

Message from the CEO

(102-14, 102-15)

Dear stakeholders,

It has been a year of very important changes for Grupo Rotoplas, in which we have focused on the realignment of our business portfolio, concentrating our efforts on solutions with higher profitability and consistent growth. We have embraced this approach by optimizing our existing solution portfolio, as well as performing strategic acquisitions to reinforce it.

As a sign of our **financial strength**, we incorporated Talsar in Argentina and Sytesa in Mexico, with their portfolio of solutions regarding water heating, and wastewater treatment and water recycling, respectively. Also, confirming our **commitment with innovation**, we acquired a participation in the Advanced Innovation Center (AIC), a research center in Chile which focuses especially in the development of a plasma technology for water treatment: Plasma Water Sanitation System (PWSS), unique in the world. The above, has allowed us to minimize the impact of an economically complex environment in our major markets, Mexico and Brazil.

We are living a strategic transition from a position of a company that provides products and water solutions, towards a company that offers **services as well**. This transition is being obtained through the development of integrated solutions with maintenance, for which we are intensifying our activities in the targeted segments, as well as considering new sales channels. In addition, we are developing new business models, with special emphasis in **Rotoplas Labs**. This is **our platform** regarding **innovation**, whose purpose is to connect capabilities and technologies with communities that need water and sanitation solutions.

Even though the **accumulated sales** decreased by 6.1%, to \$5,353 million of Mexican pesos, despite the difficult environment above mentioned, consolidated sales of our individual solutions increased by 10.9%. However, integrated solutions, dependent on public investment, decreased by 68.4% for the lower demand from government programs in Brazil and the delay in the implementation of government initiatives in Mexico. Additionally, and to achieve greater stability in our results, we are reducing sales to the government channel, that has gone from 21% approximately of our total revenue in 2015 to less than 5% in 2016. Also, with the incorporation of Sytesa, we added integrated solutions and services with wide growth potential to our portfolio. Therefore, in terms of results, we reached an **EBITDA margin** of 30 points higher than the margin in 2015, and a growth in the **net profit** of 11.6%, reaching the sum of \$449 million Mexican pesos.

We continue building a solid company, which allows us to consistently **create value** for our different stakeholders. We constantly monitor water and sanitation needs to develop solutions that effectively address them; based on guidelines focused on high **operational efficiency** initiatives, through a work methodology based on processes and our employee's training. This way, we reinforce the company's ability to achieve our mission: "For people to have more and better water".

Being aware of the importance of a sustainability approach, during the year 2016, we decided to develop our **sustainability model**. This reflects how we create value for our different stakeholders and prioritize initiatives to be focused in the coming years. Our operations and solutions are intrinsically linked to sustainable development since they improve people's access to water and sanitation, contributing to the socio-economic development. It should be also pointed out that we formalized our commitment to the United Nations Global Compact and to move forward in the implementation of the 10 Principles promoted by this initiative, covering aspects of Human Rights, Labor, Environmental and Anti-corruption matters.

Talent is the force that moves us and we are committed to its development, so we promote communication with our employees, collaboration and teamwork. We ended the year with a community of 2,829 employees, adding new members to a diverse team. We understand our performance always attached to common values and to an organizational culture that we accomplish through the **Rotoplas Way**. We are pursuing that this shared understanding of who we are and how we work, is present in the company, to which we have carried out many awareness-raising activities, which are continuously enriched with the employees' feedback.

Water is a source of life and well-being, a resource that flows creating development and opportunities. Through initiatives such as "*Fan del agua*" (Water Fan) in Mexico, among others, we want to sensitize society to practice and strengthen **a culture of responsible use of water** in children, adolescents and adults. In addition, through our operations **we are participating in different stages of the water cycle**, especially through the reinforcement of our contribution in the treatment process for reintegration to the environment and/or re-utilization, thanks to the acquisition of Sytesa and its treatment plants, in this year.

We maintain our commitment with **innovation and quality of our solutions**, with a team which is proud of contributing to a better social and economic scenario, a context of water security, resilience to climate change, and improvement in the health of population, among other impacts. It has been a year in which we have consolidated the sustainability approach as part of our **corporate strategy towards 2019**, taking advantage of the potential of new business models that make emphasis on collaboration and on the user, as a part of the co-creation process facilitated by technological development.



We appreciate our employees' passion and commitment in the performance of their functions, we thank our customers and suppliers, shareholders and communities for their continuous trust in Grupo Rotoplas, and we reaffirm our commitment to face together future challenges.

Sincerely,

Carlos Rojas Mota Velasco
CEO and Chairman of the Board of Directors.