Audited financial statements

Management comments on the 2016 fiscal year.

In 2016, Rotoplas has been on the market for two years as a public company; and in the challenging context which prevailed in the markets where we participate, we focused on the reconfiguration of our portfolio toward higher growth solutions, in order to reduce environmental negative impacts and to maintain profitability. The above allowed us to absorb the net sales decrease to some extent, with a decrease by 6.1% in comparison to 2015.

Sales in Mexico were affected by a lower demand for integrated solutions, mainly due to budget cuts that postponed government programs for this kind of solutions. On the other hand, individual solutions had a positive performance, resulting from increased demand by the traditional channel. Hence, the annual sales in Mexico decreased by 4.7% and representing 64.7% of the Company´s total revenue, while in 2015 they accounted for 63.7%.

It is important to mention that during 2016, income from the sale of integrated solutions with maintenance started to be recorded, both within the *Programa Nacional de Bebederos* (PNB) initiative in Mexico, and the commercialization of wastewater treatment plants, resulting from the incorporation of Sytesa, in September.

Furthermore, Brazil continued with a difficult political and economic environment, reducing considerably the demand for integrated solutions for access water and sanitation. As a result, necessary measures were implemented during the year to adjust operations to current sale levels to reduce fixed costs to minimize the negative impact. Therefore, sales registered a decrease of 63.8%, contributing only 7.6% of the Company´s total revenues, while in 2015 it represented 19.6%.

Other Countries[20] division, which includes our operations in the rest of Latin America, grew its sales 56.2%, thanks to increased demand for individual solutions, as well as the addition of sales from Talsar in Argentina from May, and the U.S.A. market penetration strategy. This segment contributed the 27.7% of total revenue in 2016, while it represented 16.7% in 2015.

20 It includes Grupo Rotopla's operations in Argentina, Belize, Chile, Costa Rica, El Salvador, United States, Guatemala, Honduras, Nicaragua and Peru, In the 2014 to 2016 period, growth greater than 11% of organic revenue was achieved, excluding sales to the Government channel and acquisitions; this shows the stability and profitability of the business core of the Company in the retail channel and sale of integrated solutions with maintenance for the private-commercial sector.

Regarding our portfolio, individual solutions represented the 92.8% of sales and increased by 10.9% compared to 2015, supported by higher sales in Mexico in the traditional channel and the section of Other Countries, by the acquisition of Talsar in Argentina.

Integrated solutions represented 7.2% of the total sales and decreased by 68.4% compared to 2015, primarily due to the difficult environment in Mexico and Brazil described above, which was partially balanced by higher sales of integrated solutions with maintenance in Mexico.

Gross profit margin increased by 180 basis points, due to better prices throughout the year, as well as a sales mix with higher-margin solutions.

Operating profit margin decreased by 80 basis points, as a result of the decrease in sales, resulting in low fixed-cost absorption, in addition to one timers 16 million Mexican pesos by operations adjustment during the year in Argentina and Brazil.

As a result of the foregoing, EBITDA margins decreased by 21.5% and (32.5%), in Mexico and Brazil, respectively. On the other hand, the profitability of the section of Other Countries increased 210 basis points up to 8.3%. An increase by 30 basis points up to a margin of 13.8% was obtained at a consolidated level.

In terms of solutions, the EBITDA margin of individual solutions decreased by 120 basis points due to a reduced ability to absorb fixed costs and expenses derived from a smaller volume of sales by the Company, as well as higher raw material costs resulting from the depreciation of the Mexican peso against the US dollar. On the other hand, the profitability of integrated solutions significantly increased by 26.0% from 11.9% a year before, due mainly to the incorporation of integrated solutions with maintenance.

It is important to note that net profit increased by 11.6% and its margin expanded by 130 basis points compared to the previous year. This is due to the efficient management of the Company´s non-operational resources together with the long-term purpose of value creation.