Single Malt* and *Bushmills Steamship*, which was launched by the Company in 2016. Bushmills is uniquely positioned in the category as the only brand that produces and offers the single malt and blended variants.

Pendleton.

Pendleton Whisky is one of the leading premium whisky brands in the United States. The brand is recognized as the second whisky in the Super Premium Canadian Whisky segment in the United States market, according to IWSR.

Pendleton Whisky was launched in 2003 and has since increased its annual sales volume to more than 250,000 nine-liter equivalent cases in 2016. In addition to the main presentation of Pendleton Whisky, the brand includes the Pendleton Midnight, Pendleton 1910 and Pendleton Directors' Reserve presentations.

Rum

Kraken

Kraken was launched in 2009 as the first brand of dark spiced rum, developed entirely by the Company, and is a clear example of the Company's product innovation. Kraken has grown in sales volume and market share in the United States.

Kraken products include Kraken and Kraken Ghost rums, and the Kraken Cola ready to drink alcoholic beverage. In 2016, Kraken Dark Label was launched as the variant with less alcohol content.

Castillo

The Ron Castillo brand is one of the oldest in the standard segment of the national market. Ron Castillo helps the Company to capture value by introducing new consumers to its brand portfolio through the low-cost segment. The Ron Castillo line includes the following products: *Ron Castillo Imperial Blanco and Ron Castillo Imperial Añejo.*

Vodka

Three Olives

In 2007, the Company acquired *Three Olives*, a premium vodka made with the highest production standards that celebrates the Martini tradition.

Three Olives is manufactured from winter wheat harvested in England and is a high tradition and quality vodka for those consumers seeking to return to the classics. The quadruple distillation removes natural impurities, creating a vodka of exceptional purity and softness.

Three Olives has been a leader in the flavored vodka market growth in the United States, and has recently introduced new premium packages that present a renewed brand image, unified in the shelves. The introduction of new flavors has recently focused on natural but uncommon flavors, such as grapefruit and apple-pear. In addition, a new advertising campaign was launched to maximize the sales opportunity to millennial consumers looking for an accessible vodka brand with premium image and values.

Hangar 1

Hangar 1 was founded in Alameda, California, and began producing in 2001 at an old hangar from the years of World War II, which is used as an inspiration for the brand. In 2002 Hangar 1 introduced a vodka without flavoring and since then has redefined the flavored vodka category through the incorporation of freshly harvested fruits acquired from California markets. Its main line of flavored vodkas includes "*Mandarin Blossom*", "*Makrut Lime*" and "*Buddha's Hand Citron*".

The Company acquired Hangar 1 in 2010 and since then the brand's sales volume has grown from 19,124 9-liter cases in 2010 to 58,881 9-liter cases in 2016. The Company is currently building a new distillery and visitor center to promote the Hangar 1 brand at a second hangar located close to the original hangar.

Götland

The liquid product of the *Götland* brand is imported from the United States. *Götland* is one of the few vodka brands that continues growing in Mexico. The Company considers that the quality and price strategy of the *Götland* brand have helped it to penetrate the market niche represented by consumers looking for a high-quality vodka at a price slightly above the price of the premium segment products.

Since the Company began distributing the *Götland* brand in Mexico, its vodka portfolio has strengthened, and its market share has increased, both in terms of sales volume and sales amount.

Oso Negro

The Oso Negro vodka has a long tradition in Mexico. The Oso Negro brand has the first place in the standard segment of the national market in terms of sales volume and, according to internal assessments, the Company considers that it is Mexico's second most recognized vodka brand.

The liquid product is imported from the United States and bottled in Mexico at the EDISA plant. The Oso Negro line includes both traditional vodka and lemon-flavored vodka. Additionally, the Oso Negro line includes a gin.

Other owned brands

In addition to the brands described above, the Company owns the *Boodles* gin brand, the *Stranahan's Colorado* whiskey brand, the *Creyente* mezcal brand, the *Rompope Santa Clara* brand; the *Sperry's* creamy cocktails brand; the *Agavero* low-alcohol content tequila liquor mixed with damiana flower brand; and the *Pomar* cider brand.

Boodles Gin

Boodles Gin begins as a clean distilled alcoholic beverage from English wheat and is subsequently infused with various traditional herbs and spices, including nutmeg, sap and rosemary. These ingredients add a soft but spiced quality to *Boodles*, which balances the essential notes of juniper pine.

Boodles gin does not contain citric botanicals -a practical decision of the distillers who expected a gin to include a slice of lemon or lime. *Boodles* gin is appropriate for any beverage, including *Boodles & Tonic*, *Martini Churchill*, *Tom Collins*, or other mixology for those consumers who lean towards it.

The Company acquired *Boodles* in 2011 and since then the brand's sales volume has grown from 11,594 9-liter cases in 2012 to 49,368 9-liter cases in 2016.

Stranahan's

The *Stranahan's* American single malt whiskey is produced from barley to the bottle, in such a way that there is control over the whole production process. Using the best resources, *Stranahan's* whiskey is produced from three ingredients: 100% malt barley, yeast and water from the Rocky Mountains, and time in the barrels. Barrels are hand-selected by the Master Distiller, ensuring that each batch of *Stranahan's Colorado Whiskey* is of the highest quality and distinction.

Not every consumer is used to the malt being produced in the United States, however, the Company has produced such whiskey in Denver, Colorado for over 10 years.

The Company acquired *Stranahan's* in 2010 and since then the brand's sales volume has increased from 5,835 9-liter cases in 2011 to 14,927 9-liter cases in 2018.

Creyente

Mezcal Creyente Joven, launched by the Company in 2016, is the union of two extraordinary mezcals from the Tlacolula and Yautepec regions, in Oaxaca. The result is a perfect mix, made with 100% Espadín agave.

The three main parts of our mezcal are represented in a new mythological animal. The soft, velvety and complex body is incarnated by the elusive jaguar. The sweet, fruity and grassy notes are represented by the agile and elegant legs of the antelope. The sublime taste of smoked mesquite wood unifies these elements and comes to life in a symbol of Mexican tradition: the Golden Eagle. The result of this is a complex and soft flavored mezcal.

Creyente's creation begins with the selection and collection of the best Espadín agaves of the Tlacolula and Yautepec regions. After cutting the leaves, the heart is traditionally cooked with mesquite wood in a conical earth oven for three days, giving it its characteristic scent and smoked taste. Then the heart is manually grinded in a stone mill, extracting its juices so they can later be fermented in wooden vats. After the fermentation, Creyente is distilled in small copper stills. Lastly, the mezcals of both regions are united to form this mystical expression.

Tincup

Tincup, launched by the Company in 2011, is a classic US whiskey that is a mix of high-rye bourbon which is distilled and aged in Indiana, and in a smaller quantity, a single malt whiskey from Colorado, to which water from the Rocky Mountains is added.

This whiskey is available in the United States, Canada, Mexico and the United Kingdom. In 2015, the first national television campaign was launched in the United States showing the brand's personality and the consumer to which it is targeted, young people who enjoy outdoor experiences and the camaraderie brought by activities such as climbing, mountain skiing, trekking and fishing, among others.

Non-alcoholic beverages

Non-alcoholic beverages have a close relationship with the Company's distilled alcoholic beverages. Sangrita Viuda de Sánchez is one of the oldest and best-known tequila complement beverages; and Jose Cuervo Margarita Mix is the best-selling mix for preparing margaritas in Mexico.

Sangrita Viuda de Sánchez

Sangrita Viuda de Sánchez is the best-selling sangrita brand in Mexico. The Company considers that the success of *Sangrita Viuda de Sánchez* is due to the respect for the original recipe, including the use of natural orange juice and *chile de árbol*. Sangrita *Viuda de Sánchez* is mainly consumed in the north of Mexico.

Traditionally, *Sangrita Viuda de Sánchez* has been served as a tequila accompaniment. However, it is also used as an ingredient for preparing a wide variety of beverages and cocktails, including the Rojeña (sangrita, golden beer and lemon juice) and the Vampiro (sangrita, tequila and grapefruit soda).

Jose Cuervo Margarita Mix

Jose Cuervo Margarita Mix is a brand of non-alcoholic margaritas. The product is also distributed in self-service stores that do no sell distilled alcoholic beverages, wine or beer; which increases the Company's distribution footprint. The Company anticipates that the innovation with new flavors and packages will generate growth and an increase in its market share. The two flavors of this product – lemon and tamarind – continue growing in the domestic and international markets.

B:oost

In 2002, the Company entered into a segment of this market through the distribution of the B:oost brand in Mexico. In 2017, the Company appointed Jumex as its national distributor. Jumex has extensive experience and scope to distribute brands in the small shops channel, and in a relatively short time, B:oost has become the third best-selling brand in this segment in terms of sales volume.

The B:oost line includes the products B:oost_Active Energy, B:oost_Active Energy Pop and B:oost_Active Energy Mango.

400 CONEJOS

At the end of 2018, the integration of the 400 Conejos brand was approved as the group's own brand.

400 Conejos is a young mezcal, 100% Agave, made from *Espadín* agave with an incredibly soft taste, subtle tropical fruit aromas, a moderate smoky note and slightly herbaceous flavors.

400 Conejos is produced in the municipality of Santiago Mazatlán, located in Oaxaca, also known as the "the Mezcal World Capital".

Every morning, the "Maestro Mezcalero" or the mezcal alchemist walks the fields to ensure the quality of the agaves.

After selecting the agaves, these are cut out and passed to the conical wood-burning ovens (*hornos*). Once the agave *piñas* are baked, they are grinded in a stone wheel pulled by a horse. This is followed by fermentation, double distillation and hand bottling.

Third-party brands

Stolichnaya

Stolichnaya is a vodka brand owned by third parties and imported from Latvia. The Company began distributing the Stolichnaya brand in 2009, to fill the gap that appeared after the termination of the *Absolut* vodka distribution agreement. The Stolichnaya product line that the Company distributes in Mexico includes *Stolichnaya, Stolichnaya Orange, Stolichnaya Gold* and *Stolichnaya Elite*.

Ron Matusalem

The *Ron Matusalem* brand has a great legacy since it is the second oldest rum brand in Cuba. Currently, *Ron Matusalem* is produced in the Dominican Republic using the original Cuban formula. *Ron Matusalem* is one of the fastest growing rum brands in the domestic market.

The *Ron Matusalem line* includes the following products: *Ron Matusalem Platino, Ron Matusalem Clásico, Ron Matusalem Gran Reserva, Ron Matusalem Gran Reserva 18* and *Ron Matusalem Gran Reserva 23*. These five varieties include the premium, super premium and ultra-premium internal price segments. Additionally, the brand is designed for various consumption events. For example, *Ron Matusalem Platino* is used to prepare cocktails, while *Ron Matusalem Gran Reserva 18* and *Ron Matusalem Reserva 23* are served as aperitifs and are also consumed as digestives in dinners and evening events. The Company considers that the *Ron Matusalem* products compete and create value in the growing segment of rum.

Other third-party brands

Additionally, the company distributes the liquors *Jägermeister, Licor 43, Licor Orochata, Licor Zoco Pacharán* and *Sambuca Vaccari* and *the Martin Millers gin* and *Stolichnaya vodka* in the domestic market on behalf of third parties. The terms of such distribution agreements are the following:

- *Jägermeister* - The agreement has a perpetual term and may be terminated at the end of every third year by giving six months' advance written notice;
- *DZ Licores, S.L. regarding Licor 43, Licor Orochata, Licor Zoco ("Pacharán")* and *Martin Millers Gin*- The agreement's first renewal term expires on December 31, 2019, however, a new agreement is in process of execution;
- *Sambuca Vaccari* - The agreement expires on 30 June 2021;
- *Stolichnaya* - The agreement is automatically renewed every year.

Likewise, the Company has the rights to distribute the "Cholula" sauce, formerly owned by the Company.

Raw material

Tequila Production

Blue agave Production

The main raw material used in the production of tequila is the blue agave, which must be cultivated in the territory that is part of the denomination of origin. The plantations of blue agave must be certified by the CRT.

The Company is a vertically integrated blue agave producer, which allows it to control the most important aspects of its cultivation, including the selection of farms, offshoots, agricultural labor, the use of fertilizers and herbicides, the maintenance of the lands and the harvest.

The Company leases the lands that host the blue agave plantations, but reserves absolute control of all the processes and investments related to its cultivation. The Company has developed its own agricultural technology that is incorporated to all the processes regarding the cultivation of blue agave. The offshoots are chosen from the healthiest two to four-year-old plants. Maintaining plantations is essential to avoid plant diseases and pests. The blue agave must be harvested when it has reached the optimum age, that is, when the *piña* concentrates the most sugars.

The harvesting technology that the Company has developed includes formulas, algorithms and systems to determine the optimum level of blue agave inventory. It has also designed its own ERP system to adequately control its harvesting processes and guarantee that the quality standards are complied with. In accordance with the Company's plantation inventory system, the number of plants to be sowed is determined based on (i) the expected level of demand increase of blue agave, according to its estimates regarding demand of "tequila" and 100% agave tequila"; (ii) the expected harvest performance based on the weight and sugar content of the plants; and (iii) the duration of the crop cycle in terms of number of years to elapse until the harvesting of the ripe plant. The aging cycle of the plants is approximately five to eight years, depending on the soil conditions and the climate of each region.

To minimize the risks of shortage due to climate conditions, plant diseases and plagues, the Company's blue agave fields are strategically distributed in six regions, all of which are located in the territory that comprises the Denomination of Origin.

The Company considers that with blue agave it currently has, and the blue agave available on the market will be enough to meet the Company's requirements for tequila production over the next seven years, which is the average growth cycle of the Blue Agave.

Suppliers

Generally, the Company´s relations with its suppliers dates back many years. The Company normally purchases raw materials under short- and medium-term agreements. The Company is in the habit of keeping at least three suppliers of each of its main ingredients or raw materials, if the nature of the product allows it to do so. The Company has a permanent program of dual supply sources of its main ingredients and dry materials that allows it to have alternative sources of packaging and raw materials. This strategy allows the Company to reduce the risk of depending on a supplier and fosters competition among them, which, in the Company's opinion, translates into greater quality, service and value. The Company continuously evaluates the parameters applicable to each of its suppliers or potential suppliers, in order to ensure the maintenance of quality, service, and competitive market conditions. During the year ended December 31, 2018, the Company acquired approximately 80% of its inputs from its 110 main suppliers.

The majority of the Company´s purchases in Mexico are denominated in Pesos, all of its purchases for production in the United Kingdom are in Pounds Sterling and the procurement of necessary inputs to produce in the United States are made in Dollars. In 2018, 76% of the payments made to suppliers in Mexico were denominated in Pesos. The Company currently does not enter into future agreements or other transactions including derivative instruments, in order to hedge its exposure to cost fluctuations of energy and other inputs.

In addition to the blue agave, the main raw materials used in the production of tequila are (i) electricity and, for tequila, sugar for the distillation process (ii) oak barrels for the ripening process; and (iii) containers and packaging materials.

In addition to the barley malt, the main raw materials used in the production of Irish whiskey are (i) electricity; (ii) oak barrels for the ripening process; and (iii) containers and packaging materials.

Electricity and distillation process materials

Generally speaking, electric supply in Mexico is provided by the Federal Government, and private sector suppliers are only allowed to participate under certain circumstances. The Company acquires most of its electricity needs from the Government, at variably official prices. Sugar and dextrose can be purchased from a large amount of suppliers that participate in the market of such input.

Aging Process Materials

For the aging of its products, the Company normally uses oak barrels, imported from the United States. The Company has not experienced any difficulty in acquiring the necessary quantity of such barrels. Additionally, the Company uses oak barrels imported from France and Oporto barrels for the aging of certain products. The Company uses a relatively small quantity of these type of barrels and has not experienced significant difficulties in acquiring them.

Containers and packaging materials

The Company requires containers and packaging materials for its tequilas and for the rest of its products and some other bulk products purchased from third parties. The main containers and packaging materials are glass bottles, corks, labels and corrugated paperboard boxes. In general terms, the glass containers and packaging materials in Mexico are supplied by large Mexican or international companies. This supply source is highly diversified and reliable.

Bushmills production

The main raw materials used in the production of *Bushmills* Irish whiskey are barley malt and water. In addition, the Company purchases whiskey made of corn to mix it with whiskey made from barley malt that is produced in the *Bushmills* Distillery. The Company believes that these materials can easily be obtained on the market and that there is currently no shortage of any of them. The Company uses different buying techniques, depending on the availability and source of its raw materials, including centralized negotiations, long term agreements and, when appropriate, purchases in the spot market.

The Company's main materials for containers and packaging of Irish Whiskey are glass bottles, corks, labels and corrugated cardboard boxes. Generally, glass containers and packaging materials on the Irish market are provided by large Irish or international companies. This source of supply is highly diversified and reliable. For the aging of Irish Whiskey, the Company usually uses both new and used oak barrels imported from the United States. These barrels are supplied by several US suppliers and are easily available.

In order to encourage competition, acquire suppliers and improve its contingency plans, the Company seeks to continuously diversify its supply sources of raw materials.

Production and bottling agreements

The Company uses third parties maquila for the production and bottling of rum, mixers and cider. The Company, for example, as a distributor of Matusalem Rum, entrusts the maquila of rum in Dominican Republic to J. Armando Bermúdez & Company, C. por A. (now Govelit), for the production of *Matusalem* Rum; it also hires the services of GEUSA for the production of mixers in Guadalajara; and the services of Bodegas de Exquitlán for the production of Pomar cider.

Also, the Company leases certain agave harvesting land from one of its shareholders. These lands do not represent a relevant portion of the total leased land.

On the other hand, the bottler in the United States carried out maquila of vodka bottling.

The Northern Ireland distillery and bottler has an annual commitment to sell 1 million liters (100% alcohol) of whiskey malt and maquila for up to 500,000 bottling cases. Likewise, there is a commitment to buy 2 million liters (100% alcohol) of grain whiskey. These obligations exist since Diageo acquired Bushmills from Pernod Ricard and can only be waived by giving 10-years' advance notice.

Quality control

The Company considers that its success depends, in good measure, on the good performance of its processes and its robust quality and safety system. In the Company's opinion, quality must be extended to all stages of the production process and should be a priority for all those involved in such process. In the production of tequila, quality control begins with the selection of the farms and the blue agave offshoots for sowing, and continues during the distillation, aging and packaging stages.

The Company intends to keep all its production facilities and other property up to date. The Company has a quality and security control of the food products, that extends to all of its units and which has received the Good Manufacturing Practices Certificate (GMP), food product safety and ISO 9000 (quality) certificate, to ensure that the Company´s products and processes are of the highest quality. The José Cuervo brand products are certified as kosher by Kosher Maguen David. Additionally, the Company has the Certificates of Hazard Analysis and Critical Control Points (HACCP), issued by Det Norske Veritas GL. These certificates guarantee the continuous improvement of all of the Company´s operating procedures. The Company´s quality control system is periodically audited by its internal audit teams and by an independent accreditation company.

Inventories

Since some varieties of tequila, Irish whiskey and rum are aged for different periods of time, the Company keeps significant inventory of tequila, Irish whiskeys and rum in the aging process in its cellars. The Company also keeps relevant inventories of blue agave plants in the growth process. In general, the production of inventories in aging process is scheduled to meet the demand for several years to come, and the schedules regarding the production and inventories of barrels are adjusted from time to time, in order to balance them with the expected demand.

Marketing and brand development

The Company considers its global brands as its most important and valuable assets. The principal tool used by the Company to protect its brands' market positions and generate future demand are its marketing and promotional investments. The Company considers that *José Cuervo* proves that a long tradition brand, well managed, marketed, advertised and promoted, becomes enduring. There are only a few worldwide recognized brands of distilled alcoholic beverages, and for a new brand to have world-wide presence, time, consistency and large capital expenditures are required.

The Company believes that having effective marketing strategies and brand development are fundamental for its activities and are key elements for its success in the future. In 2018, the Company invested $6,580 million in marketing and promotion programs.

The Company considers it can take advantage of its position as a global organization to increase its marketing strategies' effectiveness, which is essential to compete with other larger companies. The Company believes that, in order to create and maintain a worldwide recognized brand, it is essential to consistently and continuously concentrate on the brand's positioning and visibility, as well as the message it wishes to convey to the consumer, and the quality and price of the product.

The Company considers that the global brands should be centrally managed to ensure its strategic position and the marketing strategies be consistently implemented across markets. The Company's general marketing and positioning strategies must be consistent and reliable. However, their applications and messages may vary from one region to another or from one market to another. The Company develops its brands globally but carries out activities locally to maximize consumer demand.

Mexico

The coordination of the Company's marketing and brand development in Mexico is carried out by the Marketing Division in Mexico, which is a decentralized business unit that focuses on the development of planned marketing and leadership strategies, income, marketing and promotion investments, and the Company's brands contribution in national markets.

United States

The Company has personnel focused on marketing and developing each of the brands distributed in the United States. This team is highly specialized in the distilled alcoholic beverages market and is responsible for implementing the global strategies of the José Cuervo brand locally. The implementation of these strategies addresses two aspects: (1) improving the Company's brands image and value in the long term, through general marketing campaigns and (2) increasing the Company's sales through tactical promotional activities.

The rest of the world

The marketing strategies of the Company's brands in the rest of the world are centrally managed. The Company's marketing strategies are jointly developed by its marketing teams and independent distributors. The Company establishes the course of these strategies and provides support by selecting media and social networks that are to be used, and through the provision of marketing and promotional materials.

Main campaigns

The Company focuses on promoting the specific attributes that distinguish each of its brands from other products competing with them in each category and segment.

Channels

The Company's main marketing channels include:

- traditional television, radio and printed media advertising;
- internet, social and other digital media;
- visits to the Company's facilities and events to experience the Company's products;
- promotions at specific locations, including sponsorship of recognized events;
- billboards;
- celebrity promotion; and
- sponsorship of programs at an international level.

The Company's marketing teams continually seek new ways to communicate the value of their brands to consumers. For example, the Company increasingly uses digital media, including social media platforms.

Local distributors

The Company's local distributors play an important role in constantly applying the strategic aspects of its marketing plan. These distributors implement such aspects of the Company's branding and sales strategies regarding marketing and promotion investments; and ensure the implementation of such strategies through the Company's deals with wholesalers and commercial establishments. The Company invests significant amounts of time and attention to properly manage its relationships with its distributors, to ensure that they properly implement the Company's marketing strategies and the development of brands in their respective local markets.

Cyclic or seasonal behavior

The Company's different segments are subject to certain seasons, increasing their sales in certain months of the year, according to the consumption habits of the region in question. Regarding the products of the segment in Mexico, for example, the Company has higher sales in the season known as "Fiestas Patrias" (a national holiday) and until Christmas holidays, which starts on September 15th, to December 31, therefore the segment sales increase shortly before September 15 (when the distribution of the products begins) and until December. Regarding the products of the US segment, these are mostly consumed from May 5th all through summer until the 4th of July, therefore, segment sales also recorded an increase shortly before May 5th. Irish whiskey from the Rest of the World segment, increases its consumption in November and December, therefore, its sales also increase in the last quarter of the year. Given the differences in consumption habits between the different regions where the Company operates, the annual season impact of the Company's segments is minimized; however, net sales and lower profits are commonly recorded in the first and third quarter of each year, compared to the second and fourth quarter's income and results.

ii) Distribution Channels

Distribution network

The Company has a worldwide solid distribution network. The size and coverage level of such network allows it to effectively distribute its products on the main distilled alcoholic beverages' markets worldwide. The products are distributed through wholesalers and independent establishments located around the world, including the major supermarket chains, grocery stores, hotels, restaurants and duty-free stores.

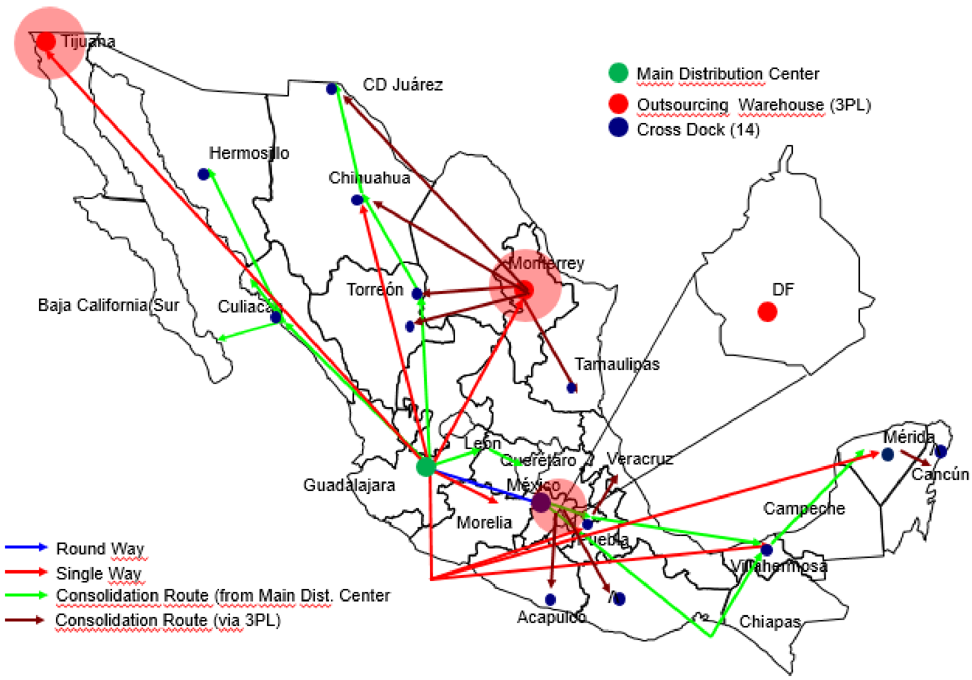
Mexico

In Mexico, the Company distributes both its owned brands and brands of related parties and third parties through its own vast distribution network. In the past 12 years, the distributed volume of sales has more than doubled and currently amounts to 6,745,734 9 liters cases per year.

Approximately 60% of the sales volume of distributed products is concentrated in its distribution centers in Guadalajara, Jalisco, which serves as the distribution network's headquarters. This distribution center is in charge of restocking the rest of the distribution centers and of 2 shipping centers throughout Mexico.

For the distribution of its finished products, the Company does not have its own fleet, but hires transportation from large transportation companies that are responsible for distributing to the distribution centers of the self-service channel, wholesalers and points of sale. The only exception to this is bulk tequila, which is transported from the production facilities to the bottling plant in the United States by railroad companies in tanks or wagons that belong to the Company.

The chart below shows the structure of the Company's distribution network in Mexico, including its own and leased warehouses and shipping centers.



United States, Canada, United Kingdom, Republic of Ireland and Australia

The Company has a strong distribution network and a team of experienced sales representatives. In the United States, the Company sells its products to wholesalers, in states where it is permitted; and to the state liquor commissions in the states where the distilled alcoholic beverages is controlled by the state government. In Canada, the Company sells to the provincial liquor commissions of all Canadian provinces. The Company has a distribution center in London, which directly sells the Company's products to wholesalers and retailers in the United Kingdom, and a distribution center in Dublin, which sells the Company's products to wholesalers and retailers in the Republic of Ireland, and a distribution center in Australia since 2017.

In 2007, the company "Proximo" was founded as an independent distribution company that began to distribute local brands in the United States. In 2008, Proximo began distributing Tequila 1800 in the United States, increasing the sales of such tequila from less than 400,000 cases to more than 900,000, in less than 5 years. The direct presence in the United States has allowed the Company to have an approach with the country's consumers, which the Company considers as the most profitable, dynamic and that defines the trends in the market of distilled alcoholic liquor worldwide. The Company's advertising campaigns have created empathy with the consumer, which has resulted in the growth of its star brand José Cuervo, since Proximo started distributing in the United States in 2013. Proximo currently distributes more than 12,016 million 9-liter cases per year.

The majority of the sales volume of products distributed in the United States is concentrated in the distribution center in Lawrenceburg, Indiana, which serves as its distribution center in the United States.

For the distribution of its products, the Company does not have a fleet of its own, but hires transportation from large transportation companies that distribute to the distribution centers of the state governments or the distributors in open states.

The rest of the world

In the rest of the world, the Company has a network of independent distributors covering more than 85 markets. The Company forms strategic alliances with these independent distributors through the execution of exclusive distribution agreements. To ensure the maintenance of an adequate and high-quality distribution system in each local market, the Company carefully selects a distributor for each individual country. The Company works closely with its distributors to ensure that its brands are properly represented in each market and that its performance and control goals are achieved.

The Company periodically reviews its distribution strategy in the rest of the world to guarantee that its growing portfolio of brands has the best distribution models in each market. José Cuervo's Master Distributor ("JCMD") is the subsidiary of the Company, in charge of third parties distribution in more than 85 markets outside North America with a team of 15 professionals. The JCMD headquarters is located in Dublin, Ireland, and is divided into three regions: Europe / Middle East / Africa, Asia-Pacific, Central and South America. With the acquisition of Bushmills, benefits were obtained by scale, as it allowed the Company's distribution network to have presence and penetration.

The *Bushmills* brand is distributed to territories where the Company does not have its own distribution units directly from the factory, through logistics services hired by third parties.

iii) Patents, licenses, trademarks and other agreements

The Company is the titleholder of a large number of brands, slogans, denomination and designs, copyrights, know-hows and domain names. The Company believes that its brands, including the names under which it sells its products, distinguish its products as leading distilled alcoholic beverages to consumers. Therefore, the Company's activities depend to a large extent on the maintenance and protection of its brands and industrial property rights. The Company considers that its brands are properly registered or protected by other means, in all ways required in the markets in which it operates.

The Company owns most of the brands it uses. Particularly, it is the titleholder of the tequila brands *José Cuervo, 1800* and *Gran Centenario*. The *José Cuervo* brand, and the brands of all related products are duly registered in more than 150 countries.

The Company's registered designs, which include both drawings and packaging designs, provide an additional level of protection for its brands. As is customary in the industry, the Company's formulas and production processes are protected as trade secrets.

The main brands of the Company are:

Grupo Cuervo Brands

- *Cuervo (José Cuervo Especial), José Cuervo Tradicional, Reserva de la Familia.* José Cuervo, José Cuervo Reserva de la Familia Platino Jose Cuervo 250 aniversario. Jose Cuervo Margarita Mix, Jose Cuervo RTD).
- *Centenario (Gran Centenario, Azul Centenario, Gran Centenario 40, Gran Centenario Gallardo, Gran Centenario Leyenda)*
- *1800, 1800 Milenio, 1800 essentials*
- *Oso Negro*
- *Maestro Tequilero/Dobel, Dobel 50, Humito, Grandes Maestros, Atelier*
- *Bushmills*
- *Boodles, Boodles Mulberry*
- *Creyente*
- *Sangrita Viuda de Sánchez*
- *Boost*
- *Ron Castillo*
- *Pendleton*
- *400 Conejos*

Proximo Brands

- *Hangar 1*
- *Three Olives*
- *Straahan's*
- *Kraken*
- *Tincup*
- *Sexton*
- *Old Camp*
- *Proper 12*
- *Owneys*
- *Bentwing*
- *Black Dirt*

On the other hand, within the distribution agreements that the Company entered into with third party brands that it distributes in Mexico, a limited license is established under which the Company could use such brand, subject to the terms set forth therein. Such brands include:

- *Licor 43*
- *Zoco*
- *Vaccari*
- *Martin Miller*
- *Jägermeister*

Research and development

Innovation is an important aspect of the Company's expansion strategy and plays a crucial role in positioning its brands to ensure continued growth in both developed and emerging markets. The Company's innovation strategy is implemented mainly through new product development programs and extensions of existing brands.

iv) Main Clients

The Company maintains a strong relationship with its clients and strives to understand and meet their specific needs. It has a diversified list of clients in the countries where it operates, which includes supermarkets, price clubs, self-service chains and other large retailers, convenience stores, institutional clients, including restaurants and fast food chains, vending machine operators and traditional customers (grocery stores, etc.).

v) Applicable law and tax status

The activities of the Company are subject to a large number of regulatory requirements, both federal and local, mainly in the countries where it carries out most of its activities (Mexico, the United States and Northern Ireland), including with respect to production, liability for damages caused by the products, distribution, importation, promotion, labeling, advertising, labor relationships, health and safety, pensions and environment.

Mexico

Denomination of Origin

Tequila is protected by the denomination of origin "Tequila" in terms of the Industrial Property Law *(Ley de la Propiedad Industrial)* and according to the declaration issued for such purposes. The protection granted to the denominations of origin begins with the declaration issued for such purpose by the competent authority and the illegal use thereof is sanctioned in terms of the applicable law.

The General Declaration of Protection to the Denomination of Origin was issued in 1974 and replaced by the declaration published in the Federal Official Gazette on October 13, 1977 Declaration. According to the Industrial Property Law, its term will be determined by the subsistence of the conditions that motivated it and it will only cease to be effective by another declaration of the Mexican Institute of Industrial Property *(Instituto Mexicano de la Propiedad Industrial, IMPI).*

Therefore, the term must be deemed indefinite until the conditions that caused it cease to exist and the IMPI issues a declaration in this regard.

Tequila has been recognized as a distinctive product by the United States and the Denomination of Origin has been officially accepted by the countries that are part of the European Union, and by certain other countries. Currently, there are discussions regarding formal recognitions by certain countries in the Asia-Pacific region.

Regarding its ownership, it corresponds to the Mexican State, as set forth in the Industrial Property Law and it may only be used through authorization issued by the IMPI. The term of the authorizations to use a denomination of origin will be of 10 extendable years, counted from the date of submission of the application before the IMPI and their term may be extended for equal periods.

The authorizations to use a denomination of origin may be ineffective for (i) the annulment thereof (when granted in contravention to the provisions of the Industrial Property Law or using false data and documents); (ii) cancelation for using the denomination of origin in a way different from the one set forth in the Declaration; and (iii) for expiration of its term.

The Company has all the necessary authorizations, which are effective and were issued by the competent authority in favor of Tequila Cuervo, S.A. de C.V. and of Casa *Cuervo*, S.A. de C.V. to use the Denomination of Origin, with respect to the production of tequila in its different categories and kinds.

Regulatory aspects corresponding to the production of tequila.

The Company is required to have several permits and certifications necessary to perform its production activities.

The productive, industrial and commercial chain of tequila is regulated by the Mexican Official Standard NOM-006-SCFI-2012, Alcoholic beverages – Tequila - Specifications (hereinafter the "Tequila-NOM"). This standard will be applicable to all processes and activities related to the supply of agave of the species *tequilana weber,* blue variety, the production, bottling, marketing, information and business practices linked to tequila.

Tequila production may only be carried out by an Authorized Producer. To be an Authorized Producer, an individual or legal entity must have the corresponding authorizations issued by the General Standards Directorate *(Dirección General de Normas, DGN)* of the Ministry of the Economy *(Secretaría de Economía)* and the Mexican Institute of Industrial Property (IMPI).

Therefore, in addition to the authorization for use of the Denomination of Origin mentioned above, it will be necessary to request and obtain from the DGN the authorization to produce tequila, pursuant to section 6.7 of the Tequila-NOM and in accordance with the processes in effect upon submitting the application.

In addition to the two aforementioned authorizations, the tequila producers and marketers must have the previous authorization of the Compliance Assessment Body (*Organismo Evaluador de la Conformidad*).

Such body is the CRT or any other legal entity authorized and approved in terms of the Federal Law on Metrology and Standardization *(Ley Federal sobre Metrología y Normalización).*

The authorization referenced in the previous paragraph is materialized through the issuance of a Certificate of Compliance with Standard (Certificate of Compliance), which must be renewed annually as provided in the Tequila-NOM.

To process the referenced Certificate of Compliance, it will be essential to have previously obtained the authorization issued by the Mexican Institute of Industrial Property and the authorization corresponding to the DGN of the Ministry of the Economy.

As to its production, tequila must be obtained by the distillation of musts, prepared directly and originally from the extracted material, at the facilities of the factory of an authorized producer, in terms of the previous paragraph, which in addition must be located in the territory included in the Declaration.

Finally, it is important to point out that the Tequila-NOM provides several requirements that must be satisfied in the tequila production process, such as statistical controls on quality control, use of the production facilities and qualitative characteristics of the water used in the process.

The Company complies with all the requirements and certifications necessary for the production and bottling of tequila. Likewise, in case of resorting to third parties for certain activities of the productive chain of tequila, the Company ensures that they comply with all the certifications that are required, as applicable.

Regulatory aspects corresponding to the marketing of tequila

According to the Tequila-NOM and pursuant to the provisions in the previous section, it will not be possible to market any tequila without the previous issuance of the aforementioned Certificate of Compliance with Standard, issued by the Compliance Assessment Body.

On the other hand, the applicable regulations set forth that the bulk disposal of tequila may only be carried out by the natural or legal persons that are authorized producers, as such term has been referenced above and in terms of the Tequila-NOM. The bulk transfer must also be supervised by the Compliance Assessment Body.

With respect to its bottling, the Tequila-NOM sets forth that in the event of being carried out by a third party, it must have a Certificate of Approval of Tequila Bottlers *(Certificado de Aprobación de Envasadores de Tequila, CAE).* Such certificate will be granted provided that the Ministry of the Economy, as competent authority, has sufficient evidence that all the facilities are given to the Compliance Assessment Body to verify in situ the existence, functioning and operation of the bottling plants.

The bottler to whom the CAE is issued, must report quarterly to the Compliance Assessment Body all the movements of entry and exit of tequila from its facilities, its initial and final inventories of the period, and the reductions for the reported period.

Additionally, it is important to point out that, for its marketing, every tequila must be identified by a number and the Official Password in terms of NOM-106-SCFI in effect and the registry of the Authorized Producer attached to the Official Password. Such registry will be assigned by the Compliance Assessment Body. Such Official Password is defined as the distinctive sign that allows the consumer to ascertain that the products or services that it acquires or receives have met the Mexican official standards applicable thereto.

With respect to its labeling, every tequila bottler must comply with the specific labeling requirements contained in the Tequila-NOM, regardless of the compliance of those imposed by the laws of the country to which it is exported, as applicable. Such special requirements include to have a legible label that meets certain requirements of information, such as: (i) to include the word “tequila”, (ii) to specify the category and class to which it belongs, pursuant to the applicable provisions; (iii) net contents of the product; (iv) alcoholic contents of the product, expressed in terms of the provisions of the regulations in effect; (v) the legend “Made in Mexico”, among others required by the legal provisions applicable to alcoholic beverages.

The Company has the certifications and authorizations required to market tequila in Mexico complying with the regulatory requirements provided for such purposes.

Regulations applicable to tequila export.

To be exported, tequila must meet certain requirements of compliance with the provisions of the Tequila-NOM. Specifically, it will be required to have an Export Certificate issued by the Compliance Assessment Body.

Such Export Certificates will cover only the batch subject to marketing; therefore, each export must request a certificate by category, class, alcoholic contents and tequila brand, being able to include a maximum of four different capacities.

If the Compliance Assessment Body or the competent Agency determines a breach of the respective obligations, it will not issue the Certificate of National Transfer or of Tequila Export, as applicable.

The export certificate must be issued in the number of copies required to be submitted to the competent agencies and the authorities of other countries to which tequila is sent and be always attached to the corresponding shipment.

Additionally, the brand under which the export in question will be made must be duly registered before the Mexican Institute of Industrial Property.

For the issuance of the Export Certificate, the interested party must comply with the following requirements: (i) be an Authorized Producer, as defined in the previous sections and have the certificate of compliance with the Tequila-NOM; (ii) that the tequila brand to be exported is duly registered; (iii) when applicable, the bottler must have the Certificate of Approval for Bottlers, as provided above.

Sanitary specifications and provisions of sanitary and commercial labeling applicable to all alcoholic beverages marketed in Mexico.

In addition to the production and marketing of tequila, the Company is devoted to import and market several alcoholic beverages. Such activities and such products, besides tequila and its marketing, are subject to the exercise of sanitary control, as provided in the General Health Law *(Ley General de Salud).* Sanitary control must be understood as the set of actions of orientation, education, sampling, verification and, as applicable, enforcement of security measures and sanctions that the Ministry of Health *(Secretaría de Salud)* of the Mexican government exercises, with the participation of the producers, marketers and consumers, based on the provisions of the Mexican official standards and other applicable provisions.

Specifically, to the sanitary control provided in the General Health Law, as pointed out in the previous paragraph, the marketing of alcoholic beverages must abide by the provisions of the Regulation of Sanitary Control of Products and Services (*Reglamento de Control Sanitario de Productos y Servicios*) (the Regulation of Sanitary Control) and the Mexican Official Standard NOM-142-SSA1/SCFI-2014 (NOM-142).

The purpose of the Regulation of Sanitary Control is the regulation, control and sanitary promotion of the process, import and export, and of the activities, services and establishments of several products, which include alcoholic beverages.

Such regulations set forth those beverages that will be included in the concept of alcoholic beverages, among them, distilled beverages, and the classification allocated to each of them considering its alcoholic contents (low, medium and high contents) according to their contents and the parameters set forth for such purposes.

With respect to NOM-142, its purpose is to set forth the sanitary specifications and provisions of sanitary and commercial labeling of the alcoholic beverages that are marketed in Mexico.

Such rule is mandatory throughout the country and it will also be applicable to the natural or legal persons engaged in the production or import of alcoholic beverages, with the sole exception of the products destined for export.

Among the relevant aspects provided by NOM-142, alcoholic beverages producers are required to prove that the product has not been adulterated during its manufacture and bottling, and during its marketing, when made at the points of sale and consumption centers.

With respect to its bottling, it must be made in sanitary containers, made with materials that are innocuous and resistant to the different stages of the process, in order to prevent reaction with the product or alter its physical, chemical and sensorial characteristics.

In addition to the aforementioned requirements, the labeling of alcoholic beverages must comply with the insertion of warning captions on the risks for health, disclosing of the importer's identity, the notice of alcoholic contents and the inclusion of other kinds of information for the consumer.

Lastly, it is expressly established that the verification units authorized and approved by the Ministry of the Economy may assess the compliance of the provisions in NOM-142 by those bound by it.

Mexican standards "NMX"

Mexican standards (NMX) are technical documents that allow to set forth quality specifications on processes, products and services, systems, among others. Such standards are generally used by several companies of the industry as guidance or terms of reference in the production of alcoholic beverages.

On the subject, there are several NMX that the Company and other companies of the industry may use as reference when they deem it convenient regarding certain aspects such as the determination of alcoholic contents, the determination of sugar, the determination of aldehydes, esters, methanol and fusel alcohols, among other aspects.

Tax regulations on alcoholic beverages

Alcoholic beverages are subject to the payment of rates of import and special taxes in most of the markets worldwide. Most of the countries apply special taxes to distilled alcoholic beverages, although the way to tax them varies substantially. The changes in the import rates and the special taxes may have a considerable effect on the sales.

In Mexico, for purposes of the Special Tax on Production and Services Law *(Ley del Impuesto Especial sobre Producción y Servicios, LIEPS)* the natural or legal persons that dispose in Mexico or import the goods provided therein, including alcoholic beverages, will be considered taxpayers.

In terms of the LIEPS, the manufacturers, producers, bottlers and importers of alcoholic beverages must be registered in the Taxpayers of Alcoholic Beverages Registry (*Padrón de Contrbuyentes de Bebidas Alcoholicas*), of which the Ministry of Finance and Credit Public *(Secretaría de Hacienda y Crédito Público)* is in charge.

Regarding alcoholic beverages, taxpayers must affix tags on the containers immediately after their bottling, unless they are bottled beverages destined for export. The tag is a distinctive sign of tax and sanitary control affixed to the containers that contain alcoholic beverages with a capacity that does not exceed 5,000 milliliters. In the case of imported alcoholic beverages, the taxpayers must place the tags or seals to which the LIEPS refers before the entry of the products into the country.

For the control of tags as distinctive signs in tax and sanitary matters, the bottlers and importers of alcoholic beverages will be required to submit to the Ministry of Finance and Public Credit, quarterly, in the months of April, July, October and January of the relevant year, a report of the folio numbers of tags and seals, as applicable, obtained, used, destroyed and unused during the immediately previous quarter.

With respect to the tax regulations applicable to the production and bottling of alcoholic beverages, the LIEPS sets forth that the manufacturers, producers and bottlers must report in January of every year to the Tax Administration Service *(Servicio de Administración Tributaria),* the characteristics of the equipment that they will use for the production, distillation, bottling and storage of such goods, and the containers for the storage thereof when it is not equipment.

Regulations applicable to the advertising and sale of alcoholic beverages

The advertising and sale of distilled alcoholic beverages is subject to several restrictions in the different international markets. These restrictions range from the prohibition of the sale of alcoholic beverages in some countries to the style of advertisements and the broadcast media and messages used.

In Mexico, the General Health Law (*Ley General de Salud*) sets forth that the Ministry of Health of the Mexican government will authorize the advertising on the existence, quality and characteristics, and to promote the use, sale or consumption, directly or indirectly, of alcoholic beverages, among other regulated products.

Regarding the advertising of alcoholic beverages, the General Health Law sets forth several minimum requirements by which it must abide, among which the following stand out: (i) it will only provide information on the characteristics, quality and techniques of manufacture of the products; (ii) it must not present them as welfare or health producers or associate them to civil or religious celebrations; (iii) it may not associate the alcoholic beverages with creative, sports, home or work activities; (iv) the products in question may not be actually or apparently drunk or consumed in the message, among others provided by the referenced law.

Likewise, advertisers of alcoholic beverages must prove, when requested by the Ministry of Health, the statements that they make their its advertisements on the quality, origin, purity, conservation, among others, in addition to pointing out the target to which its advertising is addressed, for which it must submit the technical and scientific information requested by the competent authority.

Additionally, the advertising of alcoholic beverages will be subject to certain specific requirements regarding the form and means of transmission provided in the Regulation of the General Health Law on Advertising.

The advertising of alcoholic beverages broadcasted by radio and TV cannot be broadcasted at any time, but adjust to the corresponding schedule according to its alcoholic contents. Additionally, it must include a message of social responsibility regarding the consumption of such products.

On the other hand, the advertising of print media must include the warning legends regarding their consumption, which must be part of the advertisement in question and they must have a layout that allows them to be visible at all times.

For their special characteristics, the advertising of alcoholic beverages requires the previous permit granted by the Ministry of Health through the Federal Commission for the Protection against Sanitary Risks *(Comisión Federal para la Protección contra Riesgos Sanitarios, COFEPRIS).* The application for the permit must be submitted pursuant to the proceeding provided in the Regulation of the General Health Law on Advertising and comply with the requirements set forth for such purposes. Those permits will be granted for an indefinite term, to the extent that no amendments are made that cause the change of the characteristics of the relevant advertisement or advertising element that served as basis for the granting of the relevant permit.

The Company is part of the Agreement of Self-regulation Actions on advertising of alcoholic beverages executed by the Ministry of Health of the Mexican government through the COFEPRIS and the *Comisión para la Industria de Vinos y Licores, A.C.,* to which the Company belongs.

As a result of such agreement, the Company agreed not to disseminate advertising messages that do not have the corresponding authorization of the COFEPRIS, to comply with the requirements of advertising design, production and broadcast applicable to the alcoholic beverages, to fully comply with the principles and obligations provided in the General Health Law and the Regulation of the General Health Law on Advertising and to refrain from retaining advertising and carrying out promotion activities of alcoholic beverages at places visited mostly by minors, among other commitments assumed by the producers and marketers of alcoholic beverages on the subject of manufacturing, design, production and broadcast of advertising material of its products.

Applicable regulations on the use of water

The National Waters Law *(Ley de Aguas Nacionales, LAN),* mandatory throughout Mexico, sets forth that, pursuant to the public nature of the hydric resources, the exploitation or use of national waters by natural or legal persons will be made through a concession granted by the Federal Executive Branch through the "Commission" by the Basin Bodies, or by itself when it is competent.

Article 82 of the LAN ratifies expressly that the exploitation or use of national waters in industrial activities, of aquaculture, tourism and other productive activities may be made by natural or legal persons, upon prior concession granted by the competent authority, in terms of the provisions in the applicable regulation.

On the other hand, the industrial use is defined as the application of national waters in factories or companies that carry out the extraction, conservation or transformation of raw materials or minerals, the finishing of products or the manufacture of satisfiers, and the water that is used in industrial parks, boilers, devices for cooling, washing, toilets and other services in the company, the brines that are used for the extraction of any kind of substances and the water, even in the state of steam, that is used for the generation of electricity or for any other use or exploitation of transformation.

With respect to the term of the concessions on water, the LAN provides that it may not be shorter than five years or longer than thirty years and the term will be determined by the competent authority taking into consideration the conditions of the source of supply, the priority of uses in force in the corresponding region and the growth expectations of such uses.

The concessions may be extended up to an equal term and characteristics of the title in force for which they had been granted, provided that their holders do not incur any of the causes of termination provided in the LAN, they comply with the requirements set forth for such purpose and it is requested within the last five years before the end of their term and at least six months before their expiration.

With respect to the discharge of wastewater, it will be necessary to have the corresponding discharge permit, issued by the competent authority to pour permanently or sporadically wastewater in receiver bodies.

In addition to the permit mentioned in the previous paragraph, any person who discharges wastewater must comply with certain additional obligations, such as (i) to treat the wastewater before its spill to the receiver bodies, when it is necessary to comply with the provisions in the corresponding discharge permit; (ii) to operate and maintain on its own or through third parties the works and facilities necessary for the handling and, as applicable, the treatment of wastewater, and to ensure the quality control of such waters before their discharge; (iii) to report to the "Water Authority" the pollutants in the wastewater generated from the industrial or service process that they operate, in addition to those considered in the corresponding permit and (iv) to comply with the other applicable provisions.

The Company has the concessions required for the use of water in the performance of its production activities and for each of the facilities that require it, in accordance with its characteristics and functioning.

Such concessions are sufficient to cover the water demand corresponding to all the activities of the Company and they are in full force and effect, pursuant to the terms and conditions set forth therein. Likewise, the Company has the permits required to carry out wastewater discharges, the term of which, under the applicable legal provisions, is similar to the term set forth for the water use concession that it has.

Land ownership

Regarding Agave and the lands used to grow it to produce tequila, we must abide by certain regulatory requirements provided in the Tequila-NOM.

First, the lands used for such purpose must be previously registered in the Registry of Lands Plantation (*Registro de Plantación de Predios*), of which the Compliance Assessment Body is in charge. The owner or holder of the Agave must annually update or ratify its registration of plantations and lands of blue Agave, stating the condition in which their registration data are and the changes, if any, in its Agave inventory. The owner or holder of the agave is responsible for the registration of this identification in such registry.

The Company has several lands used to grow Agave. Such lands are duly registered in the registry in question in compliance with the provisions of the Tequila-NOM for such purposes.

Regarding the Agave that the Company acquires from third parties, the Company has always complied with the obligation to verify and ensure that they have the proof of registration in the registry in question.

International Regulations

In many countries distilled alcoholic beverages may only be sold in authorized establishments, for their consumption either inside or outside such establishments. In most of the European Union, the sale of distilled alcoholic beverages for consumption outside of consumption centers is reserved to establishments controlled by the government that have a governmental license. In the United States, which is one of the main markets of the Company in terms of sales volume and amount, the distribution and sale of distilled alcoholic beverages are strictly regulated through a three-level system. In the first place, the importer or producer, as applicable, must sell the products to a wholesaler (in the states where the sale of distilled alcoholic beverages is not controlled by the local government) or to the state commission of liquors (in the states where the wholesale of distilled alcoholic beverages is controlled by the local government). In the second place, the wholesalers or the state liquors commission, as applicable, sell the product either to commercial establishments for their consumption outside of such establishments or to restaurants and bars for their consumption inside such establishments. In the third place, the establishments that sell distilled alcoholic beverages for their consumption inside such establishments must have a license granted by the state government. Some state liquor commissions have their own sales establishments.

This three-level system is implemented by several federal agencies, and by the federal and state commissions known as "tied house laws" that limit the nature and the scope of the relationships between the importers of distilled alcoholic beverages, the producers and the wholesalers, on one hand, and the retailers sellers of distilled alcoholic beverages, on the other hand. These laws and provisions forbid operations and relationships that are common in the industry of distilled alcoholic beverages in other parts of the world, and in other consumption sectors in the United States.

In Northern Ireland, the sale of alcoholic beverages is regulated by Licensing Order No. 1996. The Company has two licenses in force: (i) for the sale through the restaurant at its facilities and (ii) for sales made by the gift shop at its facilities. The existing information in registry of the office in charge of such licenses confirms that both licenses are effective under the name of the Company.

Regulations on economic competition

The Federal Economic Competition Law *(Ley Federal de Competencia Económica)* and its regulation regulate the market access, the economic competition and the fight against monopolies and anti-competitive practices; and they subject the performance of certain mergers and acquisitions to the requirement of previous authorization by the Mexican government. The Federal Economic Competition Law authorizes the Mexican government to impose through presidential decree maximum prices to the goods and services that are necessary for the national economy or popular consumption.

On May 23, 2014 a new Federal Economic Competition Law was published in the Federal Official Gazette, which became effective on July 7, 2014. This law was issued for the purpose of implementing certain amendments to article 28 of the Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*) on economic competition, whereby the state was authorized to establish the COFECE in replacement of the former Federal Competition Commission, granting it the necessary powers to comply effectively with its purpose, including the power to regulate the access to essential inputs and to order the divestment of assets, rights, equity interests or shares of the economic agents to eliminate anticompetitive effects. The mergers, acquisitions and other concentrations or acts that may hinder free competition or cause anti-competitive practices or anticompetitive behaviors, are subject to COFECE's approval.

The Merger of Proximo was carried out pursuant to the Federal Economic Competition Law in effect; however, in the future this may limit the capacity of the Company to enter into mergers or carry out acquisitions. The Company considers that this law will not have a significantly adverse effect on its current activities.

Social responsibility

The company considers that social responsibility is an essential element of what it means to be a good entrepreneurial citizen. The Company is committed, and it actively participates in the main bodies of the industry for the promotion of the responsible consumption of alcoholic beverages – including the fight against consumption of alcoholic beverages by minors and the use of vehicles under the influence of alcohol – seeking innovative means to raise awareness among the population regarding the harmful use of alcohol and its prevention.

In Mexico, the Company is a member of the national Chamber of the CNIT, the *Comisión para la Industria de Vinos y Licores, A.C. (CIVYL)* and the *Fundación de Investigaciones Sociales, A.C. (FISAC).* Through these bodies, the Company promotes the responsible consumption of its products through the development of programs at the industry level to prevent, among other things, the harmful use of alcohol, including programs to prevent the consumption of alcoholic beverages by minors and pregnant women, and the use of vehicles under the influence of alcohol, the moderate consumption and the respect to abstinence. The Company also participates in similar bodies at the international level. Additionally, the Company actively engages in initiatives sponsored by the government to find practical solutions that comply with the regulatory objectives.

Additionally, the Company provides support to *Fundación José Cuervo, A.C.* which develops several social programs in the regions where it operates. These programs focus on the promotion of family values, Mexican traditions, the responsible consumption of alcoholic beverages and education, among other things.

Likewise, for 11 consecutive years, the Company has complied with the standards in the strategic areas of corporate social responsibility set forth by the *Centro Mexicano para la Filantropía, A.C. (CEMEFI).* This compliance has been recognized every year, since 2007, through the Distinction of Socially Responsible Company, related to the commitment of the Company to foster the Quality of Life among its collaborators, and on Ethics and Corporate Governance, Link with the Community, Care and Preservation of the Environment and Responsible Consumption.

The Company considers it essential that its growth is developed in the context of an effective environmental responsibility and sustainability. To this date, the Company has made important investments for the treatment and disposal of wastewater, the improvement of waste disposal, water savings and the decrease in the emission of pollutant gases. The Company makes an effort to comply with the applicable environmental regulations and, if possible, to go further. The plants of the Company have recognition in environmental matters, such as certifications of Clean Industry, ISO 9000 and APPCC.

vi) Human Resources

Relevant executives

The administrative structure of the Company is composed of four levels. The first level is represented by the Board of Directors. The second and the third level are represented by the Chief Executive Officer and the Chief Operating Officer, respectively. The fourth and last level is represented by a group of executives responsible of different centralized corporate areas or decentralized business units.

Most of the members of the management team of the Company have an average experience of over eleven years. Their professional careers have elapsed mainly in big companies with leading brands in the industry of high turnover consumer goods in Mexico and abroad.

The Mexico Agricultural Division, Operations Division, Commercial Division and the International Distribution Division are decentralized business units as to their operation. The first two focus on aspects of cost, service and quality; and the last two focus on the performance of marketing strategies and on the development and maintenance of leadership positions of the Company’s brands in their respective markets. Furthermore, as part of the development of marketing strategies, the National Division and the International Distribution Division also focus on the aspects of marketing, promotion among consumers and contribution of the different brands. The Human Resources, Legal, Purchases, Internal Audit, Finance and Property Security Departments in Mexico perform centralized functions and provide services to the different business units in their respective areas.

Workers and employees

In Mexico all the Company's distillers, bottlers and warehouses have union employees and their team of promoters in Mexico also belongs to a labor union. The Company considers that its relationships with its union employees are good. In the last 17 years, the Company has not experienced any stoppage or strike. The Company has entered into collective bargaining agreements regarding each of its distilleries and bottling plants.

As of December 31,2018, the Company had approximately 6,836 employees worldwide, The Company considers that its relationship with all its employees are good and that its personnel turnover indexes are lower than those of the main companies of the industry of consumer goods in Mexico.

The following table shows the number of employees, by area or division, as of December 31, 2018:

Division	**As of December 31, 2018**
Agricultural	
Agricultural Management	107
Agricultural Operation	4,468
Operations	
Distillery Los Camichines	143
Distillery La Rojeña	180
Bottling Plant EDISA	452
Distribution	63
Bushmills	109
Proximo Distillers	236
Commercial Division Mexico and Latin America	610
Proximo USA	200
Proximo Canada	26
Proximo UK	21
Proximo Australia	29
JC Master Distribution	31
Corporate and Management	161
All employees	**6,836**

It is important to note that 11% (725) of the Company's 6,836 employees are unionized and 89% (6,111) are not unionized.

vii) Environmental performance

The industry of alcoholic beverages is subject to a broad range of laws and regulations on environmental matters, including with respect to the quality of water and air, the disposal of solid waste and the pollution caused by noise and harmful smells for the ecological balance and the environment. The Company has a permanent program of compliance with the laws and regulations on environmental matters. The Company considers that it is in substantial compliance with all the laws and regulations on environmental matters applicable thereto, and with all its permits, licenses, authorizations and concessions. However, the company cannot predict if the future changes in the laws and regulations on environmental matters, or the future imposition of additional requirements on environmental performance will increase the operation costs of the Company's facilities and its operation costs in general. Any of such changes may have an adverse effect on the activities of the Company, its results of operations and its financial position.

All of the Company's facilities in the state of Jalisco are registered in the voluntary environmental compliance program established by the Ministry of the Environment and Territorial Development (*Secretaría de Medio Ambiente y Desarrollo Territorial*) of such state.

In Northern Ireland, the Company's facilities operate through a System of Environmental Management, which has a certification BS EN ISO 14001: 2004.

Likewise, the Company's facilities have the permit required to perform wastewater discharges dated October 28, 2009, issued by the Water Management Unit of the Environmental Agency of Northern Ireland.

viii) Market Information

The market and industry information (different from the information regarding the financial and results of operations of the Company) used throughout this Report is based on independent publications of the industry, governmental publications, reports made by market studies companies and other public independent sources.

Part of the information is also based on estimates of the Company, which derive from its review of internal surveys and analysis, and independent sources. Although the Company considers that such sources are reliable, it has not independently verified the information and it cannot guarantee its truthfulness and integrity. Additionally, these sources may use terms different from those used by the Company to refer to the relevant markets. The information related to the industry of the Company has the intention to provide a general guide, in spite of being inherently inaccurate. Although the Company considers that the estimates were reasonably obtained, the investor must not rely on them, since they are inherently uncertain. The sources of the figures and representations contained in this Report are indicated with respect to each figure or statement.

The market and industry information used in this report has been obtained and extrapolated from IWSR reports. IWSR measures the sales volume at the last sales point and it includes information for "on-trade" and "off-trade" distribution channels. The "on-trade" distribution channels include hotels, bars, clubs and restaurants where the products are consumed in such establishments. The "off-trade" distribution channels include retailers, supermarkets, wholesalers and convenience stores where the products are consumed outside of such establishments. To collect such information, IWSR states that it uses all the public available information (governmental, of associations, of foreign trade and press articles) and it conducts interviews in person in annual visits with researchers.

The Company operates as a producer, marketer and distributor of internationally acknowledged distilled alcoholic beverages, ready to drink cocktails and non-alcoholic beverages. The distilled alcoholic beverages represented 88% of the combined sales value of the Company for fiscal year 2017. In distilled alcoholic beverages, the Company considers that it is the biggest tequila producer worldwide. The Company also competes in the categories of Irish whiskey, vodka, rum and gin, among others. It distributes and sells its products in more than 85 countries and it generates most of its sales value in the United States, Canada and Mexico. Jointly, these three markets represented 86% of the combined sales value of the Company for fiscal year 2018.

Outlook of the Global Market of Distilled Alcoholic Beverages

Market Size

According to IWSR, the worldwide consumption of distilled alcoholic beverages reached 3 billion 9 liter cases and approximately US$318,572 million in sales value in 2017. Individually, Baijiu, a Chinese liquor, represents the largest category worldwide, accounting for approximately 38.9% of sales volume and 30.7% of sales value in 2017; followed by vodka with 13.8% of sales volume and 14.7% of sales value; whiskey with 13.0% of sales volume and 21.0% of sales value. Tequila, the most important category of alcoholic beverages of the Company, represented 1.0% of sales volume and 2.5% of sales value of the global market of distilled alcoholic beverages. The relative importance of each category in the national markets varies significantly due to local traditions, consumer preferences and specific trends. Excluding local liquors, tequila represents 1.9% of sales volume and 3.8% of sales value worldwide. The Company considers that the categories of tequila and Irish whiskey continue to be sub-represented categories of distilled alcoholic beverages.

The United States represents the third most important market in terms of sales volume, but the second in sales value, after China, with approximately US$49,007 million in 2017 (15.4% worldwide), reflecting high average sale prices and the great purchasing power of the local consumer.

Market Growth and Driving forces

IWSR considers that since 2012, the global industry of distilled alcoholic beverages has grown to a CAGR of 0.2% in terms of sales volume and 3.3% in terms of sales value. The superiority in the growth of the sales value compared with the sales volume achieved by the global industry of distilled alcoholic beverages reflects a trend of premiumization in the consumption, with the consumers replacing products with others of higher price in the context of an environment of positive economic growth.

The growth rates among categories of distilled alcoholic beverages and geographic areas varied significantly, as a result of a number of factors, including the different economic forecasts in the different geographic areas; changes in the consumer preferences; changes in the regulations and other governmental initiatives; and other specific factors of each category and market.

Tequila, the main category of distilled alcoholic beverages of the Company had a CAGR of 4.1% in volume between 2012 and 2017, above the market of distilled alcoholic beverages. The category of Irish whiskey, which represented 5.4% of the combined sales value of the Company for fiscal year 2018, has been one of the categories with the most accelerated growth in terms of volume in the distilled alcoholic beverages with a CAGR of 9.0% between 2012 and 2017. The Company is also a relevant participant in other categories of distilled alcoholic beverages, including vodka, rum and gin, among others.

The Company considers that the growth in the global market of distilled alcoholic beverages is driven by several factors, including cyclic factors such as growth of the GDP, levels of available income and consumer opinion, and other more structural driving forces, such as changes in the consumer preferences. Other factors may have an effect on the consumption of distilled alcoholic beverages, including changes in the regulations and other governmental initiatives.

The consumption of distilled alcoholic beverages is discretionary by nature and, as a result, the growth in the market of distilled alcoholic beverages tends to be correlated with the general performance of the economy. The consumer expense and trust and the increase in the available income are key driving forces in the growth of the market of distilled alcoholic beverages. A positive economic environment has an effect on the consumption of distilled alcoholic beverages, both on the growth of sales volume (consumption per capita) and in the growth of the average sales price, since the consumers are able to pay higher prices and replace their products with premium alternatives.

Outlook of the Main Categories of Distilled Alcoholic Beverages of the Company

Tequila

Tequila is a high-quality alcoholic beverage produced from a specific kind of Agave found in Mexico, Blue Agave, which must be cultivated only in the territory of the Denomination of Origin of tequila. This region in Mexico includes all the state of Jalisco and certain municipalities bordering the neighboring states of Guanajuato, Nayarit and Michoacán, and certain municipalities of the state of Tamaulipas. Due to regulatory provisions, tequila cannot be produced from any other kind of Agave or in any other region.

There are two kinds of tequila: (i) distilled tequila from at least 51% of sugar from Blue Agave, referred to as “Tequila” and (ii) tequila distilled from 100% Blue Agave sugars, referred to as “100% agave tequila”. Tequila may be bottled outside of the region of the Denomination of Origin of tequila, provided it is bottled by a bottler certified and authorized by the Ministry of the Economy. 100% agave tequila must be bottled in the territory of the Denomination of Origin.

There are five kinds of tequila, generally defined by their aging period: (i) white, which does not require any aging process; (ii) young, which may be tequila with added *abocantes* or a mixture of white tequila with rested, aged or ultra-aged tequila; (iii) rested, which has an aging process of at least 2 months;

(iv) aged, which has an aging process of at least 12 months; and (v) ultra-aged, which has an aging process of at least 36 months.

Tequila may be generally consumed separately or mixed in cocktails, with Margarita being the best-known cocktail prepared with tequila. The Company is focusing mainly on expanding awareness on the versatility of the product.

According to figures of the IWSR, in 2017 the global sales of tequila reached approximately US$7,957 million in retail sales value and 31.2 million 9 liter cases. Likewise, according to IWSR, the two most important markets of tequila are Mexico and the United States. In 2017, Mexico accounted for 28.8% and 14.3% of the global consumption of tequila in terms of sales volume and sales value, respectively, whereas United States represented 56.2% and 67.6%, respectively.

The category of tequila experienced positive developments between 2012 and 2017 in its key markets. In Mexico, the sales volume grew to a CAGR of 2.0% and the sales value grew to a CAGR of 7.4%. In the United States, the sales volume grew to a CAGR of 5.8% and the sales value grew to a CAGR of 7.9%. The positioned products in the premium and super premium tequila segments exceeded the category in general, with a growth of 9.6% and 10.9% in global terms of sales volume and sales value, respectively, for the aforementioned period. These growth rates are favorably compared against the CAGRs experienced by the general industry of distilled alcoholic beverages between 2012 and 2017 of 0.2% and 3.3% of sales volume and sales value, respectively. According to IWSR, tequila is expected to continue outperforming the industry in general.

The Company considers that the recent growth of the consumption of tequila has been fostered by a number of factors related to the changes in the preferences of the consumer and the demographic trends. The category of the tequila aligns favorably to the increase in the preference of the consumers for premium distilled alcoholic beverages and for products of a perceivable higher quality and hallmarks of tradition, origin and innovation.

The Company is the largest tequila producer in the world, with a share of 29.4% of the global sales volume in 2017, according to IWSR data, occupying the number one position in Mexico and in the United States. The share of the Company is more than twice the share of its closest competitor.

The Company competes in the category of tequila with a comprehensive portfolio of brands that comprises a wide variety of kinds, classes and prices of tequila, which includes 3 out of the 5 biggest brands by volume, José *Cuervo*, *1800* and *Centenario*, according to IWSR. The Company's brands have leader market positions, both in Mexico and in the United States.

Irish whiskey

Irish whiskey is a type of whiskey made in the island of Ireland. Whiskey is a kind of distilled alcoholic beverage made from grains. Several grains (which may be transformed into malt) are used to make several varieties, including barley, corn, rye and wheat. Whiskey is usually aged in wooden barrels.

According to the Irish Whiskey Act of 1980 that set forth key provisions regarding the definition and the production of Irish whiskey, it must be distilled and aged in the island of Ireland (including the Republic of Ireland and Northern Ireland).

The consumption of Irish whiskey spans the world. According to IWSR figures, the United States and the Republic of Ireland represented the two largest markets for Irish whiskey in 2017, representing 42.4% and 5.7% of the world sales volume, respectively. The global travel retail is an important channel and the sales at the points known as "duty free" represented 6.8% of the value of global sales in 2017.

Compared to other categories of whiskey (including, among others, Scotch whiskey, US whiskey and Canadian whiskey), Irish whiskey has not been fully established in most of the markets, in which it represents a small portion, but in growth of the total consumption of distilled alcoholic beverages and whiskey In 2017, this beverage represented 2.4% of all the whiskey in terms of sales volume and 4.5% in terms of sales value and the whiskey market reached a sales value of approximately US$67,051 million in 2017.

The category of Irish whiskey had a high growth of sales volume in the last years. This category was one of the categories that had the fastest growth in terms of volume of the global market of distilled alcoholic beverages between 2012 and 2017, with a CAGR of 9.0%. The Company considers that the Irish whiskey has benefited from the growth of the whiskey segment in general, and from specific attributes that differentiate it from other kinds of whiskey, including, taste, versatility and history, among others.

Summary of the Main Key Geographic Markets of Distilled Alcoholic Beverages of the Company

United States

According to IWSR figures, the United States represents the third largest market of the world of distilled alcoholic beverages in terms of sales volume and the second largest market in terms of value, after China. In 2017, the market of distilled alcoholic beverages in the United States reached 226 million 9 liter cases and approximately US$49,007 million in market value, representing 7.2% and 15.4% of the world consumption of distilled alcoholic beverages in terms of sales and value and volume, respectively.

Vodka represents the largest category of distilled alcoholic beverages in the United States, representing approximately 33.5% by consumption sales volume in 2016, followed by US whiskey (13.4%) and Canadian whiskey (10.0%). Tequila represents currently 7.8% of the total sales volume.

The Company considers that the United States distilled alcoholic beverage market represents the market with the greatest potential with respect to global profits. The average sale price of most of the categories of distilled beverages in the United States tends to be higher than the average prices worldwide, according to IWSR. Additionally, the Company considers that the United States is the most dynamic market and that it defines the trends in the market of distilled alcoholic beverages worldwide.

The market of distilled alcoholic beverages in the United States had a CAGR rate of 2.5% in terms of sales volume and 4.5% in terms of sales value, between 2012 and 2017. The Company considers that the growth of sales reflects a change towards premium distilled alcoholic beverages with higher prices, derived from a higher available income and a structural change in the preferences of the consumers towards products perceived as higher quality products or products with innovative qualities. For example, the average sale price to the consumer of a 9-liter case of tequila in the United States increased from US$277 in 2012 to US$307 in 2017. Between 2012 and 2017, the value of sales of consumption of the premium and super premium segments maintained a CAGR of 10.1% and the sales volume a CAGR of 9.9% for the same period, outperforming the broader market.

Tequila and Irish whiskey experienced some of the highest growth rates in the market by sales volume between 2012 and 2017, with a CAGR of 6.0% and 14.4%, respectively.

The market of distilled alcoholic beverages in the United States is relatively fragmented. The three largest companies of distilled alcoholic beverages represented approximately 36.6% of the total sales volume of such market in 2017.

The Company competes in the market of distilled alcoholic beverages in the United States with a diversified portfolio of products and brands in categories such as tequila, Irish whiskey, vodka, US whiskey, rum and gin. The portfolio of the Company's tequila brands, including José *Cuervo* and *1800*, among others, is the largest portfolio by sales volume in the United States. The Company is the leader in the category of tequila in the United States with a market share of 24.4% by sales volume in 2017. The category of tequila still represents a relatively small category in the United States, with only 7.8% of the total industry of distilled alcoholic beverages by sales volume. However, the Company considers that tequila has a good growth potential, with expected growth rates higher than the average of the rest of the distilled alcoholic beverages.

In the United States, the Company has its own distribution company, which is the ninth largest distributor of distilled alcoholic beverages by sales value and the tenth largest distributor of distilled alcoholic beverages in terms of sales volume and value.

Mexico

The consumption of distilled alcoholic beverages in Mexico reached 33 million 9 liter cases and approximately US$3,426 million in sales in 2017. Tequila is the largest individual category of distilled alcoholic beverages, representing approximately 27.3% of the sales volume and 33.1% of the sales value in 2017; excluding cane liquors, and Scotch whiskey is the second largest with 13.8% of sales volume and 28.1% of sales value.

The market of distilled alcoholic beverages in Mexico grew to a CAGR of 3.2% between 2012 and 2017, in terms of sales volume and 6.8% in terms of sales value. The key factors that drove the growth in value include the increase in the levels of available income and the trend towards premium products in different categories of distilled alcoholic beverages, driven, particularly, by the youngest consumers.

Tequila grew in sales value of consumption between 2012 and 2017, from a CAGR of 7.5%. The positive performance in tequila was due to, among other factors, the main producers successfully capturing the beverages market share of the youngest consumers, by refining their offer of premium tequilas, targeted marketing initiatives and innovation.

The Company's portfolio of tequila brands is the largest portfolio by sales in Mexico, including José *Cuervo, Gran Centenario, 1800, Maestro Tequilero/Dobel,* among others. The Company also participates in 8 other categories of beverages, both alcoholic and non-alcoholic: Irish whiskey, rum, vodka, gin, whiskey, mezcal, liquors and ready to drink cocktails. The Company's tequila brands occupy first or second place in each formal segment of prices and it has leader brands in the ¿ rum, vodka and whiskey categories.

In Mexico, the Company has its own distribution company, which is one of the largest distributors of distilled alcoholic beverages in terms of sales value and volume in the country by volume.

Rest of the world

The products of the Company are sold in more than 85 markets outside of Mexico and the United States, which jointly represents the Company's "Rest of the World" region. The largest markets by sales of this region include Brazil, Japan, the United Kingdom, Spain, Greece and Australia. According to the IWSR, the Company is the leader tequila producer in the "Rest of the world" region with a 32.4% of the sales volume of tequila in 2017. The Company has also a strong position in Irish whiskey through the *Bushmills* brand.

Generally, the Company distributes its products in the "Rest of the World" region through strategic alliances and exclusive distribution agreements regarding the brands with distributors established in each market.

Competition

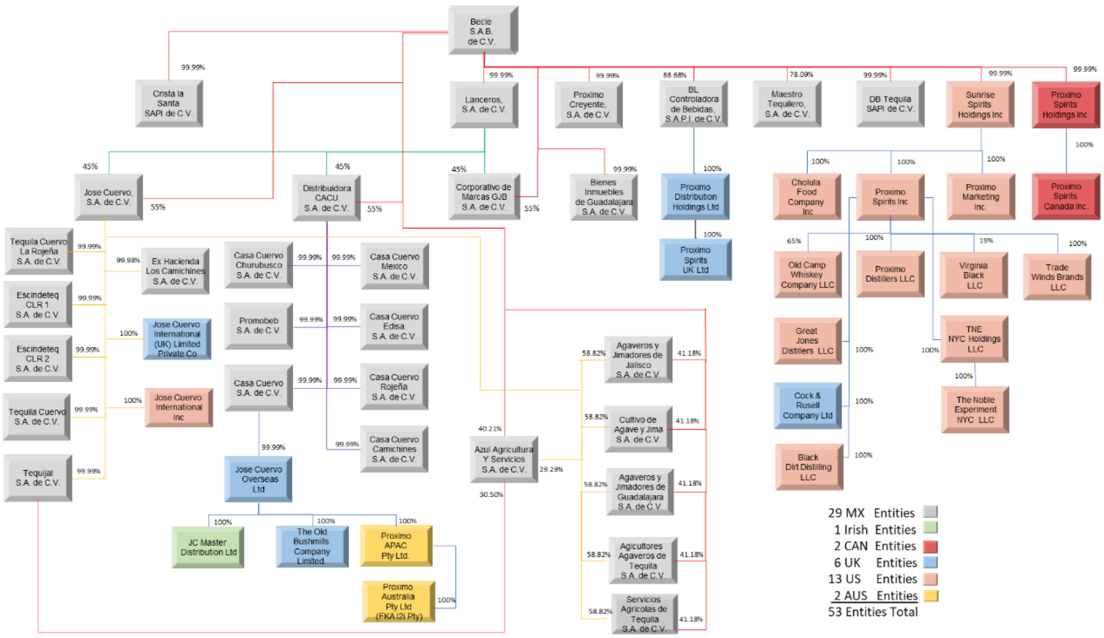
The industry of distilled alcoholic beverages is characterized by being highly competitive. The industry has significantly consolidated in the last two decades and, as a result, there are many companies offering different brands and with a global presence. The Company considers that it is likely that the industry consolidates even more in the future and that the companies that have a worldwide presence will continue to purchase other companies and smaller local and regional brands. Additionally, the Company considers that its position as a global company, the performance of its brands and its marketing and promotion strategies will allow it to compete effectively with its main competitors and grow at their same pace. The Company competes in terms of brand image, quality and price of the products, service and innovation in response to consumer preferences. The indisputable leadership of the Company in the category of tequila places it in a better position to maintain its mainstays in the market and attract new consumers.

The Company considers that its main competitors globally are *Diageo*, *Beam Suntory*, *Pernod Ricard, Brown-Forman, Campari, Grants* and *Bacardi*. Additionally, the Company faces competition from several local companies in the markets in which it participates.

On the other hand, the main competitors of the Company in the United States are *Diageo (Don Julio, Smirnoff, Capitán Morgan), Beam Suntory (Sauza, Sauza Hornitos), Bacardi (Cazadores), Pernod Ricard (Absolut, Jameson, Altos), Brown-Forman (El Jimador, Herradura), Campari (Sky, Espolon, Cabo Wabo), Patrón* and *William Grant & Sons Ltd. (Tullamore Dew, Milagro, Sailor Jerry).*

ix) Corporate structure

The Company is the holding company. The following chart shows in simplified terms the corporate structure of the Company and its subsidiaries as of December 31, 2018, which already includes the effects derived from the Merger with *Proximo*. The chart does not include several sub-holding companies that do not have assets or perform significant operations.



The Company as settlor has not contributed property, rights or assets to any trust property.

x) Description of the main assets

Production and distribution facilities

Currently, the Company has and operates two distilleries and a tequila processing and bottling plant located in the state of Jalisco that is part of the territory included in the Denomination of Origin. The distilleries of the Company in Mexico are engaged in the production of tequila and 100% Agave tequila; and its processing and bottling plant is involved in the manufacture and bottling of all its products (Tequila, Rum, Vodka, Eggnog, Sangrita, Margarita Mix, etc.). Additionally, the Company owns a distillery and a bottling plant located in Northern Ireland, engaged in the production of Irish whiskey *Bushmills*, and two distilleries (whiskey in Colorado and vodka in California) and a bottling plant in Indiana in the United States.

The Company also has other facilities for other stages of its production processes, both in Mexico and in Northern Ireland, including distribution centers, aging warehouses and storehouses. Some of these facilities are located within or near the distilleries where the Company's products are produced.

The Company's distilleries in Mexico specialize on the production of both tequila and of 100% Agave tequila. The bottling plant have 7 bottling lines of different characteristics and an additional high-speed line, to efficiently and productively bottle all the products that the portfolio has. Additionally, the Company has 100% manual bottling processes mainly for its prestige products, such as *Reserva de la Familia, Maestro Atelier,* etc.

The Company is aware that, for its plants to operate efficiently, it is necessary to make wise and timely capital expenditures for their modernization and maintenance continuously, to furnish them with the most recent technology and standards.

Tequila distilleries

The *Los Camichines* distillery located in *La Laja, Jalisco (Zona de los Altos)* specializes on the production of both, tequila and 100% Agave tequila, through modern industrial processes. The production process involves the extraction of carbohydrates of Blue Agave, under a process named diffuser. Once these carbohydrates are extracted from the plant in a liquid state, this is hydrolyzed through heat for the unfolding of such carbohydrates, to be fermented by yeasts (conversion from sugar to alcohol). Afterwards, such ferment goes through a double distillation in still and continuous columns to achieve a high-quality distillation. This distillery – which has a production capacity of 165,000 liters of tequila and 85,000 liters of 100% tequila - is the distillery with the largest capacity in the industry. Additionally, it has the storage capacity of 23 million liters and an aging capacity of 3.3 million liters.

The distillery *La Rojeña*, located in Tequila, Jalisco, which is the oldest distillery in Mexico specializes on the production of 100% Agave tequila. This distillery has two plants: *"Antigua Rojeña"* – which is the insignia distillery of the Company – and *"La Rojeña 2"* – a modern distillery equipped with state-of-the-art technology and a high level of automation. Both plants use the same production process: boiling in masonry ovens, mechanic mill, slow fermentation and double distillation in copper stills. These plants have a combined production capacity of 55,000 liters of 100% tequila per day. Additionally, the distillery *La Rojeña* has a combined storage capacity of 8.5 million liters and a combined aging capacity of 5 million liters. In addition, *La Rojeña* has a center for visitors.

The Company is committed to maintain the highest quality standards and environmental performance in each of its distilleries. *Los Camichines* has a system to recover the alcohol produced during the fermentation process; and it is equipped to burn methane gas in boilers, which is a sub product of the vinasse treatment plant (waste of the distillation process). This treatment plant complies with the highest standards for wastewater discharge in Mexico.

The Company's tequila distilleries are located approximately at 50 kilometers from its processing and bottling plant, which is located in the city of Guadalajara, Jalisco.

Processing and bottling plant

The EDISA plant hosts the processing and bottling plants of the Company. The processing plant is in charge of filtering in cold all the produced tequilas of the Company. Additionally, the Company produces gin, rum, vodka, sangrita and eggnog, for its subsequent shipment to the bottling plant.

The tequila produced in the distillery *Los Camichines* and the distillery *La Rojeña*, and gin, rum, vodka, *sangrita* and eggnog produced in the processing plant, are bottled at the EDISA plant, all the products for the national market and for the more than 85 countries where the Company exports through seven lines and an additional high-speed line. The latter is the most recent addition to this plant, it is a high-speed and automation bottling line, which uses state-of-the-art technology of high productivity, security of the food products and quality control. This line operates at a high speed, filling 350 bottles per minute; and it has a capacity to produce the units of maintenance of best-selling existence of the most important brands of the Company, i.e., *José Cuervo Especial, 1800, José Cuervo Tradicional* and *Gran Centenario Azul.* EDISA has also a wastewater treatment plant which complies with the highest standards for wastewater discharge in Mexico.

Warehouses and distribution centers for the national market

The Company's warehouses, which are located at its bottling plant and at its distribution centers in Guadalajara and in other big cities, have a combined surface of more than 28,000 square meters. Additionally, the Company leases warehouses which belong to third parties for its distribution operations in Mexico. To satisfy the needs of its clients in terms of quality, date and amount, the main distribution center of the Company, located in Guadalajara, hosts 80% of the sales volume of finished product and it operates as wholesale market of the smallest distribution centers located in Mexico City, Monterrey, Mérida and Tijuana, and of the 16 transport centers located throughout the country, allowing us to cover the entire territory.

Distillery and other Bushmills facilities

All the operations related to the production of *Bushmills* are carried out in the town with the same name, which is located in the northern coast of Northern Ireland. The *Bushmills* plant includes a malt whiskey distillery, 17 aging warehouses, a mixing area, bottling and packaging lines, a warehouse of packed products and a shipping area. The plant has a capacity to produce approximately 5 million liters of whiskey with alcohol contents of 100% and bottle more than 3 million 9 liter cases of whiskey per year. The land where the plant is located has a surface of approximately 26 hectares and has a center for visitors which has received several awards, a restaurant and a bar.

Capital expenditures

The Company has decided for its production facilities to be updated, and it makes capital expenditures to the extent necessary to modernize and maintain them.

The Company recently completed a significant capital expenditures program in Mexico which involved mainly the following: (1) the installation of two new distillation towers in each of the Company's distilleries in Mexico, to improve the quality of the distillation process; (2) the installation of a new treatment plant of vinasse in each of its tequila distilleries, and a new water treatment plant at the EDISA plant, to abide by the new environmental requirements; (3) the purchase of additional barrels and the extension of its aging warehouses in Mexico, to be able to better satisfy the expected demand; and (4) the installation of a bottling line with state-of-the-art technology, to improve the quality and effectiveness of the bottling process and be able to better satisfy the expected demand.

The bottler of Lawrenceburg, Indiana was purchased in 2011. In 2013, adaptations in tanks and other equipment were made to bottle the volume of José *Cuervo* Especial and in 2014 adaptations were made to bottle the ready to drink and Margarita mix products. The factories in the United States have a capacity to satisfy the projected demand.

The *Bushmills* factory, acquired in February 2015, has had an appropriate maintenance; however, in the future, the Company expects investments related to its visitor center and the expansion of its distillation and aging capacity.

The Company has planned to continue making capital expenditures to contain costs, perform maintenance work and increase the capacity of the Company to the extent the demand absorbs the current excess capacity of its distilleries and its bottling plants.

xi) Judicial, administrative or arbitral proceedings

In the ordinary course of its business, the Company is involved in trials, arbitrations, claims and other legal proceedings. These proceedings include demands or claims on industrial property, tax, environmental liability matters due to damages caused by its products. Any judgment or resolution in these proceedings in a significantly unfavorable sense for the Company may have an adverse effect on the activities, results of operations and financial position of the Company. The Company considers that it has solid arguments of defense in the trials and arbitrations in which it is the defendant. The Company considers that currently there is no governmental, judicial or arbitral proceeding against it that may have a significant adverse effect on its activities, its financial position, its results of operations, its cash flows, its outlooks and/or Share price.

The Company is not under any of the cases provided by articles 9 and 10 of the Commercial Reorganization Law *(Ley de Concursos Mercantiles),* to be declared in commercial reorganization, and it has not been party to a, or declared in, commercial reorganization in the past.

xii) Shares representing capital stock

As of July 15, 2015, the subscribed and paid-in capital stock of the Company amounted to $1,243,673,550 (One thousand two hundred forty-three million six hundred seventy-three thousand five hundred fifty Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand Pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $1,243,623,550 (One billion two hundred forty-three million six hundred twenty-three thousand five hundred fifty Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 1,243,673,550 (One billion two hundred forty-three million six hundred seventy-three thousand five hundred fifty) shares, of which, 50,000 (Fifty thousand) corresponded to the fixed part and 1,243,623,550 (One billion two hundred forty-three million six hundred twenty-three thousand five hundred fifty) corresponded to the variable part of the capital stock.

On July 16, 2015 the merger of the Company, as merging company, with the companies *JB y Compañía, S.A. de C.V.* and *Romo Hermanas, S.A. de C.V.* and *Comercializadora Cacu, S.A. de C.V.,* as merged companies, was agreed. As a result of such merger, the variable part of the capital stock, was increased being the subscribed and paid-in capital stock of the Company in the amount of $6,406,886,137 (Six billion four hundred six million eight hundred eighty-six thousand one hundred thirty-seven Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $6,406,836,137 (Six billion four hundred six million eight hundred thirty-six thousand one hundred thirty-seven Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 6,406,886,137 (Six billion four hundred six million eight hundred eighty-six thousand one hundred thirty-seven) shares, of which, 50,000 (fifty thousand) corresponded to the fixed part and 6,406,836,137 (Six billion four hundred six million eight hundred thirty-six thousand one hundred thirty-seven) corresponded to the variable part of the capital stock.

On December 1, 2015, the Company approved a reduction in the variable part of the capital for the amount of $328,545,000 (Three hundred twenty-eight million five hundred forty-five thousand Pesos 00/100 MXN), with the subscribed and paid-in capital stock of the Company being in the amount of $6,078,341,137 (Six billion seventy-eight million three hundred forty-one thousand one hundred thirty-seven Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand Pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $6,078,291,137 (Six billion seventy-eight million two hundred ninety-one thousand one hundred thirty-seven Pesos 00/100 MXN) corresponded to the variable part of the capital stock, and it was represented by a total of 6,078,341,137 (six billion seventy-eight million three hundred forty-one thousand one hundred thirty-seven) shares, of which, 50,000 (fifty thousand) corresponded to the fixed part and 6,078,291,137 (Six billion seventy-eight million two hundred ninety-one thousand one hundred thirty-seven) corresponded to the variable part of the capital stock.

On August 26, 2016, the Company approved a reduction in the variable part of the capital for the amount of $916,010,000 (Nine hundred sixteen million ten thousand Pesos 00/100 MXN), being the subscribed and paid capital of the Company in the amount of $5,162,331,137 (Five billion one hundred sixty-two million three hundred thirty-one thousand one hundred thirty-seven Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty Thousand pesos 00/100 MXN), corresponded to the fixed part of the capital stock and $5,162,281,137 (Five billion one hundred sixty-two thousand two hundred eighty-one thousand one hundred thirty-seven Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 5,162,331,137 (Five billion one hundred sixty-two million three hundred thirty-one thousand one hundred thirty-seven) shares of which 50,000 (Fifty thousand) corresponded to the fixed part and 5,162,281,137 (Five billion one hundred sixty-two million two hundred eighty-one thousand one hundred thirty-seven) corresponded to the variable part of the capital stock.

On September 22, 2016, the Company approved a reduction in the variable part of the capital for the amount of $1,102,692,340 (One billion one hundred two million six hundred ninety-two thousand three hundred forty Pesos 00/100 MXN), being the subscribed and paid capital of the Company in the amount of $4,059,638,797 (Four billion fifty-nine million six hundred thirty-eight thousand seven hundred ninety-seven Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand Pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $4,059,588,797 (Four billion fifty-nine million five hundred eighty-eight thousand seven hundred ninety-seven Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 4,059,638,797 (Four billion fifty-nine million six hundred thirty-eight thousand seven hundred ninety-seven) shares, of which, 50,000 (Fifty thousand) corresponded to the fixed part and 4,059,588,797 (Four billion fifty-nine million five hundred eighty-eight thousand seven hundred ninety-seven) corresponded to the variable part of the capital stock.

On September 23, 2016, the Company approved an increase in the variable part of the capital for the amount of $1,206,490,666 (One billion two hundred six million four hundred ninety thousand six hundred sixty-six Pesos 00/100 MXN), being the subscribed and paid capital of the Company in the amount of $5,266,129,463 (Five billion two hundred sixty-six million one hundred twenty-nine thousand four hundred sixty-three Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty Thousand pesos 00/100 National Currency) corresponded to the fixed part of the capital stock and $5,266,079,463 (Five billion two hundred sixty-six million seventy-nine thousand four hundred sixty-three Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 5,266,129,463 (five billion two hundred sixty-six million one hundred twenty-nine thousand four hundred sixty-three) shares, of which, 50,000 (Fifty thousand) corresponded to the fixed part and 5,266,079,463 (Five billion two hundred sixty-six million seventy nine thousand four hundred sixty-three) corresponded to the variable part of the capital stock.

The capital increase described in the previous paragraph was paid by the shareholders of the Company through a contribution in cash for the amount of $1,206,490,666 (One billion two hundred six million four hundred ninety thousand six hundred sixty-six Pesos 00/100 MXN) and the remainder was paid through the Maestro Tequilero Contribution. Due to the foregoing, in compliance with the provisions of Article 141 of the General Law of Companies *(Ley General de Sociedades Mercantiles)* out of all the Company's shares issued to represent the approved capital increase, 103,798,326 (One hundred three million seven hundred ninety-eight thousand three hundred twenty-six) shares representative of the variable part of the capital stock of the Company were deposited in the Company's treasury, where they will remain for two years.

On October 1, 2016, the Company agreed the Merger with *Proximo*. As a result of such merger, the variable part of the capital stock was increased, with the subscribed and paid-in capital stock of the Company being in the amount of $6,211,867,474 (Six billion two hundred eleven million eight hundred sixty-seven thousand four hundred seventy-four Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $6,211,817,474 (Six billion two hundred eleven million eight hundred seventeen thousand four hundred seventy-four Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 6,211,867,474 (Six billion two hundred eleven million eight hundred sixty-seven thousand four hundred seventy-four) shares, of which 50,000 (Fifty thousand) corresponded to the fixed part and 6,211,817,474 (Six billion two hundred eleven million eight hundred seventeen thousand four hundred seventy-four) corresponded to the variable part of the capital stock and effects of the inflation of the years prior to 1997 for $141,392,000.

On January 20, 2017 the Company approved an increase in the variable part of the capital stock in the amount of $3,547,119,795.00 (Three billion five hundred forty-seven million one hundred nineteen thousand seven hundred ninety-five Pesos 00/100 MXN), being the subscribed and paid-in capital stock of the Company in the amount of $9,758,987,269.00 (Nine billion seven hundred fifty-eight million nine hundred eighty-seven thousand two hundred sixty-nine Pesos 00/100 MXN), of which, the amount of $50,000 (Fifty thousand pesos 00/100 MXN) corresponded to the fixed part of the capital stock and $9,758,937,269.00 (Nine billion seven hundred fifty-eight million nine hundred thirty-seven thousand two hundred sixty-nine Pesos 00/100 MXN) corresponded to the variable part of the capital stock and it was represented by a total of 9,758,987,269 (Nine billion seven hundred fifty-eight million nine hundred eighty-seven thousand two hundred sixty-nine) shares, of which 50,000 (fifty thousand) corresponded to the fixed part and 9,758,937,269 (Nine billion seven hundred fifty-eight million nine hundred thirty-seven thousand two hundred sixty-nine) corresponded to the variable part of the capital stock. Such capital increase was paid through the capitalization of a premium for subscription of shares precisely for the amount of $3,547,119,795.00 (Three billion five hundred forty-seven million one hundred nineteen thousand seven hundred ninety-five Pesos 00/100 MXN).

On January 25, 2017 a resolution was issued to carry out a consolidation (inverse split) regarding all the shares representing the capital stock of the Company through the issuance and delivery to the shareholders, free of payment, of 1 (one) share, common, registered, without expression of par value, single series and of free subscription, against the delivery of 3.14204619137372 common, registered shares, without expression of par value, single series and of free subscription, representing the capital stock of the Company that they hold, without entailing a reduction of the capital stock. As a result of such consolidation (inverse split), the capital stock was represented by a total of 3,105,933,737 (three billion one hundred five million nine hundred thirty-three thousand seven hundred thirty-seven) shares, of which, 15,913 (fifteen thousand nine hundred thirteen) corresponded to the fixed part and 3,150,917,824 (three billion one hundred fifty million nine hundred seventeen thousand eight hundred twenty-four) corresponded to the variable part of the capital stock.

After the Initial Public Offering, considering that all the overallotment options were exercised, the capital stock of the Company amounts to $11,481,161,494.23 (eleven billion four hundred eighty-one million one hundred sixty-one thousand four hundred ninety-four Pesos 23/100 MXN), of which, the amount of $50,000 (Fifty thousand Pesos 00/100 MXN) will correspond to the fixed part and $11,481,111,494.23

(Eleven billion four hundred eighty-one million one hundred eleven thousand four hundred ninety-four Pesos 23/100 MXN) will correspond to the variable part and inflation effects of years prior to 1997 in $141,392,000. There has not been any capital movement after the events described above.

In the ordinary general shareholders meeting held on April 30, 2019, the cancellation of 34,400,000 shares was approved. Likewise, as a result of the Share cancellation, the reduction in capital stock of the Company was approved, for the nominal amount of $108,086,388.98 (one hundred eight million eighty-six thousand three hundred eighty-eight pesos 98/100 MXN), i.e., a reduction to the capital stock of $3.14204619137236 pesos per cancelled share.

The shares may be held by, issued to and paid by Mexican or foreign investors.

xiii) Dividends

The dividends declaration and, as the case may be, the amount thereof, is subject to the approval of the Ordinary General Shareholders' Meeting, upon prior recommendation of the Board of Directors, with the affirmative vote of the majority of the votes in attendance at such Meeting, which, in turn, to be deemed legally called to order, requires the representation of at least half of the capital stock of the Company. Pursuant to applicable law, the Company may only pay dividends (1) charged to the withheld profits reflected in the financial statements approved by the shareholders in a general shareholders meeting; (2) once the losses of previous fiscal years are redeemed or absorbed, as applicable; (3) provided that the shareholders approve the payment of dividends with withheld profits; and (4) upon prior separation of 5% of the net incomes of the fiscal year to constitute a legal reserve, until the amount of such reserve is equivalent to 20% of its capital stock. Considering that the Company is controlled by the Beckmann family, the controlling shareholders have the exclusive capacity, regardless of the vote of other shareholders, to determine, as applicable, the payment of any dividend.

The capacity of the Company to pay dividends may be adversely affected due to the provisions contained in the instruments related to the debt that the Company may assume in the future, the applicable tax provisions and the ability of its subsidiaries to generate profits and pay dividends to the Company.

Although currently the Company does not have an official dividend policy and there are no plans to adopt such policy, the Company intends to declare dividends annually and pay these dividends in one or several payments during the year. In terms of the Shareholders Agreement, the parties to such Agreement agreed to vote their Shares in favor of proposing and approving a distribution of dividends, annually, for an amount equal to 50% of the amount that pursuant to such Shareholders Agreement is the cash flow of the Company, which is estimated to amount approximately to 35% of the net income. The payment of dividends and any official dividends policy that may be adopted in the future, will be subject to the requirements of the law (referenced above) and it will depend on several factors, including the results of operations, the financial position, the cash needs, the future projects, the payment obligations of taxes and the current or future contractual undertakings of the Company, and on the capacity of its subsidiaries to pay dividends to the Company and on other factors that the board of directors of the Company and the shareholders deem relevant. The Company cannot assure that dividends will be paid in the future or if they are paid, for which amount.

During 2016, no dividend was declared or paid, because the Company's management deemed it convenient, taking into account that on August 26, 2016, the Company paid a reimbursement to the shareholders for the amount of $1,099,212,000.00 MXN (one billion ninety-nine million two hundred twelve thousand 00/100 MXN).

In 2017, the shareholders approved the payment of a cash dividend to the shareholders equivalent to $2,599,716,000 MXN (two billion five hundred ninety-nine million, seven hundred sixteen thousand pesos 00/100 MXN), charged to the accumulated results as of December 31, 2015.

Regarding 2018, the shareholders approved the payment of a cash dividend to the shareholders of up to $1,819,121,150.00 MXN (one billion eight hundred nineteen million one hundred twenty-one thousand one hundred fifty pesos 00/100 pesos), paid on May 9, 2018.

On April 30, 2019 the shareholders approved the payment of a cash dividend to the shareholders of up to $2,000,000,000.00 MXN (two billion pesos 00/100 MXN), to be paid by May 10, 2019.

The shareholder who exercises control of the Company has the authority to determine the voting results with respect to the payment of dividends.

3) FINANCIAL INFORMATION

A) SELECTED FINANCIAL INFORMATION

The following charts contain selected consolidated financial and operating information of the Company to the dates and for the periods mentioned. Such charts must be read jointly with the Financial Statements of the Company and its notes included in this Report and they are subject to the complete information contained therein.

The selected financial information regarding the consolidated statements of comprehensive income for the years ended December 31, 2017, 2017 and 2016, derive from the Audited Financial Statements of the Company, which were prepared pursuant to IFRS.

Investors must read this information jointly with the information included in the sections titled "Management's discussion and analysis on financial condition and results of operations" and the Audited Financial Statements of the Company, which are included in this Report.

It is important to mention that there are uncertain factors or events that may cause the submitted information to not be indicative of the future performance of the Company; therefore, such information must be read jointly with the section *"1) Overview – c) Risk factors – Risks related to the statements as to the future".*

Consolidated statements of comprehensive income for the years ended on December 31, 2018, 2017 and 2016

Years ended on December 31,

	2018	**2017**	**2016**
		(in thousands of Pesos)	
Data of the statement of comprehensive income:			
Net sales	$28,158,210	$25,957,942	$24,396,212
Costs of goods sold	11,974,906	9,836,675	9,935,796
Gross profit	16,183,304	16,121,267	14,460,416
Expenses:			
Advertising, marketing and promotion	6,580,182	5,644,060	6,038,909
Distribution	1,241,703	917,865	750,008
Selling	937,774	962,969	771,720
Administrative	1,821,079	1,659,593	1,436,312
Other expenses (income), net	59,625	201,224	-160,440
Total expenses	10,640,363	9,385,711	8,836,509
Operating profit	5,542,941	6,735,556	5,623,907
Financing results			
Interest income	(193,097)	(109,760)	(49,362)
Interest expense	431,558	485,492	394,201
Foreign exchange loss, net	148,561	397,061	590,873
Financial result, net	387,022	772,793	935,712
Loss from equity investment in associate	9,445	7,522	-
Profit before income taxes	5,146,474	5,955,241	4,688,195
Income taxes:			

Current	782,180	1,669,629	1,284,988
Deferred	331,294	(911,877)	255,459
Total income taxes	1,113,474	757,752	1,540,447
Net income	4,033,000	5,197,489	3,147,748
Non-controlling interest	8,121	4,304	-
Controlling net income	4,024,879	5,193,185	3,147,748
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss			
Foreign operations – Foreign currency translation reserve	(1,040,587)	217,441	2,253,065
Items that will not be reclassified to profit or loss Employment benefits, net of Income taxes	72,238	66,899	45,530
Other Comprehensive Income, net of taxes	(968,349)	284,340	2,298,595
Net comprehensive income,	$3,056,530	$5,477,525	$5,446,343
Other comprehensive income attributable to:			
Controlling interest	3,056,530	284,199	5,446,343
Non-controlling interest	-	141	-
Basic earnings per common share	1.12	1.48	0.34

Consolidated statements of financial position

Consolidated statements of financial position as of December 31, 2018 ,2017 and 2016

	Years ended December 31,		
	2018	**2017**	**2016**
	(in thousands of pesos)		
Information of the statement of financial position			
Current assets			
Cash and cash equivalents	$12,027,931	$19,995,891	$5,128,137
Accounts receivable, net	8,536,421	7,259,530	6,396,412
Related parties receivable	96,870	221,412	197,555
Other receivable, mainly recoverable taxes	1,600,364	1,022,618	1,376,853
Inventories, net	8,162,349	7,418,994	5,942,639
Payments	804,562	679,098	683,564
Total current assets	31,228,497	36,597,543	19,725,160
Non-current inventory	6,859,315	3,878,169	3,178,318
Investments in associate	311,397	90,008	66,364
Property, plant and equipment, net	5,506,305	5,280,479	4,640,601
Deferred income taxes	1,454,055	944,380	-

Employee benefits	269,798	99,910	94,927
Intangible assets and trademarks, net	14,663,673	11,364,885	11,771,208
Goodwill	6,353,738	6,274,189	5,992,347
Other assets	46,762	400,146	219,022
Security deposits	17,849	2,947	-
Total non current assets	35,482,892	28,335,113	25,962,787
Total assets	$66,711,389	$64,932,656	$45,687,947
Current liabilities			
Current installments of notes	48,182	48,311	53,142
Trade accounts payable	2,593,980	2,106,047	2,407,235
Other liabilities	43,769	803,580	256,565
Accruals	2,347,576	2,086,810	1,708,428
Employee statutory profit sharing	9,345	14,344	16,395
Related parties	48,801	43,926	14,851
Total current liabilities	5,091,653	5,103,018	4,456,616
Long-term debt excluding current installments	9,745,014	9,780,523	10,206,842
Environmental reserve	121,125	124,751	117,760
Other long-term liabilities	314,036	118,644	95,062
Deferred income taxes	3,567,750	2,820,410	2,759,236
Total liabilities	$18,839,578	$17,947,346	$17,635,516
Stockholders’ Equity			
Capital stock	28,048,959	28,048,959	10,051,666
Retained earnings	14,587,615	12,745,476	12,118,201
Other comprehensive income	5,168,448	6,136,797	5,852,598
Total controlling interest	47,805,022	46,931,232	28,022,465
Non-controlling interest	66,789	54,078	29,966
Total stockholders’ equity	47,871,811	46,985,310	28,052,431
Commitment	–	–	–
Total liabilities an stockholder´s equity	$66,711,389	$64,932,656	$45,687,947

	Years ended December 31,		
	2018	2017	2016
	(In thousands of Pesos, except ratios and percentages)		
Other financial information:			
Operating profit	$5,542,941	$6,735,556	$5,623,907
EBITDA(1)	$6,073,629	$7,170,571	$6,075,377
Cash flow from operating activities	($179,220)	$2,421,563	$3,442,619
Cash flow used by investment activities	($5,247,994)	($1,154,565)	($1,126,687)
Cash flow (used in) generated by financing activities	($2,481,510)	$13,069,484	($1,327,177)
Net cash flow(2)	($7,908,724)	$14,336,482	$988,755
Operating margin(3)	20%	26%	23%
EBITDA Margin(1)(4)	22%	28%	25%
Debt ratio(5)	1.61	1.36	1.69
Other information			
Volume(6)			
United States(6)	12,015,517	11,843,824	12,450,549
Mexico(6)	6,745,734	6,355,062	5,980,875
Rest of the world(6)	2,517,598	2,292,609	1,992,580
Total volume(6)	21,278,849	20,491,495	20,424,005

(1) For the Company's purposes, EBITDA represents net income *plus* depreciation and amortization, income taxes, interest expense, *less* interest revenue. plus net foreign exchange loss (gain) less joint business profit on joint venture sales. The Company presents its EBITDA since it constitutes a generally accepted indicator of the available funds to service its debt. However, EBITDA is not recognized by IFRS as financial items or as indicators of the liquidity or performance. Although EBITDA provides useful information, it must not be assessed on an isolated basis, or be considered as substitutes of the Company's net income when assessing its operating performance, or as a substitute of the cash flows generated by the Company's operations when assessing its liquidity. The Company may calculate its EBITDA differently than other issuers do, which may affect the comparison of such information. The following table contains a calculation of EBITDA :

	Year ended December 31,		
	2018	**2017**	**2016**
	(in thousands of pesos)		
Net income	**4,033,000**	**5,197,489**	**3,147,748**
Plus: depreciation and amortization	530,688	435,015	451,470
Plus: Income taxes	1,113,473	757,752	1,540,447
Plus: Interest expense	431,558	485,492	394,201
Less: Interest income	193,097	109,760	49,362
Plus: Net foreign exchange loss, net	148,561	397,061	590,873
Plus: Loss in joint venture	9,445	7,522	
EBITDA	**6,073,629**	**7,170,571**	**6,075,377**

(2) The net cash flow is equivalent to the sum of (i) the cash flow generated from operating activities, (ii) the cash flow used by investment activities and (iii) the net cash flow generated (used in) by financing activities.
(3) The operating represents the operation earnings/sales ratio.
(4) The EBITDA margin represents the EBITDA/sales ratio.
(5) The debt ratio represents the total debt ratio at the end of the period/ EBITDA of the last 12 months of the period.
(6) The sales volume represents the number of nine-liter cases sold.

B) FINANCIAL INFORMATION BY LINE OF BUSINESS, GEOGRAPHIC ZONE AND EXPORT SALES

The Group has three segments, as described below, which correspond to the strategic geographic locations of the Group. The strategic geographic locations offer several products and they are managed separately with centralized marketing strategies. For each of the strategic geographic locations, the Chief Executive Officer of the Company (responsible of making operational decisions) reviews the monthly internal reports.

The summary shown below describes the net operations of each operation segment, which operations carried out of each operating segment of the Group have been eliminated.

		2018			
(Thousands of pesos)		**USA**	**Mexico**	**Rest of the World**	**Total**
Net sales	$	18,018,254	6,257,645	3,882,311	28,158,210
Cost of goods sold		6,747,899	3,799,299	1,427,708	11,974,906
Gross profit		11,270,355	2,458,346	2,454,603	16,183,304
Advertising, marketing and promotion		4,263,949	1,171,790	1,144,443	6,580,182
Distribution		761,977	327,010	152,716	1,241,703
Segment earnings	$	6,244,429	959,546	1,157,444	8,361,419
Depreciation and amortization	$	(127,280)	(135,365)	(268,043)	(530,688)
Estimated allowance of returns and discounts		(11,368)	(262,104)	(14,614)	(288,086)
Investment in property plant and equipment		246,148	56,185	555,755	858,088
Unrealized foreign exchange loss		-	151,301	-	151,301

(Thousands of pesos)		2017 USA	2017 Mexico	2017 Rest of the world	2017 Total
Net sales	$	16,973,604	5,785,743	3,198,595	25,957,942
Cost of goods sold		5,588,126	3,043,214	1,205,335	9,836,675
Gross profit		11,385,478	2,742,529	1,993,260	16,121,267
Advertising, marketing and promotion		3,748,336	1,301,083	594,641	5,644,060
Distribution		531,931	286,596	99,338	917,865
Segment earnings	$	7,105,211	1,154,850	1,299,281	9,559,342
Depreciation and amortization	$	(123,701)	(70,990)	(240,324)	(435,015)
Estimated allowance of returns and discounts		(3,794)	(362,175)	(4,150)	(370,119)
Investment in property plant and equipment		(104,214)	(455,233)	(507,293)	(1,066,740)
Unrealized foreign exchange loss		-	464,300	-	464,300

(Thousands of pesos)		2016 USA	2016 Mexico	2016 Rest of the world	2016 Total
Net sales	$	16,545,404	5,018,480	2,832,328	24,396,212
Cost of goods sold		6,194,847	2,727,910	1,013,039	9,935,796
Gross profit		10,350,557	2,290,570	1,819,289	14,460,416
Advertising, marketing and promotion		3,815,826	1,311,042	912,041	6,038,909
Distribution		415,811	246,211	87,986	750,008
Segment earnings	$	6,118,920	733,317	819,262	7,671,499
Depreciation and amortization	$	(117,912)	(117,868)	(215,690)	(451,470)
Estimated allowance of returns and discounts		(19,751)	(389,647)	(21,058)	(430,456)
Investments in property plant and equipment		(180,693)	(112,726)	(535,512)	(828,931)

Unrealized foreign exchange loss	-	(1,680,988)	-	(1,680,988)

C) REPORT OF RELEVANT CREDITS

As of December 31, 2018, the Company had a total debt of $9,793 million (US$500 million of principal), accruing interest at a fixed annual rate of 3.75%.

The main use of the 2015 Notes was the purchase of 100% of the shares of *Bushmills*.

In 2018, 2017 and 2016, the Company had a long-term debt for $9,745 million, $9,781 million, and $10,207 million, respectively.

Senior Notes

On May 6, 2015, the Company issued senior notes in the international markets for US$500 million ($7,631 million pesos), with maturity in May 2025 and an annual fixed interest rate of 3.75%, the interest is payable semiannually starting on May 2015 and some subsidiaries of the Company act as guarantors.

The main obligations and cases for acceleration to which the Company is subject, pursuant to the base documents of the issuance of the 2025 Notes are, among others, the following, on the understanding that this summary is indicative and it does not include the appropriate definitions or the scope and exceptions to such obligations and that the 2025 Notes provide the suspension of certain restrictions, provided certain conditions are met and there is no default:

Affirmative and Negative Covenants

i. Not incur additional debt, if the maximum allowed amounts are reached;

ii. Not guarantee other financing, unless the same proportional guarantees are granted on a pro-rata basis and to the holders of the 2025 Notes, subject to certain exceptions;

iii. Not carry out sales of substantially all its assets or carry out consolidations or mergers in which the Company is the merged company, except for certain permitted exceptions;

Causes for Acceleration

i. Default of principal or interest;

ii. Default of other obligations under the 2015 Notes indenture or the 2025 Notes;

iii. Default in the payment of principal or interest (including in the case for acceleration) of any other financing granted to the Company, for an amount greater than US$25 million;

iv. Default in the payment of a ruling issued against the Company or any of its subsidiaries, for an amount exceeding US$25 million; and/or

v. Certain cases relating to commercial reorganization.

Likewise, the terms of the 2025 Notes set forth that upon a change of control, each holder of the notes will be entitled to request the Company to repurchase all or part of the notes of such holder at a price equivalent to 101% of the amount of the capital, plus the outstanding accrued interest, if any, at the purchase date. The proceeds from the issuance of the 2025 Notes were used to refinance the existing debt of the Company at that time.

On November 14, 2015, *JB y Compañía, S.A. de C.V.* and certain other subsidiaries and affiliates merged with Becle. As merging company, Becle assumed all the obligations of *JB y Compañía, S.A. de C.V.* (including the 2025 Notes) and became the holding company of the Group. This merger had no effects on the underlying asset, risks or operations of *JB y Compañía, S.A. de C.V.* and its subsidiaries.

Contract obligations and Commercial Commitments

The following chart describes the Company's relevant contract obligations and commercial commitments as of December 31, 2018.

December 31, 2018	Carrying value	Total	2 months or less	2 months to 1 year	1 to 2 years	2 to 3 years	More than 3 years
		Contract cash flows					
Notes payable to banks	$ 9,793,196	12,338,214	-	357,178	356,664	356,126	11,268,246
Trade accounts payable	2,593,980	2,593,980	518,796	2,075,184	-	-	-
Other liabilities	43,769	43,769	35,015	8,754	-	-	-
Accruals	2,347,576	2,347,576	469,515	1,878,061	-	-	-
Related parties	48,801	48,801	9,760	39,041	-	-	-
Environmental reserve	121,125	121,125	-	-	-	-	121,125
Other long-term liabilities	314,036	314,036	-	-	-	-	314,036

See Note 5 of the Audited Financial Statements of the Company for additional information on the exposure of the Company to liquidity risks.

See the Financial Statements of the Company for additional information on its contract obligations and commercial commitments.

The most relevant contract obligations and commercial commitments of the Company as of December 31, 2018 are the following:

(a) JB y Compañía, S. A. de C. V. (former ultimate holding company), issued the debt described in note 15. The payment of principal, interest and premium (if any) on the debt will be completely irrevocable and unconditionally secured by the guarantor subsidiaries described below:

1. Distribuidora Cacu, S.A. de C.V.2.
2. Casa Cuervo, S. A. de C. V.
3. Próximo Spirits México, S. A. de C. V. (note 1)
4. Agavera Camichines, S. A. de C. V.
5. José Cuervo, S. A. de C. V.
6. Tequijal, S. A. de C. V.
7. Tequila Cuervo, S. A. de C. V.
8. Tequila Cuervo la Rojeña, S. A. de C. V.
9. Azul Agricultura y Servicios, S. A. de C. V.
10. Lanceros, S. A. de C. V.
11. Ex Hacienda los Camichines, S. A. de C. V.
12. Bienes Inmuebles de Guadalajara, S. A. de C. V.
13. JC Overseas, Ltd.

14. The “Old Bushmills” Company Limited.

(b) Azul Agricultura y Servicios, S. A. de C. V., rents the properties that occupy the agave plantations, in accordance with the lease agreements, which are in effect until the agave's *jima*. The estimated amount of lease payable until 2025 is $1,332,582.

(c) The estimated amount of office rent payable by Proximo Spirits Inc. until 2023 is $147,474.

(d) The estimated amount of office rent payable by Casa Cuervo, S. A. de C. V. until 2023 is $185,892.

(e) Casa Cuervo, S. A. de C. V. rents the premises of its administrative offices, and airplane services, to Desarrollo Inmobiliario Polanco, S. A. de C. V. and Aeroservicios Ejecutivos Corporativos, S. A. de C. V., respectively, which are related parties as mentioned in note 7.

(f) The Group has various commitments resulting from agave procurement, sourcing and supply agreements with third parties.

(g) As indicated in note 6(ii), on March 24, 2016, PSI entered into an LLC agreement with Face T Brands, Inc. (“FTB”) and Savvy Drinks LLC (“Savvy”) to create Old Camp Whisky Company, LLC (“Old Camp”) as a direct subsidiary of Proximo. As part of this agreement, PSI has the option to acquire Old Camp. Such option may be exercised during the period from January 1, 2022 to December 31, 2024.

D) MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The financial information provided in this section results from the historical financial statements of the Consolidated and Combined Entities. For additional information on the financial performance of the Company and the preparation guidelines of the Financial Statements of the Company see "Selected Financial Information" and the Audited Financial Statements of the Company, and their relevant notes.

Investors must read the following information together with the Financial Statements of the Company, and the "Summary of Financial Information and Other Information" and "Selected financial information" and the Audited Financial Statements of the company, included in this Report.

This section contains forward-looking statements, which reflect the plans, estimates and considerations of the Company and which entail risks, uncertainties and assumptions. Actual results may differ materially from those anticipated in the Company's forward-looking statements or estimates. The factors that may make or contribute to these differences, include, among others, those detailed below and in other sections of this report.

Overview

The Company is a globally recognized company in the distilled alcoholic beverages industry and the largest tequila producer worldwide. Its extraordinary portfolio of more than 30 brands of alcoholic beverages, some of them of its own, distributed globally, and some others belonging to third parties distributed only in Mexico, has been developed over the years to participate in key categories with strong perspective of growth, serving the most relevant markets of alcoholic beverages in the world and serving the consumers' key preferences and trends. The strength of the Company's brand portfolio is based on the deep legacy of its iconic brands developed internally, such as the family of José *Cuervo* brands, combined with complementary purchases such as Three Olives, Hangar 1, Stranahan's, *Bushmills*, Boodles, and now, Pendleton, the most recent acquisition, and a key focus on innovation, which over the years has helped the Company to internally develop world-renowned brands of its own, such as *1800, Maestro Tequilero/Dobel, Centenario, Kraken,* José *Cuervo* Margaritas and Boost, among the Company's brands, some of which are marketed and distributed in more than 85 countries. The Company is one of the oldest companies in Mexico, led by the same family for eleven generations, whose legacy and tradition still defines its business, brands and culture. The history of the Company dates back more than 250 years, since its foundation in 1758. In 1795, King Carlos IV of Spain granted to José María Guadalupe de Cuervo y Montaño a royal decree to produce and sell "mezcal wine", currently known as tequila, generally considered the first license to sell tequila. Likewise, the Company has been for centuries at the forefront of the tequila evolution, its first export to the United States was in 1852, in 1880 it became the first distillery to bottle tequila in glass bottles and in 1945 margaritas were invented using tequila José *Cuervo*.

The Company operates as a producer, marketer and distributor of a broad portfolio of world-renowned brands of distilled alcoholic beverages, ready to drink cocktails, and non-alcoholic beverages. Among the distilled alcoholic beverages, the Company is the leading producer of tequila globally by sales volume with more than twice the market share of its closest competitor and the third largest producer of Irish whiskey in the world, by volume and sales, according to IWSR in 2017. The Company generates most of its sales in the United States, country that the Company considers that represents the most profitable and dynamic region of the distilled alcoholic beverages industry. In addition to being its domestic market, Mexico is also the second most relevant market for the Company, in terms of sales and profit. The Acquisition of *Bushmills* by the Company, places it in an incomparable position for a continuous growth in its business outside of the Americas.

In Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia, the Company controls and operates a direct distribution model. Specifically, in Mexico and in the United States, the Company maintains the second and ninth largest distribution network of distilled alcoholic beverages by sales value, respectively. In the case of Mexico, the Company has more than 4,200 sales points and it manages more than 30 brands (including third parties' brands distributed by the Company, such as

Jägermeister and The Macallan) in eight categories. For the countries where the Company does not have a direct distribution network, the strategy of the Company is to enter into distribution agreements for each country, which exclusivity with respect to such brands. In 24 states of the United States, the Company distributes mainly through wholesalers associated with five important distribution companies (Breakthru Beverage Group, Republic National Distributing Company, Southern Glazer's Wine and Spirits, Young's Market Company and Johnson Brothers Liquor Company), in 9 states of the United States the company distributes through independent distributors that do not belong to the aforementioned distribution networks and in the remaining 17 states of the United States, the State controls the distribution of distilled alcoholic beverages.

The operations of the Company are divided in three geographic regions (Mexico, United States and rest of the world). In 2018, the United States represented 64% of the value of net sales of the Company, whereas Mexico represented 22% and the rest of the world represented the remaining 14%.

As of the closing of 2018, the Company reported a total sold volume of 21.2 million 9-liter cases. It had total sales of $28,158 million and a net income of $4,033 million and an EBITDA of $6,074 million (i.e., an EBITDA margin of 22%). As of December 31, 2018, the Company had total assets of $66,711 million and shareholders' equity of $47,872 million.

Economic environment of Mexico and the world

The Company has operations in more than 85 countries, being exposed to the global economic environment. Having said that, the geographic and market diversity of the company, places it favorably to face the current volatility in the world environment, mitigating the exposure to the behavior of a single geography. In addition, the elasticity of the alcoholic beverage products to reductions in economic growth is lower than the elasticity of high turnover consumer products and capital goods.

Although the Company is based in Mexico, it is a global company, with the international business holding the largest portion of the business. This protects the Company from the effects that the global volatility has had on the Mexican economy, thus, capitalizing the strength of its main market, the United States.

In the United States, private consumption has been the main growth engine and it has continued to grow solidly. The US economy grew at a pace of 2.90% during 2018, fostered by a constant household expenditure. The behavior of the labor market of the United States has been a cornerstone for consumer spending supporting continuous expansion. Last year, the unemployment rate was 3.7% (2018). In this sense, the strong creation of employment meant a higher available personal income, consolidating even more the increase of household expenditures.

With respect to the Mexican economy, after having been affected during the last financial crisis, it has had a solid performance during the last two years, having grown at an annual average rate of 2.0% (2017 and 2018), higher than other countries in Latin America. This recovery was due, to a great extent, to the increase in export demand as a result of the improvement of industrial production in the United States and it led to the growth of many sectors of the Mexican economy.

According to the International Monetary Fund, this positive trend in both economies is expected to continue, as a result of the solid macroeconomic fundamentals and a favorable investment environment with an annual growth (in real terms) of 2.90%, 2.10% and 1.90% for the United States and 2.0%, 1.6% and 2.2% for Mexico expected for 2018, 2019 and 2020 respectively.

Basis of Presentation of Financial Information

Audited Financial Statements of the Issuer

Exhibit 1 to this Report contains the consolidated audited financial statements of the Issuer as of December 31, 2018, 2017 and 2016 on such dates and notes including a summary of the significant accounting policies and other explanatory information, which were prepared according to the International Financial Reporting Standards, its adaptations and constructions, issued by the International Accounting Standards Board.

EBITDA

The Company calculates the EBITDA as net income plus depreciation and amortization, income taxes, interest expense, less interest revenue, plus (less) net foreign exchange loss (gain), less earnings in joint business sales plus loss in joint venture.

EBITDA is presented since it reflects an appropriate measurement of the ability of the Company to service its debt, although it is not recognized under IFRS. Although such measurement provides useful information, EBITDA must not be considered as an alternative entry of (i) the net income of the Company, upon assessing its operating performance or (ii) the cash flows generated by the operations of the Company, upon assessing its liquidity.

The Company considers that the EBITDA eases the comparison of its operating performance in combined terms in different periods, but it is possible for the Company to calculate this entry in a different way than other issuers, therefore, comparability may be affected.

Currencies, exchange rates and other information

Except as otherwise specified, the financial information included in this Report is denominated in Pesos. This Report contains translations of amounts denominated in Dollars, Canadian Dollars, Australian Dollars, Euro and Pounds Sterling, to Pesos, at the specified exchange rates, exclusively for the reader's convenience purposes. These translations must not be construed as representations in the sense that the amounts denominated in Dollars Canadian Dollars, Australian Dollars, Euro and Pounds Sterling are effectively equivalent to their corresponding amounts in Pesos or may be converted to Pesos now or in the future, either at the specified exchange rates or at all.

Except as otherwise specified, the referred translations used for translation purposes are (i) with respect to any information contained in any of the consolidated statements of financial position included in this Report and (ii) with respect to the financial information different from the information contained in any of the consolidated statements of financial position included in this Report, the simple average exchange rate for the relevant period, both in accordance with the following:

	Average exchange rate			Exchange rate at closing		
	2018	**2017**	**2016**	**2018**	**2017**	**2016**
U.S. Dollar	$ 19.2614	18.9234	18.6567	$ 19.6829	19.7354	20.6640
CAN Dollar	14.8399	14.5648	14.1145	14.4421	15.6236	15.4308
GBP	25.6737	24.3562	25.2713	25.0135	26.5601	25.5746
Euro	22.6729	21.3283	20.6702	22.5271	23.5797	21.7979
AUS Dollar	14.3529	14.4940		13.8729	15.3332	

Except as otherwise specified, when the figures included in this Report are expressed in thousands, millions or billions of Pesos, Dollars or Pounds Sterling, all the amounts lower than one thousand, one million or one billion, as applicable, are rounded up. All the percentages are rounded up to the nearest percent, tenth of one percent or to the closest hundredth of one percent, as applicable. It is possible that in some cases the amounts and the percentages in the charts included in this Report do not add as a result of rounding.

Net Sales

The net sales of the Company are made in the currencies of each market.

The following chart shows the volume, net sales and the corresponding growth rate of the Company in its different geographic regions as of the closing of 2018, 2017 and 2016:

Net Volume by Region (figures in thousands of pesos)	Year ended December 31, 2018	2017	2016
Total	**21,279**	**20,491**	**20,424**
Growth %	*3.8%*	*.3%*	*11.9%*
United States	12,016	11,844	12,450
Growth %	*1.4%*	*-4.9%*	*15.2%*
Mexico	6,746	6,355	5,981
Growth %	*6.1%*	*6.3%*	*6.0%*
Rest of the World	2,518	2,293	1,993
Growth %	*9.8%*	*15.0%*	*10.4%*

Net Sales by Region (figures in thousands of pesos)	Year ended December 31, 2018	2017	2016
Total	**28,158,210**	**25,957,942**	**24,396,212**
Growth %	*8.5%*	*6.4%*	*32.1%*
United States	18,018,254	16,973,604	16,545,404
Growth %	*6.2%*	*2.6%*	*39.5%*
Mexico	6,257,645	5,785,743	5,018,480
Growth %	*8.2%*	*15.3%*	*13.7%*
Rest of the World	3,882,311	3,198,595	2,832,328
Growth %	*21.4%*	*12.9%*	*28.6%*

Cost of Sales

The Company manufactures its products in Mexico, Northern Ireland and the United States.

The main components of the cost of sales of the Company are:

- Raw materials:
  - Own agave (lease of the land, workforce, fertilizers), which are quoted in Pesos.
  - Water, energy, Agave and sugar for the Tequila, which are quoted in Pesos.
  - Water, energy, barley and grain broth for Irish whiskey, which are quoted in Pounds Sterling.
  - Water, energy, grain and grain broth for US whiskey, which are quoted in Dollars.
  - Aging barrels for tequilas, whiskeys and rums, which are quoted mainly in Dollars.
  - Packaging material (glass, cap, label and cardboard), which are quoted mainly in the local currencies of the bottlers, respectively.
- Overhead (factory expenses of distillers and bottlers), these expenses are incurred in the local currency of the bottlers, respectively; and
- Other manufacturing expenses.

	Year ended December 31,		
(Numbers in thousands of pesos)	**2018**	**2017**	**2016**
Net Sales	**28,158,210**	**25,957,942**	**24,396,212**
Growth %	*8.5%*	*6.4%*	*32.1%*
Cost of good sold	11,974,906	9,836,675	9,935,796
as % of sales	*42.5%*	*37.9%*	*40.7%*
Gross profit	16,183,304	16,121,267	14,460,416
Margin %	*57.5%*	*62.1%*	*59.3%*
Growth %	*0.4%*	*11.5%*	*28.5%*

Operating Expenses

The Company operates decentralized distributors in Mexico, the United States, Canada, the United Kingdom, the Republic of Ireland and Australia. For the rest of the markets, the Company exports directly to third distributors. Tequila is exported from Mexico; Irish whiskey is exported from Northern Ireland and the Proximo brands are exported from the United States. Most of the expenses are incurred in the local currency of each distributor.

The main components of the Company's sales, development and management expenses are:

- Distribution expenses (freight and storage): These are expenses incurred by the Company related to delivery of the products to its clients; and
- Investment in advertising (advertising, marketing and promotion). These are the expenses of investment in the brands, including expenses in advertising, consumption in marketing, market research, public relations, trade supermarkets, trade wholesalers, institutional relations, consumption centers and sale expenses, marketing and management (wages, bonus and expenses).

	Year ended December 31,		
(Numbers in thousands of pesos)	**2018**	**2017**	**2016**
Overhead			
Advertising, marketing and promotion	6,580,182	5,644,060	6,038,909
Distribution	1,241,703	917,865	750,008
Selling	937,774	962,969	771,720
Administrative	1,821,079	1,659,593	1,436,312
Other expenses (income), net	59,625	201,224	(160,440)
Total expenses	**10,640,363**	**9,385,711**	**8,836,509**
Growth %	*13.4%*	*6.2%*	*33.3%*
As% of sales	*37.8%*	*36.2%*	*36.2%*

Expenses and Revenue from Interest and Exchange Rate Fluctuation

The Company generates Pesos, Dollars, Canadian Dollars, Australian Dollars, Euros and Pounds Sterling for the sales to its clients and it incurs expenses of raw materials locally, as explained above.

In Mexico, the Company consumes all the Pesos generated by the sales to fund its operations in Mexico and sometimes it has to complement converting Dollars into Pesos to cover local expenses or working capital. Therefore, the Company maintains, most of the times, a short position in Pesos and a long one in foreign currency, mostly in US Dollars. In Europe, the Company consumes Pounds Sterling in the production and distribution of its products and Euros and Pounds Sterling in investments in advertising and management expenses. The company maintains the excess of Pounds Sterling and Euros generated by whiskey exports in the Republic of Ireland. The excess cash generated by tequila exports is maintained in the United States. Therefore, the Company is naturally hedged against exchange rate fluctuations.

The result of the financial expense of the Company is composed of:

- Expenses for interest, linked mainly to the amount of the capital of the assumed debt and the exchange rates in effect;
- Income for interest collected on cash surplus, and interest generated by the investments of the Company; and
- Profit (loss) for exchange rate, net, that includes net incomes or losses related to movements of the exchange rate of foreign currencies.

	Year ended December 31,		
(Numbers in thousands of pesos)	2018	2017	2016
Interest income	(193,097)	(109,760)	(49,362)
Interest expenses	431,558	485,492	394,201
Foreign exchange loss, net	148,561	397,061	590,873

Taxes

The sale of alcoholic beverages is subject to sales or added value taxes, special taxes on import and sale of alcoholic beverages and income tax.

In Mexico, the value added tax, the general tax on the import and the special tax on the sale of alcoholic beverages are ad valorem and paid against cash flow. That is, they are caused on the invoicing, but paid upon collection. The income tax is calculated based on the invoicing. The value added tax is 16% on the value of the sale, the special tax for high-graduation alcoholic beverages (more than 20 degrees of alcohol) is of 53% on the value of the sale and the income tax is of 30% on the tax profit.

In the United States, the sale and use tax is on the invoicing and it is a state tax. The tax to alcoholic beverages is based on their alcohol contents and it is a federal tax. The income tax is calculated based on the invoicing and applies at both at the federal and state levels. The sales tax rate varies from state to state but generally ranges from 4% to 7.5%. For income tax, it is accrued at a rate of 21% at the federal level and an average of 5% at the state level. On December 22, 2016, the law Tax Cuts and Jobs Act was enacted, which contemplates a sweeping tax reform on the federal income tax, which determined to reduce the maximum corporate tax rate from 35% to 21% effective January 1, 2018.

In the United Kingdom and in the Republic of Ireland, the value added tax is incurred upon billing, the special tax is based on the alcohol content of the relevant product and the income tax is based on billing. The income tax in England is 19% on the taxable income and in the Republic of Ireland it is 12.5%.

In Australia, the sales and service tax is incurred upon billing, same as the income tax and is calculated by applying the rates of 10% to sales value and 30% to taxable income, respectively.

The main component of the expense in income taxes of the Company consists mainly of the Mexican income tax. The income tax expense of the Company consists of caused and deferred taxes, calculated based on the requirements of International Accounting Standards 12 – Income Taxes of IFRS – as explained in further detail in Note 17 of the Financial Statements of the Company.

The deferred tax represents the effects of income taxes which will be reversed to or at the expense of the Company in the years in which the deductible and taxable temporary differences are materialized, respectively.

(Numbers in thousands of pesos)	Year ended December 31, 2018	2017	2016
Income taxes			
Current	782,180	1,669,629	1,284,988
Deferred	331,294	(911,877)	255,459
Total Income Taxes	**1,113,474**	**757,752**	**1,540,447**
As % of Earnings before taxes	*21.6%*	*12.7%*	*32.9%*
Net income	**4,033,000**	**5,197,489**	**3,147,748**
As % of Net Sales	*14.3%*	*20.0%*	*12.9%*

EBITDA

Below is a reconciliation of net income (loss) to EBITDA for the years ended December 31, 2018, 2017 and 2016?

	Year ended to December 31, 2018	2017	2016
		(in thousands of pesos)	
Net Income …………………..	4,033,000	5,197,489	3,147,748
Plus: Depreciation and amortization	530,688	435,015	451,470
Plus: Income taxes	1,113,474	757,752	1,540,447
Plus: Interest expenses	431,558	485,492	394,201
Less: Interest income	193,097	109,760	49,362
Plus: Foreign exchange loss, net	148,561	397,061	590,873
Plus: Loss from equity investment in associate	9,445	7,522	
EBITDA	6,073,629	7,170,571	6,075,377

i) Results of Operations

The results of year ended December 31, 2018 compared to year ended December 31, 2017

	2018	2017

	(thousands of Pesos)	
Net Sales	$28,158,210	$25,957,942
Cost of goods sold	11,974,906	9,836,675
Gross profit	16,183,304	16,121,267
Total expenses	10,640,363	9,385,711
Operating profit	5,542,941	6,735,556
Financial result, net	387,022	772,793
Loss from equity investment in associate	9,445	7,522
Profit before income taxes	5,146,474	5,955,241
Net income	4,033,000	5,197,489

Net Sales

For year 2018, the Company had net sales for $28,158 million Pesos, which represents a growth of 8.5% year over year.

In terms of net sales, the United States grew 6.2% year over year. The net sales in this region represented 64% of the value of the total net sale of the Company in 2018. Mexico represented 22% of the total net sale and it grew 8.2% with respect to 2017. The Rest of the World represented 14% of the total net sales and it grew 21.4%.

The dynamisms of the market of the United States was due to the performance of our *Maestro Dobel, Kraken* and *Bushmills* brands, which grew in terms of sales above the average growth of our sales in the region.

In 2018, our José *Cuervo* brand continued dominating the portfolio with 34% of the total net sale and it grew 1.0% year over year. Our other tequila brands grew 11.12% and they represented 23% of the total net sales.

The sum of our Other Alcoholic Beverages grew 27% in 2018 year over year and they represented 23% of the year's net sales.

The following chart shows the volumes, sales and growths of the categories and regions:

	Volume		Net Sales	
(Figures as of the closing of 2018)	**Thousands of 9-liter cases**	**% Growth vs 2017**	**(Thousands of $)**	**% Growth vs 2017**
Family Jose Cuervo	6,692	-0.4%	9,592	1.0%
Family 1800	1,404	7.4%	3,653	10.6%
Other Tequilas	1,865	7.9%	2,921	15.5%
TEQUILA PORTFOLIO	**9,960**	**2.1%**	**16,165**	**5.4%**
Bushmills	858	0.5%	1,526	6.1%
Kraken	748	9.4%	1,203	16.5%
Other Alcoholic Beverages Portfolio	2,631	17.1%	3,853	37.7%
NON-TEQUILA PORTFOLIO	**4,236**	**12.0%**	**6,582**	**24.9%**

RTDs	2,808	5.2%	2,302	6.2%
Non-Alcoholic	4,274	(0.2) %	3,110	(2.5) %
TOTAL NA Cholula RTDs Other	**7,082**	**1.9%**	**5,411**	**1.0%**
Total	**21,279**	**3.8%**	**28,158**	**8.5%**
USA	12,016	1.4%	18,018	6.2%
Mexico	6,746	6.1%	6,258	8.2%
Rest of the world	2,518	9.8%	3,882	21.4%
Total	**21,279**	**3.8%**	**28,158**	**8.5%**

Cost of Sales

The cost of sales increased 22% with respect to the same period of the previous year, while sales increased 8.4%. The foregoing, due to increases in the price of agave purchased from third parties.

Gross Income

During 2018, the gross income were $16,183 million pesos, which represented an increase of 0.4% with respect to 2017. During 2018, the cost of sales increased 22% year over year.

Overhead

As of the closing of 2018, overhead, increased to 13.4%, compared to 2017, the foregoing due to an increase in advertising investment.

Operating Income

Operating Income in 2018 was $5,543 million pesos, which represented a 17.7% reduction year over year in cost of sales

Financing Result

Interest expenses are mainly for the Bond issued for the purchase of *Bushmills* in 2015.

Income Taxes

In 2018, the effective income tax rate amounted to 21.6%. The reduction of 8.4 percentage points with respect to the statutory rate of 30% applicable in Mexico resulted mainly from the following permanent entries the nature of which is not expected to be reversed in future periods: (i) non-deductible expenses and, on the other hand, the effective rate was benefited by (ii) deductible inflationary losses, (iii) combination effect of statutory rates from foreign jurisdictions, and (iv) Others.

Net Income

In 2018, comprehensive net income was $3,057 million pesos, less than the income reported in 2017 for $5,478 million and in 2016 for $5,446 million.

ii) Financial position, liquidity and capital resources

Liquidity and Capital Goods as of December 31, 2018

The net cash flow generated by operating activities of the Company was $(179,220) million for the year ended December 31, 2018. Such cash flow is generated mainly by the increase in working capital in inventories, accounts receivable and income tax payments.

The net cash generated in investment activities was $(5,248) million, mainly due to the acquisition of the Pendleton Whisky Brand.

The net cash used in financing activities during the fiscal year ended December 31, 2018 was $(2,482) million derived mainly from the payment of dividends, payment of interest and repurchase of shares.

For 2018, the reduction in cash and cash equivalents was $(7,909) million, while cash and cash equivalents as of the closing was $12,028 million.

For more information on the liquidity and capital goods of the Company, see the Audited Financial Statements of the Company

Liquidity and Capital Goods for the year ended December 31, 2017

The net cash generated by operating activities was $2,422 for the year ended December 31, 2017. Such cash flow is generated mainly by the net income of the fiscal year, and the unrealized exchange effects, in this regard the charged interest, the exchange in accounts receivable and the change in other liabilities is higher than the unrealized foreign exchange effect and lastly, by an increase in the working capital, inventories and income tax payments.

The net cash used in investment activities amounted to $(1,155) million mainly for the acquisition of plant property and equipment.

The net cash used in financing activities during the fiscal year ended December 31, 2017 was $13,069 million derived mainly from the share issuance premium.

For year 2017, the net increase in cash and cash equivalents amounted to $14,336 million, while cash and cash equivalents as of the closing of the year was $19,996 million.

For more information on the liquidity and capital goods of the Company, see the Audited Financial Statements of the Company

Liquidity and Capital Goods for the year ended December 31, 2016

The net cash flow generated by operating activities of the Company was $3,443 million for the year ended December 31, 2016 Such cash flow is generated mainly by the net income of the fiscal year, and the unrealized foreign exchange effects and by an increase in the working capital in inventories and income tax payments.

The net cash used in investment activities was $(1,127) million, due to the Acquisition of property, plant and equipment and intangible assets

The net cash used in financing activities during the fiscal year ended December 31, 2016 was $(1,327) million.

For year 2016, the net increase in cash and cash equivalents was $989 million, the cash and cash equivalents as of the closing was $5,128 million.

For more information on the liquidity and capital goods of the Company, see the Audited Financial Statements of the Company

Dividends

During the year ended December 31, 2018, the Company paid dividends of $1,819 million.

During the year ended December 31, 2017, for the Company paid dividends of $2,600 million.

During the year ended December 31, 2016, no dividends were paid.

Capital Expenditures

The Company's policy is to make capital expenditures to continuously maintain and improve its distilling and bottling plants with appropriate technology, and standards to operate efficiently.

In the years 2018, 2017 and 2016, the Company's investment activities in property, plant and equipment amounted to $811 million, $1,066 million and $829 million, respectively.

During such period, the Company implemented a modernization program of its distillers and bottlers in Mexico and in the United States. In Mexico, the Company completed the construction of the vinasses treatment plants in the distilleries and wastewater treatment at the bottler. Distillation columns were installed in the distilleries, a new bottling line was installed with state-of-the-art technology, the barrel storage capacity was expanded, and the corresponding barrels were purchased. In the United States, the tanks and the bottling capacity in the Indiana bottler were adapted and expanded to receive the bottling of *José Cuervo Especial, Margaritas and Margarita Mix*. In Northern Ireland a new aging warehouse in the distillery was built.

iii) Internal Control

The Company takes seriously the application of internal controls that ensure the operation thereof and the appropriate use and safeguard of the material, intangible and monetary resources of the Company. There are policies and proceedings, an authorization matrix, a letter of conflict of interest, a code of conduct and an ethics line managed by an external third party.

The Company has adopted internal control policies and proceedings designed to provide clarity and ease in the flow of financial information for the preparation of its financial statements. The Company considers that its efficient organizational structure provides it with the necessary tools to enforce accurately and effectively such internal control policies and proceedings.

The internal control policies and proceedings of the subsidiaries and the Combined Entities of the Company are authorized by the Executive Management and the Functional Directorates responsible for complying with the organizational and business purposes of each of them. Such policies and proceedings promote the clear and correct flow of information to prepare the financial information of each of the subsidiaries individually and on a consolidated basis.

The different operational processes of the Company are subject to regular internal audits. The party responsible for the internal audit of the Company will report regularly to the Company's audit and corporate practices committee, which provides a reasonable certainty to the management that its operations are subject to, and in compliance with, the rules set forth by the management and that the financial statements comply with IFRS. The minor issues detected at the level of the subsidiaries and the Entities of the Company are discussed and solved by the corresponding officers.

Quantitative and qualitative information regarding market risks

The financing is obtained mainly for acquis ions and in special cases for investment projects or working capital, these loans are requested in Dollars to match the balance and the surplus cash flow of the Company with the acquired debts.

To this date, the Company has not acquired any kind of derivative financial instrument to hedge exchange rate risks and/or interest rates. The Company considers that it has a natural hedge given the source and geographical dispersion of its sales, and its operating expenses.

All the cash surplus is provided in Mexican Pesos, Dollars, Pounds and Euros. The Dollars cash surplus is deposited in accounts in international banks and is invested in short-term instruments.

The Company's main assets and operations are insured, based on the advice of international brokers and insurance companies.

For additional information on the exposure of the Company to liquidity risks, see Note 5 to the Audited Financial Statements of the Company

E) ESTIMATES, PROVISIONS OR CRITICAL ACCOUNTING RESERVES

To prepare the Financial Statements and based on IFRS, it is necessary to make some estimates of events that are not subject to being quantified accurately and which affect several items or accounts. The estimates include opinion elements with a certain degree of uncertainty and materiality and, therefore, they may be critical. The estimates may be amended in the future due to a change in the choice of assumptions to determine the estimates or in the economic environment.

The most important estimates of the Company are the inventories reserves and accounts receivable, retirement benefits of the employees, real estate, machinery and equipment lifespan, impairment of long-life assets and intangible assets, contingencies.

The Group has adopted IFRS 9 "Financial Instruments" and 15 "Revenue from Contracts with Customers" prospectively, recognizing the effect of the initial adoption of this standard as from January 1, 2018. IFRS 9 replaces the "incurred loss" model with an "expected credit loss" model.

Under IFRS 15 the amount in the estimate of expected returns at the date of the financial statements is therefore updated in both assets and liabilities.

The estimates that the Company considers that due to the degree of uncertainty in the future may cause a significant effect on the financial information, are mentioned below.

1. Leases: classification of leases.

Upon the execution of an agreement, the Company determines if the agreement is or contains a lease. For agreements containing a lease agreement, the Group separates the payments and other considerations required by the agreement among those derived from the lease agreement and from other elements on the basis of their fair values.

The assets kept in leases by the Group, which transfer to the Company substantially all the risks and benefits of the property are classified as financial leases. The leased assets are measured initially for an amount equal to the lesser of their fair value and the present value of the minimum payments. After the initial recognition, the assets are accounted for according to the accounting policy applicable to such asset.

The assets held in other leases are classified as operating and are not recognized in the Group's consolidated and combined statement of financial position.

2. Measurement of the obligations for defined benefits: key actuarial assumptions.

The Company offers to its employees a defined benefits pension plan in Mexico, based on a retirement compensation and in the years of service of the employee, additionally these financial statements include the actuarial appraisal of the seniority bonus (*prima de antigüedad*).

The net obligations of the Company in connection with the defined benefits plans are calculated through the estimate of the amount of the future benefit that the employees have obtained in the current and previous fiscal years, discounting this amount and deducting the fair value of the assets of the plan. The calculation is made annually by a qualified actuary using the projected unit credit method.

Upon calculating the present value of the financial benefits, the minimum funding requirements applicable to the plan are taken into account.

3. Recognition of assets for deferred taxes: availability of future tax profits for the application of the assets generated by tax losses pending to be amortized.

The deferred taxes are recognized by the existing temporary differences between the carrying value of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes. An asset for deferred taxes is recognized for the non-used tax losses, the non-used tax credits and the temporary deductible differences, to the extent in which it is likely that the future taxable profits against which they may be used are available.

4. Non-financial assets impairment test: key assumptions on their recoverability.

The Company considers the evidence of impairment of assets at the individual and collective level. All significant assets are assessed individually for impairment. A loss for impairment is calculated as the difference between the carrying value of the asset and the present value of the estimated future cash flows generated by such asset discounted from the original effective interest rate of the financial asset. The losses are recognized in profit and loss and they are reflected in a provision account.

A loss for impairment is acknowledged when the carrying value of an asset or cash generating unit exceeds its recovery value. A loss for impairment is reversed only to the extent to which the carrying value of the asset does not exceed the carrying value that would have been determined, net of redemptions, if there had not been a loss for impairment.

5. Acknowledgment and measurement of provisions and contingencies: key assumptions on the probability of disbursement of resources.

Contingencies are recognized as a liability when there is a present obligation as a result of past events and it is possible that the effects are materialized and can be measured reliably; otherwise, they are disclosed qualitatively in the financial statements presented herein.

In connection with the foregoing, it is important to mention that the company is involved in several trials and claims, resulting from the ordinary course of business. There have not been any contingencies resulting from such trials given the immaterial nature thereof.

6. Determination of fair values.

A provision is recognized when the Company has the legal or assumed obligation as a result of a past event, it is likely to require a resource outflow that incorporate economic benefits to cancel the obligation and the amount of the obligation may be estimated. The amount acknowledged as provision is the best estimate of the disbursement required to cancel the present obligation at the end of the period.

Long-term provisions, such as the employee benefit obligations, are discounted to recognize the present value of the expected future cash flows to open the obligation.

7. Obsolete Inventory Reserve.

The Company has the necessary estimates for the impairment of inventories that arise from damaged, obsolete and slow-turnover inventories or any other reason that indicates that the carrying value exceeds the future expected revenue from use or realization of the inventory items.

8. Financial Asset Impairment Reserve

The exposure of the Company to credit risk is mainly influenced by the individual characteristics of each client. However, the Company also considers factors that may influence the credit risk of its clients, including the predefined risk of the industry and the country in which the client operates.

The Company has established a risk policy under which each new client is analyzed individually with respect to its solvency before offering the standard payment and delivery terms and conditions. The review of the Company includes external assessments where available and in some cases bank benchmarks. Clients that do not satisfy the credit benchmarks of the Company may only perform transactions with the Company through advance payment.

The credit risk is the risk of financial loss that the Company faces if a client or counterparty in a financial instrument does not comply with its contract obligations and it is mainly derived from the client accounts receivable and investment instruments.

4) MANAGEMENT

A) EXTERNAL AUDITORS

The Audited Financial Statements of the Company as of December 31, 2018, 2017 and 2016 and for the years ended on such dates, included in this Report, were audited by *KPMG Cárdenas Dosal, S.C.,* independent auditors, pursuant to the International Standards on Auditing, as set forth in its audit report included in this Report.

The external auditors were appointed by the Company based on the analysis of their experience and quality of service, having been chosen by the decision of the Board of Directors, upon prior favorable opinion by the Audit and Corporate Practices Committee.

During the existence of the Company, the external auditors have not expressed a qualified opinion, or a negative opinion, and they have not refrained from expressing an opinion regarding the Audited Financial Statements of the Company.

In addition to the services regarding the audit of the consolidated financial statements of the Company, *KPMG Cárdenas Dosal, S.C.* provided the following services, different from the basic audit of its financial statements services: tax advice, services related to the adoption of IFRS, due diligence services for company acquisitions, transfer pricing studies and services on the subject of tax compliance.

KPMG Cárdenas Dosal, S.C., received compensation during fiscal year 2018 for the services mentioned in the preceding paragraph in the amount of approximately $12,000,000.00 (twelve million pesos 00/100 MXN).

B) RELATED PARTY TRANSACTIONS AND CONFLICTS OF INTEREST

In the ordinary course of the Company's business, and in the future, it may enter into different transactions with its shareholders and with companies belonging to or controlled by, directly or indirectly, the Company or its majority shareholders, subject to the approval of the Board of Directors. Likewise, pursuant to the Company's bylaws and the Securities Market Law, the relevant related party transactions are reviewed by the Audit and Corporate Practices Committee of the Company, which is composed of independent members.

Pursuant to the Securities Market Law and the Company's bylaws, the Board of Directors has the following obligations in connection with related party transactions: (i) to approve the guidelines for the use and enjoyment of the property of the Company and of the legal entities that it controls, by the related parties; (ii) to approve individually, related party transactions, except for certain exceptions that will not require the approval of the Board of Directors; (iii) to establish the guidelines with respect to the granting of any kind of loans and guarantees to Related Parties; and (iv) the granting of exceptions to the members of the Board of Directors, relevant officers or people with power of command to benefit from business opportunities for itself or for third parties, that correspond initially to the Company or to the legal entities that it controls or on which it has a significant influence.

For purposes of the Securities Market Law, "Related Persons or Related Parties" include those that, with respect to the corresponding company, meet any of the following criteria: (i) persons that control or have significant influence on a legal entity that is part of the business group or consortium to which the issuer belongs, and the members of the Board of Directors and relevant directors of the members of such group or consortium; (ii) the persons that have power of command in a legal entity that is part of the business group to which the issuer belongs; (iii) the spouse, domestic partner and the persons who have blood or civil kinship up to the fourth degree or by marriage up to the third degree, with individuals that are in any of the cases specified in sections (i) and (ii) above, and the partners and co-owners of the natural persons mentioned in such sections with whom they maintain business relationships; (iv) the legal entities that are part of the business group or consortium to which the issuer belongs; and (v) the legal entities on which any of the people referenced in sections (i) to (iii) above, exercise significant control or influence.

Given that related party transactions are recurrent in the Company, the Company sought to generate a high-level authorization parent company that would allow: (i) for such transactions be carried out, (ii) on an arm's length basis, (iii) free of conflicts of interest and (iv) in compliance with applicable stock exchange regulations. As a result of the foregoing, the Company's Board of Directors recently approved, with the prior sign-off of the Audit and Corporate Practices Committee, the Policy with respect to related party transactions.

Additionally, the Company considers that all the related party transactions have been carried out in the ordinary course of its business operations, on an arm's length basis. The terms of these transactions and services are not less favorable than those offered by non-related parties and the Company has access to other sources of materials and services in the event that its related parties no longer offer them in competitive terms

In addition to the Cholula Spin-off and the capital reimbursement described in the "Dividends and Dividends Policy" section of this annual report, in 2018, 2017 and 2016, the Company entered into related party transactions for the concepts described below. However, the information provided below is not thorough and the Company has entered into some other related party transactions in the ordinary course of its business during such period. See Note 7 to the Audited Financial Statements of the Company.

License Agreements

Since Casa Cuervo, S.A. de C.V. has the required authorizations to use the Denomination of Origin, 99% of the brands property of the Company or its subsidiaries, are licensed to *Casa Cuervo, S.A. de C.V.* In this regard, the Company has a general form that it uses for such license agreements entered into by and between the subsidiaries that are the titleholders of the brands and *Casa Cuervo, S.A. de C.V.*. A short summary of the main terms and conditions of such agreements (the "License Agreements") is included below.

The purpose of the License Agreements is to grant, on a non-exclusive basis, the right and license to use the brands licensed for certain products that they cover. Each of them is entered into with a perpetual term from its execution date, until any of the parties gives written notice to the other party regarding its intention to terminate it, at least 90 calendar days in advance.

If the licensee breaches any of its obligations under the respective License Agreement, such license agreement will be rescinded subject to the terms set forth therein.

In exchange for granting the rights to use and license the brands subject matter of each License Agreement, the licensee shall pay to the licensor 5% of the net sales, understanding such as the total billed sales of the products corresponding to each License Agreement, less the reimbursements, discounts and rebates received from them.

Each licensee agrees to hold harmless and indemnify each licensor for any and all of the responsibilities, liabilities, losses, damages, expenses, complaints, claims or actions of any kind to which each licensor may be subject, resulting from the use of the brands subject matter of each License Agreement.

It is important to mention that the licensee may not assign, in whole or in part, any relevant License Agreement or the rights resulting therefrom.

Distribution Agreements of Certain Brands

The Company has entered into several distribution agreements with respect to the brands *Matusalem*, *400 Conejos* and *Cholula,* which belong to its shareholders. The terms and conditions of such distribution agreements are based on market conditions.

C) MANAGERS AND SHAREHOLDERS

In accordance with the provisions of the Company's bylaws, the management of the Company is entrusted to a Board of Directors. The Company is subject to several provisions on corporate practices contained in its bylaws and in the Securities Market Law, which are described in this section. This description is not intended to be comprehensive and it is subject to the full text of the Company's bylaws, the applicable provisions of the Securities Market Law, the general provisions issued by the CNBV, and the rules issued by the BMV.

The Board of Directors

The Board of Directors of the Company is currently composed of 9 directors and 3 alternates. Each director is chosen for a 1-year term, may be reelected and must remain in office until his/her successor is appointed and takes office. The alternate members may replace the members and only the independent members, if they have such capacity. The directors are appointed or ratified by the shareholders at the annual meeting. All the current directors and alternates were ratified or appointed in their positions at the Shareholders Meeting held on April 30, 2019. To this date, out of nine members of the Board of Directors, four are independent, which represents 44% of the Board of Directors and five are not independent, which represents 56% of the Board of Directors (in each case, without including the alternate members).

Pursuant to the Securities Market Law and the Company's bylaws, at least 25% of the directors must be independent and such independence is qualified by the same Shareholders' Meeting that appoints them, subject to the CNBV's remarks. The Company's Board of Directors is composed of 9 directors, 8 of which are male and 1 female, and 3 male alternates representing 100% of the total members of the Board of Directors.

The names of the current members of the Board of Directors are specified below:

Director's Name	Title
Juan Francisco Beckmann Vidal	Chairman
Juan Domingo Beckmann Legorreta	Director
Michael Verdon Cheek	Director
Rogelio Miguel Rebolledo Rojas	Independent Director
John Randolph Millian	Independent Director
Ricardo Cervera Lomelí	Independent Director
Alexander Gijs. Van Tienhoven	Director
Sergio Visintini Freschi	Independent Director
Karen Virginia Beckman Legorreta	Director
Ángel Ignacio Abarrategui Diez	Alternate Director
Carlos Javier Vara Alonso	Independent Alternate Director
Fernando Suárez Gerard	Alternate Director

The Secretary, non-member of the Board, is Pedro Pablo Barragán Barragán.

Below is Information on the Company's directors:

Juan Francisco Beckmann Vidal is an accountant with a degree from *Instituto Tecnológico de Monterrey (ITESM)* and he has a master's in business administration obtained at the same institution. Additionally, he has taken several graduate programs in business administration at Stanford University. Mr.

Beckmann Vidal joined the Company in 1964. After holding several positions in the operations, finance, sales and marketing departments, and in the international division, he was appointed Vice-chairman and, subsequently, in 1972 he was appointed Chairman of the Board of Directors of the Company. He is an independent member of the board of directors of *Grupo Financiero Banamex, S.A. de C.V., Grupo Peñoles S.A.B. de C.V. and Grupo Aeromexico, S.A.B. de C.V.,* among other companies. He is also a member of the Business Coordination Council (*Consejo Coordinador Empresarial),* of the Mexican Council on Foreign Trade *(Consejo Mexicano de Comercio Exterior, COMCE),* of the Mexican Business Council *(Consejo Mexicano de Negocios)* and of the Mexican Institute for Competitiveness *(Instituto Mexicano para la Competitividad, IMCO).* Mr. Beckmann Vidal is also involved in several non-profit organizations, including *Asociación de Adopte una Obra de Arte, A.C., Antiguo Colegio de San Ildefonso, Museo Nacional de Arte, A.C. (MUNAL), Museo Dolores Olmedo, Papalote Museo del Niño,* the Mexican Fund for Nature Conservation, *Asociación a Favor de lo Mejor, A.C., Hospital Infantil de Mexico Federico Gómez, Operación Sonrisa, Instituto Tecnológico de Monterrey* in Mexico City and *Fundación José Cuervo, A.C.*

Juan Domingo Beckmann Legorreta is a business administrator with a degree from *Universidad Anáhuac.* Mr. *Beckmann Legorreta* started his professional career at José *Cuervo* as Manager of *Tequila Centenario.* Subsequently, as New Products Manager, he launched *José Cuervo Reserva de la Familia* and he developed a solid career in innovation, not only in the category of tequila, but also rum, vodka, liquors and energy drinks. Since 2002 he holds the position of Chief Executive Officer of *José Cuervo*. Under his management, the Company has received the National Export Award and the National Quality Award. Mr. Beckmann Legorreta has 27 years of experience in the industry.

Michael Verdon Cheek was the first President of Proximo Spirits*.* Before, he held several positions in several companies, including Senior Vice-President of Coca Cola USA, President of *Heublein Wine Division,* President of Brown-Forman North American Spirits, President of Brown-Forman Global Spirits, Chairman of the Board of Finlandia Vodka Global Joint Venture. Since 2012, he is a non-executive Director of Treasury Wine Estates and acts as Chairman of the Board of the Nelson's Greenbrier distillery.

Rogelio Miguel Rebolledo Rojas is a chemical engineer from the *Universidad Nacional Autónoma de Mexico, UNAM* and he holds a master's in business administration (MBA) from the University of Iowa. Mr. Rebolledo worked for 27 years at PepsiCo Inc., where he held several positions, first as President of *Sabritas and Gamesa,* and subsequently Chairman of Frito-Lay Latin America and Asia-Pacific. Likewise, in 2000 he was appointed Chairman and Chief-Executive Officer of Frito-Lay International, including Europe, the Middle East and South Africa. Mr. Rebolledo is a member of the Board of Directors of Clorox Company and Kellogg Company.

John Randolph Millian obtained a BA Magna Cum Laude in World Political Economy from the University of Colorado College and a master's in business administration (MBA) from the Tuck Business School. Mr. Millian has held several positions in *Diageo* LAC, American Express, Shering-Plough and PepsiCo International. Mr. Millian managed the LAC business for *Diageo* for more than 13 years. Mr. Millian has been a member of several organizations, including Chairman of the Board of Amcham Sao Paulo, Baptist International Advisory Board, the Advisory Board of the Tuck Business School for Latin America and the Caribbean and *Apoyo Seguro.*

Ricardo Cervera Lomelí is an Economist with a degree from *Instituto Tecnológico Autónomo de Mexico (ITAM),* where he graduated with honors and he holds an MBA from Yale University, where he was chosen as member of the Dean's Advisory Council. In 1998, Mr. Cervera received the National Banamex Economics Award. Mr. Cervera has more than 17 years of experience in investment banking, having worked at Salomon Brothers (NY), Salomon Smith Barney (NY), Citigroup (NY and Mexico) and, since 2009, as Founding Partner of VACE Partners. Likewise, he is Founding Partner, shareholder and member of the Board of Directors of *Fideicomiso Hipotecario* (BMV: FHIPO). Throughout his career, Mr. Cervera has originated and executed M&A, Debt and Equity transactions for his clients for more than US$50 billion dollars, in Mexico, Latin America, the United States and Europe. Mr. Cervera is a member of the Technical Committee of *Fondo Capital Infraestructura* (BMV: FCICK16), member of the Board of Directors of *Procorp, S.A.B. de C.V.* (BMV: PROCORPB) and member of the Investment Committee of DIJ Properties.

Alexander G. Van Tienhoven is an Economist, graduated Cum Laude from Wharton School of the University of Pennsylvania and he participated in the Stanford Executive Program of Stanford University in 1999. Mr.

Van Tienhoven worked for 2 years at UBS in Zurich where he held the position of Head of Wealth Management for Latin America. Prior to UBS he held multiple positions with a 28 year tenure at Citibank NA and Citibanamex, among them, as head of Corporate and Investment Banking for Citibank Mexico, Chairman and Managing Director of Citibank Portugal, Managing Director of Private Banking of Citi Banamex in Mexico and, more recently, as Managing Director of Wealth and Investment Management of Mexico and Latin America. Mr. Van Tienhoven has been a director *of Aeromexico, Citibanamex* and *San Luis Rassini* and he is currently a Director of *Banco Finterra,* Chairman of the Executive Board of the Wharton School in Latin America, Director of the International Foundation for Freedom and the Council of the Americas/Americas Society in New York.

Sergio Visintini Freschi holds a degree in electronic engineering from *Universidad Iberoamericana*, with an MBA in finance from the *Instituto Panamericano de Alta Dirección de Empresas* (IPADE). He is an experienced executive with an extensive background in the financial industry, and in companies in several industries. Mr. Visintini began his professional career at Richardson Marrell, (now Procter & Gamble), later joining as Vice President of Finance and CFO, and a member of the Board of Industrias Peñoles. He was Vice President of Finance and CFO for several years at Grupo Nacional Provincial. After this, he worked at Rassini for more than ten years where he acted as Vice President of Finance and CFO and a member of the Board of Rassini. Since 2015 Mr. Visintini is an independent member of the Board of Metlife Mexico, one of the leading insurers in Mexico.

Karen Virginia Beckmann Legorreta has a background in communications, business and marketing. Ms. Beckmann has built a career as an entrepreneur, and is currently founder and CEO of PP Marcas, S.A.P.I. de C.V., engaged in the production and marketing of luxury footwear, with Crane and Kalaca premium industry brands in its portfolio. She is the first woman in the history of Becle's board of directors.

Ángel Abarrategui Diez is an economist and business administrator with a degree from *Universidad de Deusto*. Mr. Abarrategui started his professional career in the consumer products industry in 1980 at Unilever Spain, where he started as trainee and held several positions in Spain and the Netherlands until he became the Chief Executive Officer of Unilever-Bestfoods Mexico. In 2005, he joined *Grupo Corvi* as Chief Executive Officer; and three years later he joined *Grupo Bimbo, S.A.B. de C.V.,* as Chief Executive Officer of the *El Globo* Division*.* Since 2010 he holds the position of Chief Operating Officer of the Company. He is currently a member of the Board of Directors of *Biossmann and MZ Financiera.* Mr. Abarrategui has 8 years of experience in the industry.

Carlos Javier Vara Alonso is an economist with a degree from *Instituto Tecnológico Autónomo de Mexico.* He received the degree of MPH in Economics from the Yale Graduate School and an MBA from the Yale School of Management. He worked 5 years at McKinsey & Co. at Mexico, Madrid and Caracas offices. He has devoted the past 19 years to investment banking, having worked as Mexico Country Manager and Head of Latin America at Salomon Smith Barney and Citigroup. He is founding partner and Managing Director of Vace Partners. He is founding partner of FHipo and a member of the Board of Directors of *Concentradora Hipotecaria* (manager vehicle of FHipo). He is a member of the Board of Directors and of the Finance Committee of *Grupo Gigante.* He is a member of the Board of Directors of *Hoteles Presidente* and of Mexico Power Group. He was a member of the Board of Directors of *Aeromexico.* He is a member of the Investment Committee of New Growth Fund. As investment banker, he has executed transactions for more than US$100 billion.

Fernando Suárez Gerard holds a bachelor's degree in economics from the *Instituto Tecnológico Autónomo de México* (ITAM) and an MBA in finance from the UCLA-Anderson School of Management in Los Angeles, California. Mr. Suarez began his professional career in investment banking at Salomon Smith Barney, where he was involved in financial restructuring projects of several companies. In 2002 he joined Grupo Televisa as corporate finance director, reporting directly to the corporate vice president of finance. He was one of the founding executives of the Mexican airline Volaris, where he served as CFO for more than 10 years. He also served as executive vice president, made the airline's Initial Public Offering in 2013 on the Mexican Stock Exchange, and an ADS offering on the New York Stock Exchange (NYSE). Mr. Suarez joined Becle as Chief Financial Officer in September 2018.

Authority of the Board of Directors

The Board of Directors is the legal representative of the Company and it is authorized, acting as a collegiate body, to approve any issue related to the operations of the Company that is not expressly reserved to its shareholders.

Among other things, the Board of Directors is authorized to:

- Approve the general business strategy of the Company;
- Authorize, hearing in each case the opinion of the audit and corporate practices committee: (1) the execution of any related party transaction, subject to certain limited exceptions; (2) the appointment and removal of the chief executive officer and other relevant executives, and to determine their authority and compensation; (3) the internal control and internal audit guidelines of the Company and its subsidiaries; (4) the financial statements of the Company and its subsidiaries; (5) unusual and non-recurring transactions and any transaction or series with related parties that involve, in the same fiscal year, (a) the purchase or disposal of assets that represent a value equal to or higher than 5% of the consolidated assets of the Company or (b) the granting of guarantees or the assumption of liabilities that represent a value equal or higher than 5% of the consolidated assets of the Company; and (6) hiring external auditors;
- Call shareholders' meetings and execute their resolutions;
- Create special committees and delegate authority to them, except for those whose exercise corresponds exclusively to the shareholders or to the Board of Directors by law or in accordance with the Company's bylaws;
- Submit to the general shareholders' meeting (i) the annual report of the Chief Executive Officer (including the annual audited financial statements of the Company), (ii) the opinion of the Board of Directors with respect to the report of the Chief Executive Officer, and (iii) a report on the accounting policies and criteria applied in the preparation of the financial information;
- Issue an opinion regarding the initial offering price of the Shares of the Company through a public offering;
- Approve the policies relating to disclosure of information;
- Determine the measures to be adopted in case of detecting irregularities; and
- Exercise the general powers of attorney of the Company to comply with its purpose.

The meetings of the Board of Directors will be valid when most of its members attend; and their resolutions will be valid when they are adopted by the majority of those present, unless the Company's bylaws demand a higher number of votes. The Chairman of the Board of Directors has the casting vote in case of a tie. Notwithstanding the foregoing, the general shareholders' meeting may veto at any time the decisions adopted by the board.

The meetings of the Board of Directors may be called by (1) 25% of the directors, (2) the Chairman of the Board of Directors, (3) the Chairman of the Audit and Corporate Practices Committee or (4) the Secretary of the Board.

The Securities Market Law imposes to the directors certain duties of diligence and loyalty. For a detailed description of such duties, see the section "Information on the securities market – Securities Market Law".

The members and, as applicable, the secretary of the Board of Directors must refrain from participating in any discussion and voting during the meetings in which any issue in which they have any conflict of interest with the Company is discussed, without affecting the quorum required for such meeting.

The members and the secretary of the Board of Directors will incur disloyalty and they will be liable for the damages caused to the Company and, as applicable, to its subsidiaries, if, having a conflict of interest, they vote or make any decision regarding the assets of the Company or its subsidiaries, or if they fail to disclose any conflict of interest that they may have, unless they are subject to confidentiality obligations that prevent them from disclosing such conflict.

Audit and Corporate Practices Committee

The Securities Market Law imposes the obligation to have an audit committee, composed of at least three independent members appointed by the board of directors (except in the case of companies controlled by a person or business group holding 50% or more of the outstanding capital stock, in which case most of the members of the Audit Committee must be independent). The Audit and Corporate Practices Committee (jointly with the Board of Directors, which has additional obligations) replaces the statutory auditor previously required under the General Law of Companies *(Ley General de Sociedades Mercantiles).*

The Company established an Audit and Corporate Practices Committee at is general shareholders' meeting held on January 25, 2017. The Company considers that the members of such Committee are independent directors pursuant to the Securities Market Law and that at least one of its members is a financial expert. The parameters to be considered independent and a financial expert under the laws of Mexico differ from those of the New York Stock Exchange, NASDAQ Stock Market LLC or the securities laws of the United States.

The main duties of the Audit and Corporate Practices Committee include to oversee the external auditors of the Company, to analyze the reports of such external auditors, to report to the Board of Directors any existing internal controls and any irregularities related to the internal controls, and to oversee the execution of related party transactions, the activities of the Chief Executive Officer and the internal audit function, and to submit an annual report to the Board of Directors. The Committee is also responsible for issuing opinions to the Board of Directors with respect to the performance of key officers of the Company, related party transactions, the requests of opinions of independent experts, calling shareholders' meetings and assisting the Board of Directors in the preparation of reports for the annual shareholders' meeting.

The Audit and Corporate Practices Committee of the Company is composed of the following four members:

Name	Position
Sergio Visintini Freschi	Chairman
Rogelio Miguel Rebolledo Rojas	Member of the Board
John Randolph Millian	Member of the Board
Ricardo Cervera Lomelí	Member of the Board

Senior officers

Below is a list of the current senior officers, their main duties, experience in the business, including other senior positions that they have held and their years of service in their current position or in the Company's subsidiaries.

Name	Position	Years of Service
Juan Domingo Beckmann	Chief Executive Officer	28 years
Ángel Ignacio Abarrategui	Chief Operating Officer	8 years
Michael Keyes	President and CEO of Proximo Internacional	3 months
Luis Fernando Félix	Chief Executive Officer Mexico and LATAM	17 years
Fernando Suárez Gerard	Chief Financial and Management Officer	6 months
Pedro Pablo Barragán Barragán	General Counsel	2 years

Jorge Scoria	Chief Audit Officer	15 years
Gordon Dron	Chief Executive Officer of the EMEA/APAC Regions of José *Cuervo* MD	3 years
Daniel Loria	Chief Human Resources Officer	8 months

Juan Domingo Beckmann Legorreta, see the section: *"Management – Board of Directors".*

Ángel Abarrategui Díez, see the section: *"Management – Board of Directors".*

Michael Keyes is an experienced industry veteran with over three decades of experience in this industry. Mr. Keyes comes from Brown-Forman Corporation, a global alcohol beverage company, where he held various senior-level positions with sales, marketing and finance duties. In these positions, Mr. Keyes generated sustained growth in brand value, sales performance and financial results.

Luis Fernando Félix is a business administrator with a degree from *Universidad Iberoamericana.* Mr. Félix started his professional career in the marketing department of Richardson-Vicks Company. He then joined Kimberly Clark de Mexico, S.A.B. de C.V., where he held the position of Products Manager of the group. Additionally, he acted as Global Business Director at Warner-Lambert. In 2001, he joined the Company as Marketing Director and subsequently he held the position of Sales Director for the Supermarkets channel. Since 2009, he holds the position of Chief Executive Officer Mexico and since July 2015 he assumed the LATAM operations. Mr. Félix has also held positions at Pfizer and Procter & Gamble and he has more than 15 years of experience in the industry.

Jorge Scoria is a public accountant from the *Universidad de Buenos Aires.* He started his career in Bagala, S.A. In 1981, he joined Seagram Spirits & Wine Group where he held several positions for more than 20 years. He was the Administrative and Financial Manager of *Don Julio* from 2012 to 2014. In 2013, he joined the Company as Chief Audit Officer, the position that he currently holds.

Gordon Dron studied business at Edinburgh Napier University. Mr. Dron started his professional career in 1982 working for Rothmans. In 1988, he joined Diageo where his last role was Director of Market Development for Southeast Asia. In 1996 and for 2 years he worked at United Distillers in the European market. Subsequently, he worked for Imperial Tobacco and in 2006 he started working at William Grants where he was responsible for the Europe, Middle East and Africa markets. In 2013, he created his own consultancy where he started providing support to Proximo Spirits and to José Cuervo MD. Since August 1, 2016, he is the Chief Executive Officer of José *Cuervo* MD.

Pedro Pablo Barragán is an attorney from the Law School of *Universidad Panamericana* and he has an MBA jointly from the Thunderbird School of Global Management and *Instituto Tecnológico y de Estudios Superiores de Monterrey.* Mr. Barragán started his professional career in several law firms; before joining the Company, for 12 years he held the positions of Legal Manager, General Counsel of the operations of South Latin America, including Brazil and Global Compliance Officer for *Grupo Bimbo, S.A.B. de C.V.,* being Alternate Secretary of its Board of Directors, without being a member thereof, for 10 years. He has more than 12 years of experience in the food, snacks and regulated food products sector. Since January 2017, he joined the company as Secretary of the Board of Directors, without being a member of such body.

Compensation of Directors, Secretary and Senior Executives

The compensation given to the directors, Secretary of the Board and members of the Committees of the Company is determined by the Ordinary General Shareholders' Meeting. To this date, the last meeting resolved that each member of the Board of Directors would be paid US$3,500, net, per meeting of the Board of Directors that they attend and US$1,750 net per Committee meeting that they attend.

Shareholders

The following chart shows certain information with respect to the interest of the main shareholders of the Company as of the date of this Report.

Shareholder	***Shares***	***Percentage of Outstanding Capital***
Juan Domingo Beckmann Legorreta and members of his immediate family*	3,105,933,737	85.81%
Investing Public	513,705,954	14.19%
Total Subscribed and paid-in	3,619,639,691	100%

*13.18% *of the outstanding shares representative of the Company's capital stock are owned by a trust created with Banco Ve Por Más, S.A., Institución de Banca Múltiple, Grupo Financiero Ve Por Más, División Fiduciaria by Juan Francisco Beckmann Vidal and Juan Domingo Beckmann Legorreta. Juan Francisco Beckmann Vidal is the beneficiary of this trust and he is the one who, as a general rule, exercises the voting rights of the shares in trust.*

In the past three fiscal years there have not been significant changes in the percentage interest held by the main shareholders of the Company.

To the date of this Report, the only beneficiary shareholders of more than 10% of the capital stock of the Company are *Juan Domingo Beckmann Legorreta* and the members of his immediate family. It may be considered that, for certain purposes, such people exercise control, significant influence on the Company and, as a result, have the power of command over it. No other director holds more than 1% of the capital stock of the Company.

Except for the description in this section, no other natural or legal person, including foreign governments, has a shareholding interest of more than 10% of the capital stock and to this date there is no commitment known by the Company that may entail a change of control in the Company's shares.

In the last fiscal year, the Company has not subject to any tender offer to acquire its control, and it has not made any offer to acquire the control of other companies, the shares of which are listed in the BMV or in any other foreign stock exchange.

D) BYLAWS AND OTHER AGREEMENTS

Below is a short summary of certain relevant provisions of the bylaws, the Shareholders' Agreement and the laws of Mexico. This description must be considered as a summary and, for a full understanding we suggest a review of the bylaws, the Shareholders' Agreement and the applicable law.

Changes in the Capital Stock

The fixed and variable parts of the capital stock of the Company may be increased or decreased by a resolution adopted by the shareholders holding, at least, 60% of the shares at a general shareholders' meeting and, if the fixed part increases or decreases, simultaneously with the increase or decrease, the bylaws of the Company would be amended to reflect the resulting capital stock. The variable part of the capital stock of the Company may increase or decrease, without requiring the bylaws to be amended. Any capital increase or decrease, either in the fixed or variable part, must be registered in the capital variations book of the Company, which the Company maintains in compliance with the General Law of Companies. No new shares may be issued, unless the issued and outstanding shares upon the issuance are fully paid, except in certain limited circumstances.

Voting rights

All the shares representing the capital stock of the Company have full voting rights. Each share grants its holder one vote at any shareholders' meeting.

Shareholders Meetings

The calls for general shareholders' meetings must be published through a notice in the electronic system set forth by the Ministry of the Economy, at least 15 calendar days before the date of the relevant meeting. From the publishing of the call for the shareholders' meeting, the information and the documents relating to each of the items of the agenda of the general shareholders' meeting in question, must be available for the shareholders. Each call must specify the place, the time and the agenda of the general meeting in question and it must be signed by the person calling it.

For the shareholders or their representatives to be entitled to attend the general shareholders' meetings and vote thereat, at least 24 (twenty-four) hours before the date and time specified for the Meeting, counted in business days, they must submit their share certificates and/or, as applicable, certifications of the share certificates deposited at a securities deposit institution with the respective concession, in terms of the Securities Market Law. Such certifications will be exchanged for a certificate issued by the Company in which the name and the number of shares that the Shareholder represents will be noted. Such certifications will serve as admission cards for the Meetings.

The shareholders may be represented at the Meetings by agents appointed by proxy or through a power of attorney granted under the terms of civil law or through for the proxies prepared by the Company and made available to the shareholders through the securities market brokers or at its offices, at least 15 calendar days prior to the relevant meeting.

Pursuant to the Company's bylaws in effect, the general shareholders' meeting may be ordinary or extraordinary. Ordinary general meetings are those called to discuss any matter that is not reserved for the extraordinary shareholders' meetings. An ordinary shareholders' meeting must be held at least once a year within four months following the closing of each fiscal year to discuss, among other things, the approval of the financial statements, the report made by the Chief Executive Officer, jointly with the report of the Board of Directors on the financial statements, the appointment of the members of such Board of Directors and the determination of their compensation, to appoint the chairman of the Audit and Corporate Practices Committee, to determine profit sharing, to determine the maximum amount of resources for the purchase of shares and to approve relevant transactions.

Extraordinary Shareholders' Meetings are those called to consider any of the following matters, among others: change in the term of the Company; early dissolution; increase or reduction of the fixed capital stock and capital increase in terms of article 53 of the Securities Market Law to carry out a public offering; change of purpose; change of nationality; conversion; merger with another company or demerger; issuance of privileged shares; redemption of its own shares and issuance of beneficial shares; issuance of bonds, debentures or debt, equity instruments or those that have the characteristics of both, provided they are convertible into shares of another company; amendment of the bylaws; cancellation of the registration of the shares in the*, RNV* and in national or foreign stock exchanges in which they are registered, but not in quoting systems or in other non-organized markets such as stock exchanges; and any other matters for which a general extraordinary meeting is specifically required pursuant to the applicable laws of Mexico or the bylaws.

General Shareholders' Meetings must be held where the registered office of the Company is located, i.e., in Mexico City. The Board of Directors, the Chairman of the Board or of the Audit and Corporate Practices Committee, the Vice-Chairman of the Board of Directors or the Secretary of the Board of Directors may call any shareholders' meeting. Likewise, the shareholders of the shares that represent 10% of the capital stock, will be entitled to request the chairman of the Board of Directors or of the committees responsible for performing the audit and corporate practices duties, at any time, to call a general shareholders' meeting.

Quorum

For an ordinary general shareholders' meeting to be deemed legally called to order by virtue of the first or subsequent call, at least 51% of the shares of common stock must be represented at the meeting and its resolutions will be valid when they are adopted by the majority vote of the shares represented at such meeting.

For a general extraordinary shareholders' meeting to be deemed legally called to order by virtue of the first call, at least 75% of the capital stock must be represented at the meeting. In the event of a second or subsequent call, for the general extraordinary shareholders' meeting to be deemed legally called to order, at least 50% of the capital stock must be represented at the meeting. For the resolutions of the general extraordinary shareholders' meeting to be valid, they must be adopted by the affirmative vote of the number of shares that represent, at least, 50% of the capital stock.

Dividends and Distributions

Generally, at an annual ordinary general shareholders' meeting, the Board of Directors submits the financial statements prepared by the Chief Executive Officer, corresponding to the previous fiscal year to the shareholders for their approval. Once the general shareholders' meeting approves such financial statements, it will determine the distribution of the net profit of the previous fiscal year, if any.

The law requires to separate annually at least 5% of the Company's net profit before paying any dividend, until the reserve fund is created, until it amounts to one fifth of the capital stock. The reserve fund must be reconstituted in the same way when it decreases for any cause. Additional amounts may be allocated to other reserve funds as the shareholders determine, including the amount allocated for share repurchases. The balance, as applicable, may be distributed as a dividend.

All outstanding shares upon the declaration of a dividend or another distribution, are entitled to participate in such dividend or another distribution.

Appointment of Directors

The Board of Directors is currently composed of 7 directors and 3 alternates. Each director is appointed for a 1-year term, may be reelected and must remain in office until his successor is appointed and takes office. The directors are appointed by the shareholders at the annual meeting. All current directors and alternates were appointed or ratified in their positions on January 25, 2017.

Pursuant to the Securities Market Law and the bylaws of the Company, at least 25% of the directors must be independent and such independence is qualified by the Shareholders' Meeting that appoints them, subject to the CNBV's observations.

Board of Directors

Pursuant to the Securities Market Law and the Company's bylaws, the Board of Directors must establish the general strategy for the conduction of the business and legal persons controlled by the Company; and oversee the management and conduction and the legal persons controlled by the Company, for which it may be assisted by one or several committees.

The Board of Directors will be responsible for the oversight of compliance with the resolutions of the Shareholders' Meetings, which it may perform through the Committee exercising the audit duties.

Additionally, the Board of Directors is entrusted with the representation of the Company and it is authorized to enter into any legal acts and adopt any determinations that are required or convenient to achieve the corporate purpose.

The meetings of the Board of Directors are considered legally called to order and held if the majority of its members are in attendance. The resolutions adopted at such meetings will be deemed valid if they are approved by the majority of the members of the Board of Directors in attendance that do not have a conflict of interest. If necessary, the chairman of the Board of Directors may issue a casting vote.

The meetings of the Board of Directors may be called by (i) 25% of the members; (ii) the Chairman or Vice-Chairman of the Board of Directors; (iii) the chairman of the Audit or of the Corporate Practices Committee; and (iv) the Secretary of the Board of Directors. The calls for meetings of the Board of Directors must be made in writing and be notified to the other directors at least 1 (one) business day in advance to the date set to hold the meeting in the other cases, by certified mail or by any electronic media, with acknowledgement of receipt, to the address, places or electronic media that the directors or the Secretary had specified in writing for such purpose. However, the call will not be required if all the directors or their alternates are in attendance at the meeting.

The meetings of the Board of Directors shall be held at the Company's address, or at any other place as the Board of Directors may determine or as required, and may be held by telephone, provided that the Secretary must prepare the relevant minutes, which must in all cases be signed by the Chairman and the Secretary and obtain the signatures of the directors who participated. The Securities Market Law imposes a duty of diligence and loyalty to the directors. The duty of diligence, in general, requires that the directors obtain enough information and that they be sufficiently prepared to act in the best interest of the Company. The duty of diligence is complied, mainly, by requesting and obtaining all of the information that may be required to make decisions (including by hiring independent experts), attending meetings of the Board and disclosing to the Board of Directors relevant information held by the respective director. The breach of the duty of diligence by a director, subjects the corresponding director to a joint and several liability, jointly with the other liable directors, with respect to the damages caused to the Company and to its subsidiaries.

The duty of loyalty consists mainly of a duty to act in the benefit of the Company and it mainly includes the duty to maintain the confidentiality of the information that they receive from the directors regarding the exercise of their obligations, to refrain from discussing or voting on issues on which the director has a conflict of interest and refrain from seizing business opportunities that correspond to the Company. Likewise, the duty of loyalty is breached if a shareholder or group of shareholders is notoriously favored or if, without the express approval of the Board of Directors, the director takes advantage of a corporate opportunity belonging to the Company or to any of its subsidiaries.

The duty of loyalty is also breached if a director uses assets of the company or approves the use of assets of the Company in contravention of any of its policies, discloses false or misleading information, orders not to record, or prevents the recording of, any transaction in the records of the Company, that may affect the financial statements or causes important information to not be disclosed or amended.

The breach of the duty of loyalty subjects the corresponding director to a joint and several liability together with all the breaching directors, with respect to the damages caused to the Company and to the persons controlled by the Company. There is also liability if damages are caused as a result of benefits obtained by the directors or third parties resulting from activities performed by the directors.

The claims for breach of the duty of diligence or the duty of loyalty may be brought only for the benefit of the Company (as a derivative action) and not of the shareholders, and only by the Company or shareholders that represent at least 5% of the outstanding shares.

As a protection measure for the directors, with respect to the breaches of the duty of diligence or of the duty of loyalty, the Securities Market Law provides that the liability resulting from the breach of the duty of diligence or the duty of loyalty will not be applicable if the director acted in good faith and (a) in compliance with the applicable law and the bylaws; (b) based on facts and the information provided by the officers, external auditors or external experts, whose capacity and credibility may not be subject to reasonable doubt and (c) chooses the most appropriate alternative in good faith or when the adverse effects of such decision could not be reasonably foreseen, according to the available information. Mexican courts have not interpreted the meaning of such provision and, therefore, the scope and meaning thereof is uncertain.

Pursuant to the Securities Market Law and the bylaws, the Company's chief executive officer and relevant executives shall also act for the benefit of the Company and not for the benefit of a shareholder or group of shareholders. Mainly, these executives must submit to the Board of Directors the approval of the main business strategies and the business of the companies controlled by the Company, execute the resolutions of the Board of Directors, comply with the provisions related to the repurchase and offering of shares, verify that capital contributions are made, comply with any provision related to the declaration and payment of dividends, submit to the audit committee proposals related to internal control systems, prepare all the material information related to the activities and the activities of the companies controlled by the Company, disclose all the material information to the public, maintain appropriate accounting and recording systems, and internal control mechanisms and prepare and submit to the board the annual financial statements for their approval.

Audit and Corporate Practices Committee

The Company has an Audit and Corporate Practices Committee that assists the Board of Directors in the management, conduction and execution of the affairs of the Company and which performs the activities on audit and corporate practices that the Securities Market Law sets forth and analyzes and assesses the transactions in which the Company has a conflict of interest. The Company is subject to the requirement that this committee be composed exclusively of independent directors and it must include at least three directors.

Dissolution or Liquidation

Upon the dissolution or liquidation of the Company, the Company shall appoint one or more liquidators at an extraordinary shareholders' meeting. All outstanding and fully-paid shares of the capital stock will be entitled to participate equally in any distribution resulting from the liquidation.

Registry and Transfer

The registration of the Shares in the RNV has been requested, pursuant to the Securities Market Law and the provisions issued by the CNBV. The Shares are represented by certificates that must be deposited in the Indeval. The brokers, banks and other Mexican or foreign financial institutions, other entities authorized by the CNBV as participants in the Indeval, may keep accounts with the Indeval. Pursuant to the laws of Mexico, only the people registered in the shareholders registry or the holders of the certificates issued by the Indeval or the participants in the Indeval will be recognized as shareholders. Pursuant to the Securities Market Law, the certificates issued by Indeval, jointly with the evidence issued by the participants in the Indeval, are sufficient evidence to prove the ownership of the Shares and to exercise the rights attributable to such Shares at shareholders' meetings or for any other matter.

Preemptive Right

In accordance with the Company's bylaws, the Company's shareholders have preemptive rights with respect to all share issues or capital stock increases, except in certain cases. Generally, if the Company issues additional shares, the shareholders are entitled to subscribe the number of new shares of the same series that is sufficient for such shareholder to keep its same percentage interest in shares of such series. Shareholders must exercise their preemptive right in the timeframes set at the meeting that approves the issuance of the additional shares in question. This period may not be shorter than 15 days following the publication of the relevant notice in the electronic system established by the Ministry of the Economy or any other legally permitted means.

According to the laws of Mexico, the shareholders cannot waive their preemptive right in advance and the preemptive rights cannot be represented by a negotiable instrument, regardless of the relevant share. The preemptive rights do not apply to (i) shares issued by the Company with respect to mergers, (ii) shares issued with respect to the conversion of convertible securities, the issue of which has been approved by the shareholders, (iii) shares issued with respect to the capitalization of accounts specified in the balance sheet or dividends in shares, (iv) the subscription of shares deposited in the treasury as a result of the repurchase of such shares by the Company in the BMV and (v) shares that are subscribed as part of the public offering pursuant to article 53 of the Securities Market Law, in the event that the issuance of such shares is approved at a general shareholders' meeting.

It is possible that foreign shareholders are unable to exercise the preemptive rights in case of future capital increases, unless certain conditions are met. The Company is not required to adopt any measure or obtain any necessary authorization to allow such exercise. See *"Risk factors – It is possible that the preemptive rights to subscribe shares of the Company may not be available to foreign shareholders".*

Redemption The Company's bylaws provide that the Company may redeem its shares with distributable profits without reducing its capital stock if approved by a resolution of a general extraordinary shareholders' meeting. The redemption must be carried out pursuant to the terms set forth at a general extraordinary shareholders' meeting, on a pro-rata basis, or with respect to shares chosen collectively.

Minority rights Pursuant to the Securities Market Law and the General Law of Companies, the bylaws include certain protections for minority shareholders. These minority protections include:

1. The holders who own at least 10% of the total outstanding voting capital stock may: request the call for a general shareholders' meeting; request that the resolutions regarding any matter of which they were not sufficiently informed be adjourned; and appoint or revoke a member of the board of directors, and his/her respective alternate.

2. The holders who own at least 20% of the outstanding capital stock: may judicially object to the resolutions adopted at a shareholders' meeting, provided certain requirements are met, such as (i) that the resolution contravenes applicable law or the bylaws; (ii) that the objecting shareholder has not attended the meeting or has not voted in favor of such resolution and (iii) that the objecting shareholder file a document to the court that guarantees the payment of any damage that may result from the suspension of the adopted resolution if such court rules against the objecting shareholder; and

3. Additionally, the shareholders that own at least 5% or more of the capital stock: may exercise the action for liability provided by the Securities Market Law, against any or all of the relevant directors or executives, for damages caused due to breaching their duties of diligence and loyalty. This liability will be exclusively for the benefit of the Company and the actions to exercise it will expire in five years.

4. The shareholders that represent at least 10% of the Company's capital stock may request to the Company to register and make public the Shares of the Company in a securities registry and a stock exchange or in any other reputable market. Additionally, the Company is required to cooperate with such shareholders in case of intending to carry out a sale of its Shares through a public offering.

The rights granted to minority shareholders under the laws of Mexico are different from those granted in the United States and in many other jurisdictions. The duties of loyalty and diligence of the directors have not been subject to broad judicial interpretation in Mexico, as opposed to many states of the United States where the duty of diligence and loyalty developed through judicial resolutions helps define the rights of minority shareholders.

As a result of such factors, in practice, it may be more difficult for minority shareholders to exercise rights against the Company, the directors or majority shareholders than it would be, for example, for the shareholders of a US company.

Measures aimed at preventing certain Acquisitions

The bylaws provide that any transfer of more than 10% of the shares, in one or more transactions by any person or group of people acting jointly, requires the prior approval of the Board of Directors, except for certain permitted transfers pursuant to the bylaws.

For purposes of the foregoing, a request for authorization in writing must be submitted, addressed to the Chairman and to the Secretary of the Board of Directors. Such request must contain, among other information, the following: (i) the number and class of the shares issued by the Company that belong to the person or group of people that intend to make the purchase; (ii) the number and class of the shares or rights thereon, subject matter of the acquisition; (iii) the identity and nationality of each of the potential acquirers; and (iv) a statement on the intention to acquire material influence (as such term is defined in the Securities Market Law) or Control (as such term is defined in the bylaws) over the Company. The Board of Directors must issue its resolution within a maximum term of three (3) months counted from the date on which the relevant request is submitted or the date on which it received all the additional information that it requested, as applicable.

The measures described above will not apply to transfers made through one or more of the following acts: a) transfer of shares through inheritance; b) the increases to the percentages of shareholding interests due to capital stock reductions or increases resolved by the Shareholders' Meeting of the Company, c) mergers of the Company with other companies, unless they are mergers with companies that are members of a business group different from the group led by the Company, d). acquisitions in compliance with a final and unappealable judgment declared by a competent judicial authority, and e) the free gift shares received by descendants from their direct ascendants, or by ascendants from their direct descendants, provided that the shares received are not gifted by the ascendant to another direct descendant without limitation of degree.

Listing Suspension or Cancellation of the Registration of the Shares in the RNV

If the Company decides to cancel the registration of the shares in the RNV, or if it is cancelled by the CNBV, the Company must make a tender offer with respect to all the outstanding shares, held by minority shareholders, before proceeding with such cancellation. Such offer will only be extended to persons that do not belong to the group of shareholders that exercises control over the Company. The shareholders who have "control", as defined in the relevant provisions of the Securities Market Law, are those that own the majority of the shares, have the capacity to control the results of the decisions adopted at the shareholders' meeting or have the possibility to appoint or revoke the appointment of the majority of the members of the board of directors, executives or equivalent officers, or that may control, directly or indirectly, the management, strategy or main policies of the Company. If upon the completion of the tender offer there are still shares held by the investing public, the Company may be required to create a trust within a six-month term and contribute to such trust funds for an amount sufficient to acquire, at the same price offered in the tender offer, all the shares held by the investing public that had not been sold as a result of the offer.

Except as otherwise authorized by the CNBV, the offer price, for the case of cancellation of registration in the RNV, must be the higher between (i) the weighted average of the closing prices of such shares in the BMV during the last 30 days of trading and (ii) the carrying value of such shares reported in the last quarterly report filed to the CNBV and the BMV.

The voluntary cancellation of the registration will be subject, among others, to (i) the prior authorization of the CNBV, and (ii) the affirmative vote of at least 95% of the shares representing the capital stock, gathered at a general extraordinary shareholders' meeting.

Additional Aspects

Loss of the Right on the Shares

In compliance with the provisions of the laws of Mexico, the bylaws provide that foreign shareholders will be deemed Mexican for purposes of the shares that they hold, exclusive rights, concessions, participations and interest of the Company, and the rights and obligations resulting from any agreement that the Company enters into with the Mexican government. In accordance with this provision, the Company considers that foreign shareholders have agreed to refrain from requesting the protection of their governments. In case of breach of such agreement, they will be subject to the penalty of losing their rights on their shares or interest in the capital stock, for the benefit of the Mexican government.

The laws of Mexico require that such provision be included in the bylaws of all Mexican companies, unless the bylaws ban foreigners from holding shares.

Purchase of own shares

Pursuant to the bylaws, the Company may repurchase its own Shares in the BMV at any time at the market price in effect at that time. Any purchase in these terms must adjust to the provisions of the laws of Mexico and the maximum amount authorized for share repurchases must be approved by an ordinary general shareholders' meeting. The economic and voting rights corresponding to the repurchased shares may not be exercised during the period in which the Company holds such shares and they will not be considered outstanding shares for purposes of any quorum or any voting at any shareholders' meeting during such period.

Conflicts of Interest

Pursuant to the Securities Market Law, a shareholder that in a certain transaction has by itself or on another's behalf an interest contrary to that of the Company, must refrain from any discussion regarding such transaction. Shareholders that contravenes this provision, will be liable for damages, when without their vote the majority required for the validity of the determination would have not been achieved.

Any member of the Board of Directors or any member of the committee that performs the audit or corporate practices duties who has a conflict of interest with the Company must report such conflict and refrain from any discussion or voting regarding thereto. The breach by any member of the Board of Directors or of the aforementioned committee of such obligation may result in liability for damages caused by such member.

Right of Withdrawal

If the shareholders' meeting approves the amendment to the corporate purpose, the change of nationality or the conversion of the Company from one type of company to another, any shareholder that having the right to vote with respect to such change has voted against it, will be entitled to exercise its right of withdrawal from the Company, as applicable, and receive the value of his contributions, provided that, among other things, it exercises such right pursuant to the law and bylaws within 15 days following the closing date of the meeting that approved the change.

Shareholders' Agreement

On September 23, 2016, *Juan Francisco Beckmann Vidal* and *Juan Domingo Beckmann Legorreta*, in their capacity as shareholders of the Company, entered into a Shareholders' Agreement to regulate certain aspects of their interest in the capital stock of the Company.

The Shareholders' Agreement includes certain rights that are common in this kind of agreements, such as preemptive rights in the event of transfer of Shares, tag-along rights in the event of sale by any of the shareholders, and non-compete obligations.

In terms of the Shareholders' Agreement, the parties to such Agreement agreed to vote their Shares in favor of proposing and approving the distribution of dividends, annually, in accordance with provisions of the *"Dividends and Dividends Policy"* section.

Likewise, the Shareholders' Agreement includes certain significant matters, which will require the approval of the shareholders that hold 60% of the Shares (i.e., both shareholders that are parties to the Shareholders' Agreement) or 60% of the members of the Board of Directors to approve them.

Additionally, the Shareholders' Agreement provides that the parties must agree, jointly, on the sale of control of the Company to third parties, the merger of the Company or the sale of all or a substantial part of its assets.

5) <u>CAPITAL MARKETS</u>

A) SHAREHOLDING STRUCTURE

As of the date of this Report, the shares representing the capital stock of the Company are “Single” series, common, ordinary, registered shares, without par value, which are registered in the RNV. Such shares started trading in the BMV on February 9, 2017, when the Company made its initial public offering.

B) BEHAVIOR OF THE SHARES IN THE SECURITIES MARKET

The following chart shows the maximum and minimum trading prices of the Shares in the BMV:

Monthly Behavior

Period	Maximum	Minimum	Closing	Shares (Daily Average Vol.)	Shares (Total Traded)	Amount ($)
January	34.10	31.50	33.86	1,219,233	26,823,131	886,851,899
February	34.77	32.16	34.77	1,157,107	21,985,037	740,656,192
March	36.90	35.46	36.90	2,115,777	42,315,546	1,542,570,096
April	36.49	31.68	31.68	2,312,532	48,563,166	1,682,902,854
May	32.36	30.31	32.36	2,655,595	58,423,088	1,831,729,026
June	31.96	28.43	28.73	3,090,353	64,897,406	1,944,351,569
July	30.25	25.97	25.97	5,889,131	129,560,880	3,550,975,769
August	27.05	25.60	27.05	5,062,619	116,440,240	3,035,065,462
September	30.33	27.13	30.33	2,854,224	57,084,477	1,643,404,119
October	31.34	24.69	24.95	3,240,426	74,529,787	2,035,741,614
November	25.61	22.40	25.61	3,438,573	68,771,467	1,627,956,474
December	26.26	23.39	26.26	1,669,446	31,719,483	780,082,651

Period	Volume	Maximum	Minimum	Closing
2017				
February (starting February 9,2017)	2,275,958,223	35.90	30.63	32.95
March	2,193,469,759	33.07	30.79	33.07
April	1,222,440,252	32.99	30.51	31.50
May	1,627,990,037	32.84	31.16	32.28
June	2,826,277,745	33.45	30.93	30.93
July	2,529,475,157	31.44	29.67	30.01
August	2,003,726,042	31.85	30.31	31.29
September	1,965,757,041	31.94	29.99	30.60
October	899,863,006	30.71	28.58	30.71
November	939,537,177	32.29	30.58	31.00
December	622,160,827	31.89	30.65	31.50

The trading prices of the Shares will be affected by the financial position, the results of operations, funding requirements and outlook of the Company, and by other economic and financial factors and market conditions. See *"1) Overview – c) Risk Factors".* We cannot assure that the trading prices of the Shares will be maintained within the aforementioned margins.

C) MARKET MAKER

The Company did not receive services from market makers.

6) RESPONSIBLE PERSONS

We, the undersigned state under oath that, within the scope of our respective duties, we prepared the information regarding the Company contained in this annual report, which, to the best of our knowledge, reasonably reflects its condition. Likewise, we state that we are not aware of relevant information that has been omitted or misrepresented in this annual report or that it contains information that may mislead investors.

Becle, S.A.B. de C.V.

Juan Domingo Beckmann Legorreta
Chief Executive Officer

Fernando Suarez Gerard
Chief Financial Officer

Pedro Pablo Barragán Barragán
General Counsel

[Translation for informational purposes only]

EXTERNAL AUDITOR STATEMENTS

In strict compliance with the provisions of article 33, section I, subsection b), paragraph 1, subparagraph 1.2 of the General Regulations Applicable to Issuers of Securities and Other Participants in the Securities Market (Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores), and exclusively in connection with the audited consolidated financial statements of Becle, S.A.B. de C.V. (the "Issuer") as of December 31 of 2018, 2017 and 2016, and for the years ended as of such dates, which are included as an exhibit to this Annual Report, and any other financial information incorporated by reference in this Annual Report, the source of which is the aforementioned audited financial statements, the following mandatory caption is issued:

The undersigned states under oath that the financial statements contained in this annual report for the fiscal years ended December 31, 2018, 2017 and 2016 were audited on March 22, 2019, in accordance with the International Standards on Auditing.

Likewise, I state that I have read this annual report and based on my reading and within the scope of the audit work performed, I am not aware of relevant mistakes or inconsistencies in the information included, the source of which comes from the audited financial statements mentioned in the previous paragraph, or of information that has been omitted or misrepresented in this annual report or that it contains information that may mislead investors.

However, the undersigned was not retained and did not perform additional proceedings to state his opinion regarding other information contained in this annual report that does not come from the financial statements audited by him.

KPMG Cárdenas Dosal, S.C.

Miguel León Vadillo

Audit Partner

[●]

Legal representative

Exhibit 1

FINANCIAL STATEMENTS

Consolidated financial statements as of December 31, 2018, 2017 and 2016, and for the years ended on those dates

[Translation for informational purposes only]

Exhibit 2

LETTER ISSUED BY THE EXTERNAL AUDITOR

Mexico City, Mexico, April 30, 2019.

To the Board of Directors and Shareholders of:
Becle, S.A.B. de C.V. and subsidiaries

In connection with the audit of the consolidated financial statements of Becle, S.A.B. de C.V. and subsidiaries (the "Issuer") for the year ended as of December 31, 2018, pursuant to article 37 of the "General provisions applicable to entities and issuers overseen by the National Banking and Securities Commission that hire external audit of basic financial statements services" (*Disposiciones de carácter general aplicables a las entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos*) (the Provisions, also known as Single External Auditors Circular Letter (*Circular Única de Auditores Externos*) or CUAE), issued by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) (the "Commission") and published in the Official Federal Gazette (*Diario Oficial de la Federación*) on April 26, 2018, I hereby, under oath, state the following:

I. I am a Certified Public Accountant (Bachelor's Degree in Public Accounting) and have obtained current certification number 12841 issued for such purpose by the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A.C.). Furthermore, I have met the requirements set forth in articles 4 and 5 of the CUAE, mentioned below:

Article 4.

(i) I am a Partner at KPMG Cárdenas Dosal, S.C. (the "Firm" or "KPMG"), which was hired by the Issuer to provide external audit of basic financial statements services. The Firm complies with the provisions of articles 9 and 10 of the CUAE.

(ii) Both KPMG and the undersigned have a current registration issued by the General Administration of Federal Tax Audit (*Administración General de Auditoría Fiscal Federal*) of the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*). Their registration numbers are: for the Public Accountant, 17120 issued on March 4, 2015, and for KPMG it is 101 issued on April 28, 1993.

(iii) I have professional experience of at least ten years in external audit work.

Article 5.

i. I am independent in terms of article 6 of the CUAE.

ii. I have neither been expelled nor suspended regarding my rights as a member of the Mexican Institute of Public Accountants (Instituto Mexicano de Contadores Públicos, A.C.)

iii. I have not been condemned by an irrevocable judgment due to property or deceit crimes that has warranted imprisonment.

iv. I am not barred from engaging in trade or from holding a job, position or commission in public service or in the Mexican financial system and have not been declared bankrupt or insolvent without having been reinstated.

v. I have no background of having a suspension or cancellation of a certification or registration that is required for me to act as an independent external auditor for reasons attributable to myself, and which had been caused by willful misconduct or bad faith.

vi. I have not been and have not received an offer to be a director or officer of the Issuer, or, as applicable, of its holding company, subsidiaries, associates, entities with which joint control arrangements are made or legal persons that are part of the same Business Group or Consortium.

vii. I have no pending litigation with the Issuer or, as appropriate, with its holding company, subsidiaries, associates, entities with which joint control arrangements are made or legal persons that are part of the same Business Group or Consortium.

II. From the date I provided the external audit services, during the performance of such audit and until the issuance of the external audit report, as well as the releases and opinions required pursuant to the provisions of article 15 of the CUAE, I comply with the requirements referred to in articles 4 and 5 mentioned above. Furthermore, KPMG and the persons who comprise the audit team comply with the provisions of articles 6, 7, 9 and 10, in connection with article 14 of the CUAE.

III. KPMG has documentary evidence of the implementation of the quality control system referred to in article 9 of the CUAE and it is involved in a quality assessment program that complies with the requirements set forth in Article 12 of the CUAE.

Likewise, I grant my consent to provide to the Commission the information requested of me so as to verify compliance with the aforementioned requirements. Additionally KPMG is hereby required to keep the information that supports compliance with the aforementioned requirements, either physically or through digital format images, in magnetic or optical media, for a minimum term of five years following the completion of the audit of the basic financial statements of the Issuer.

I also mention that the undersigned as the partner responsible for the independent external audit, I have been engaged in such capacity in the audit of the Issuer for 1 year, and that KPMG has audited the Issuer since 2017.

This letter is only issued for the purpose referred to in the first paragraph hereof, and for purposes of informing the Shareholders, the Board of Directors, the Audit Committee and the Commission, therefore, it shall not be used for other purposes or be distributed to other parties.

KPMG Cárdenas Dosal, S.C.

[*Illegible signature*]
Miguel León Vadillo, C.P.A.
Audit Partner

[Translation for informational purposes only]

Mexico City, Mexico, April 30, 2019

To the Board of Directors and Shareholders
Becle, S.A.B. de C.V. and subsidiaries

Pursuant to article 39 of the "*General provisions applicable to entities and issuers overseen by the National Banking and Securities Commission that hire external audit of basic financial statements services*" (*Disposiciones de carácter general aplicables a las entidades y emisoras supervisadas por la Comisión Nacional Bancaria y de Valores que contraten servicios de auditoría externa de estados financieros básicos*) (the Provisions, also known as Single External Auditors Circular Letter (*Circular Única de Auditores Externos*) or CUAE), issued by the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*) (the "Commission") and published in the Official Federal Gazette (*Diario Oficial de la Federación*) on April 26, 2018, and pursuant to article 84 bis of the "General regulations applicable to issuers of securities and other participants in the securities market (*Disposiciones de Carácter General Aplicables a las Emisoras de Valores y a Otros Participantes del Mercado de Valores*), published in the Official Federal Gazette on March 19, 2003 and its respective amendments, both KPMG Cárdenas Dosal, S.C., and the undersigned partner, express our consent for Becle, S.A.B. de C.V. and subsidiaries (the "Issuer") to include as an exhibit to the annual report filed for the 2018 year ("Annual Report"), before the Commission and Bolsa Mexicana de Valores, S.A.B. de C.V., the audit report which I issued on March 22, 2019, of the consolidated financial statements of the Issuer as of December 31, 2018, 2017 and 2016 and for the years ended as of such dates (the "Financial Statements"). The foregoing, provided that before their inclusion, we made sure that the information contained in the Financial Statements included as an exhibit to the Annual Report, and any other financial information included in the Annual Report, the source of which is the aforementioned Financial Statements or the External Audit Report filed for such purpose by the Issuer, corresponds to the audited information, in order to make such information public.

Sincerely,

KPMG Cárdenas Dosal, S.C.

[*Illegible signature*]
Miguel León Vadillo, C.P.A.
Partner

[*Illegible signature*]
Mario Carrillo Villalpando
Attorney-in-fact

[Translation for informational purposes only]

Exhibit 3

REPORT OF THE ISSUER'S AUDIT AND CORPORATE PRACTICES COMMITTEE FOR FISCAL YEAR 2018

Mexico City, March 16, 2019.

Board of Directors of
Becle, S.A.B. de C.V.

Dear sirs:

Based on the provisions of Article 43, sections I and II of the Securities Market Law and the Thirtieth Article of the Bylaws, in my capacity as Chairman of the Audit and Corporate Practices Committee of Becle, S.A.B. de C.V., (the Company), I submit the Annual Report approved by all the members of such Committee, with respect to the activities carried out during the period from January 1 to December 31, 2018.

In consideration of the provisions contained in the Securities Market Law, the Committee focused on this period generally and mainly to:

1. Perform the auditing and corporate practices activities that the law confers on them to support the Board of Directors.
2. Hold quarterly meetings with the Board of Directors.

With respect to specific items corresponding to the duties approved for this Committee, we inform the following results:

INTERNAL CONTROL.

- We verified that the Company's Management established the general guidelines on internal control, and the required processes for its enforcement and compliance, with the support of the Internal and External Auditors. Likewise, we followed up promptly on the observations made in this regard that were made in each of the Committees.

- We reviewed and updated the Share Repurchase Program.

- We reviewed and approved of various internal transactions aimed at maintaining the health and financial stability of the company, such as adopting the IFRS16 system, reviewing the progress of the BPC project and cleaning intercompany balances.

RELATED PARTY TRANSACTIONS.

- Each and every related party transaction to be entered into in 2018 was reviewed and recommended to the Board of Directors for its approval.

INTERNAL AUDIT.

- We reviewed and approved the annual work program for 2018, and the structure of the department to perform the department's activities. Additionally, the "audit charter" and the global structure required for it were submitted for authorization.

- In each of the meetings of this Committee, periodic reports on the progress of the approved work program were received and approved. Similarly, the relevant observations and findings presented in the different meetings were followed up until the conclusion of the topics, placing special emphasis on those matters that could be considered high risk matters.

EXTERNAL AUDIT.

- We approved to recommend to the Board of Directors the ratification of the firm KPMG Cárdenas Dosal, S.C., as independent external auditor of the Company.

- The external auditor's work program was authorized, and the progress made in each Committee was reviewed. Likewise, the observations and comments they had with respect to the quarterly and annual financial statements were reviewed.

- Lastly, we evaluated the service provided by the external auditor for 2018.

ADDITIONAL SERVICES PROVIDED BY THE EXTERNAL AUDITOR.

- We approved retaining of KPMG Cárdenas Dosal, S.C. to provide various services other than external auditing, among which the following stand out: Internal Control and Compliance with the CUAE.

FINANCIAL STATEMENTS.

- Together with the Chief Financial and Administration Officer and the external auditor, we performed a detailed review of the quarterly financial statements of the Company, therefore, in all cases we recommended it to the Board of Directors for its approval and respective publication.

ACCOUNTING POLICIES.

- We reviewed the main accounting policies and criteria used for the preparation of the financial information and its accounting record, always being adequate and consistent with any changes that may have occurred in the International Financial Reporting Standards. Therefore, we concluded that the financial information presented to the Board of Directors at all times materially and reasonably reflected the Company's financial position, results of operations, changes in equity and cash flows.

MONITORING OF LEGAL AND TAX CONTINGENCIES.

- We reviewed each of the legal and tax contingencies raised in the Committee and we promptly followed up on compliance with the agreements reached to address each of them.

COMPLIANCE WITH OPERATING GUIDELINES AND POLICIES.

- We analyzed all the issues raised by the Risk Committee, and the implementation and update of each of the cases that required preventive and corrective measures.

OBSERVATIONS AND COMPLAINTS FROM THIRD PARTIES.

- No significant or relevant matters were brought to our attention that could entail a failure to comply with the Company's policies.

FOLLOW-UP OF RESOLUTIONS OF THE SHAREHOLDERS' MEETING AND THE BOARD OF DIRECTORS.

- Compliance with the agreements reached at the annual shareholders' meeting and at the board of directors was followed up promptly.

In view of the foregoing, we recommend that the Board of Directors submit the consolidated financial statements of Becle, S.A.B. de C.V. for approval at the ordinary general shareholders' meeting for the fiscal year ended December 31, 2018.

Sincerely,

Rogelio Miguel Rebolledo Rojas
Chairman of the Audit and Corporate Practices Committee