

# letter to shareholders



**In 2016, the world's economy kept up a modest pace of expansion, despite widespread uncertainty and volatility stirred up by geopolitical events like Brexit and the election of Donald Trump as President of the United States. The U.S. economy continued to generate jobs and to expand, despite a downturn in manufacturing and exports, because the largest component of the economy—consumption—remained strong.**

Furthermore, consumer confidence readings showed a marked improvement and various stock market indexes climbed to all-time highs. The Euro zone meanwhile improved with the help of an aggressive boost from the European Central Bank, which sought to encourage consumption and strengthen inflation.

Among emerging markets, specifically the BRIC countries, China's growth remained stable while Brazil and Russia continued mired in recession. Only India reported an acceleration of growth after a series of reforms. But the modest pace of global growth and gradual improvement in the price of oil and other commodities, coupled with global socio-political tensions, sparked a pronounced shift in investment toward those considered safe havens, resulting in a stronger dollar but hurting securities valuations and exchange rates in countries like ours.

In Mexico, economic growth was lower than in 2015 and once again significantly weaker than expected, dampened by shrinking production and oil prices alongside a drop in exports. Still, ongoing job generation, a growth in real wages, remittances and credit, along with a pickup in the housing industry and a strong growth in tourism, all buttressed domestic consumption and shored up the domestic economy. The marked uncertainty and volatility mentioned above, however, had a heavy impact on the exchange rate, inflation expectations and growth in the near future.

Faced with this scenario, KCM was able to bring in very good results, with record levels in net sales, net income and EBITDA.

Net sales grew by 11 percent, operating income by 12 percent, and net income by 11 percent, and we generated Ps.9.62 billion in EBITDA.

We attribute these strong results to a successful commercial strategy and stronger brand presence, which helped us weather exchange-rate fluctuations. Also important were our improved operating efficiency, cost savings and reduced use of energy and water, and the efforts of our "Less is more" Sustainable Innovation program. In fact, our cost- and expense-cutting program attained record results this year, equivalent to more than 5 percent of the cost of goods sold, which is up to world-class standards.

In the area of sustainability, the results achieved in our economic pillar were what supported our efforts in the social and occupational safety pillars, and our care for the environment.

In this report, which is entitled "More and better products for sustainable growth," we focus primarily on the following aspects:

1. The results of our materiality analysis, which provided up-to-date information on the issues our stakeholders consider most important for the company, and to compare them with the aspects KCM considers most important for good business management. This is why, in preparing this report, we used the G4 methodology suggested by the Global Reporting Initiative and the principles of Corporate Governance, Social Responsibility, and Environmental Care required by the institution in charge of evaluating issuers for inclusion in the Mexican Stock Exchange Sustainable IPC Index.

**Ps.9.62**  
billion in EBITDA



2. Our progress in the area of sustainability, particularly in environmental care and the generation of social value.

On the first point, throughout this report, and particularly in the Strategy chapter, we present the results of our materiality matrix and focus on providing a precise response to each of our stakeholder groups on the matters they consider most relevant.

On the second point, within our social pillar, we support 133 charitable institutions with cash and product donations. Most of them, as we detail in this report, are involved in helping differently-abled children or those with serious or terminal illnesses, as well as senior citizens living in old age homes, many of them suffering from the illnesses that come with advanced age and in need of solidarity and support.

At the same time, employees from various areas continued to participate in social volunteer efforts and support for their co-workers, families and neighboring communities through educational, cultural, personal advancement, health, industrial safety, civil protection and sporting activities.

In 2016, the company invested Ps.1.32 billion in CAPEX, generating jobs and enabling us to offer consumers hygiene and personal care product innovations to further improve their quality of life, underpinning our ongoing sustainable growth.

Also in 2016, we launched the “KCM Inspires” initiative, whose slogan is “Caring, educating, promoting,” and which groups together our various social responsibility projects and will bring us closer to stakeholders while magnifying the impact of these efforts.

Lastly, our KC-Professional business continued the “Your Health is in your Hands” program, which uses a new portfolio of products and educational information to help prevent illness through hand-washing and surface disinfection to avoid the spread of germs in public spaces and the workplace.

KCM is aware of its social responsibility within the industry and has signed the ten principles of the UN Global Compact (UNGC) for corporations, and the OCDE principles of Corporate Governance and Business Ethics.

In the matter of occupational safety, although our accident frequency rate was close to the target, our severity index was far from what we had hoped, so we are not satisfied with this result. Our policy is that the only truly outstanding result in the area of safety is zero accidents.

To this end, as part of our 2022 Sustainability Vision now in progress, we will reinforce our safety training and awareness programs, and are determined to set ambitious goals in this respect.

Finally, on the environmental protection pillar, we were able to meet practically all the targets in terms of both timeframe and quality. We continued to strengthen our performance in aspects such as water use per metric ton of production (an indicator where we remain a benchmark in our industry), procurement of sustainable fiber, use of recovered fiber, biodiversity and efficient energy consumption in our operations, among others.

With the aim of steadily reducing our GHG emissions and further reducing the cost of electrical energy we use, in the second quarter of 2016 we started up a cogeneration facility at our plant in Ramos Arizpe, Coahuila, which will produce electrical energy and steam. We plan to open a similar facility at our Bajío, Querétaro plant in the fourth quarter of 2017.

In logistics, we continued to increase the amount of finished product transported per kilometer traveled, optimizing packages and volume capacity, using more efficient transportation vehicles, training our operators and making optimum use of the fronthaul and backhaul systems.

Last year, KCM obtained some important recognitions for its sustainability programs, among them the Leadership distinction from the Carbon Disclosure Project (CDP) for the CDP Forests program, citing outstanding management of our value chain in sustainable raw materials.

In 2017 we will be setting targets for our 2022 Vision, based on various eco-efficiency product alternatives now being studied. We reiterate our commitment to achieving concrete results in areas related to environmental care and in favor of society.

We are grateful to all our personnel for their commitment, dedication and passion, which made possible these good financial results for 2016 and the advances that bring us ever closer to the 2022 Vision goals of our Sustainability Strategy.



**Pablo R. González G.**  
Chief Executive Officer