

FLOWING INTO THE FUTURE

ANNUAL INTEGRATED REPORT
2017

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FIGURE HIGHLIGHTS

(102-7)



COLLABORATORS



PLANTS AND 4
DISTRIBUTION
CENTERS



BILLION MEXICAN PESOS IN
REVENUES



WASTEWATER
TREATMENT PLANTS
(WWTP)



M³ OF TREATED WASTEWATER



MILLION MEXICAN PESOS OF NET
PROFIT



POINTS OF SALE



MILLION MEXICAN PESOS
INVESTED IN RESEARCH AND
DEVELOPMENT (R&D)



DIRECT CUSTOMERS (DISTRIBUTORS)



POINTS OF SERVICE
(DIRECT USERS)



COUNTRIES WITH ROTOPLAS
OPERATIONS



Rotoplas plants also operate as distribution centers.

GRUPO ROTOPLAS IN SHORT

(102-2, 102-4, 102-6, 102-16, 102-26)

With nearly 4 decades of experience and a culture of innovation and sustainability, at Grupo Rotoplas, we participate in every stage of the water cycle offering individual and integrated storage, waterflow, and improvement solutions. Driven by our mission and committed with meeting our customers' and users' needs, we continue to trigger and develop innovative solutions that help to improve the population's standard of living.



In 2017, we worked on updating our **2018-2020 Strategy**, aiming to integrate sustainability into the business processes, as well as to have a **greater focus on the needs of our customers and users** through our solutions and services; this Strategy was backed by our Board of Directors. Throughout the year, we confirmed our mission and restated our vision to bring coherence to the evolution that we expect for the business, standing as follows:

Mission:

FOR PEOPLE TO HAVE MORE AND BETTER WATER

Vision:

To offer non-centralized and sustainable water solutions, with relevant benefits to our customers, within the Rotoplas Way.



Our values:



Collaboration

We have a committed attitude, which enables us to align our efforts and work with joint responsibility to achieve a common goal.



Service-oriented Attitude

We identify the needs of our internal and external clients and focus our efforts on achieving and surpassing the level of service they expect.



Social and Environmental Responsibility

We are committed to generating actions that will foster the wellbeing, standard of living, and care for the environment in all the communities where we are present.



Humility

We display an attitude that enables us to accept other points of view, valuing the contributions that others make and encouraging constructive feedback.



Passion for Business

We share the conviction, enthusiasm, and commitment to do our best and make things happen.



Integrity

We act with honesty, fairness, and ethics, being consistent in what we think, say, and do.

OUR PRESENCE

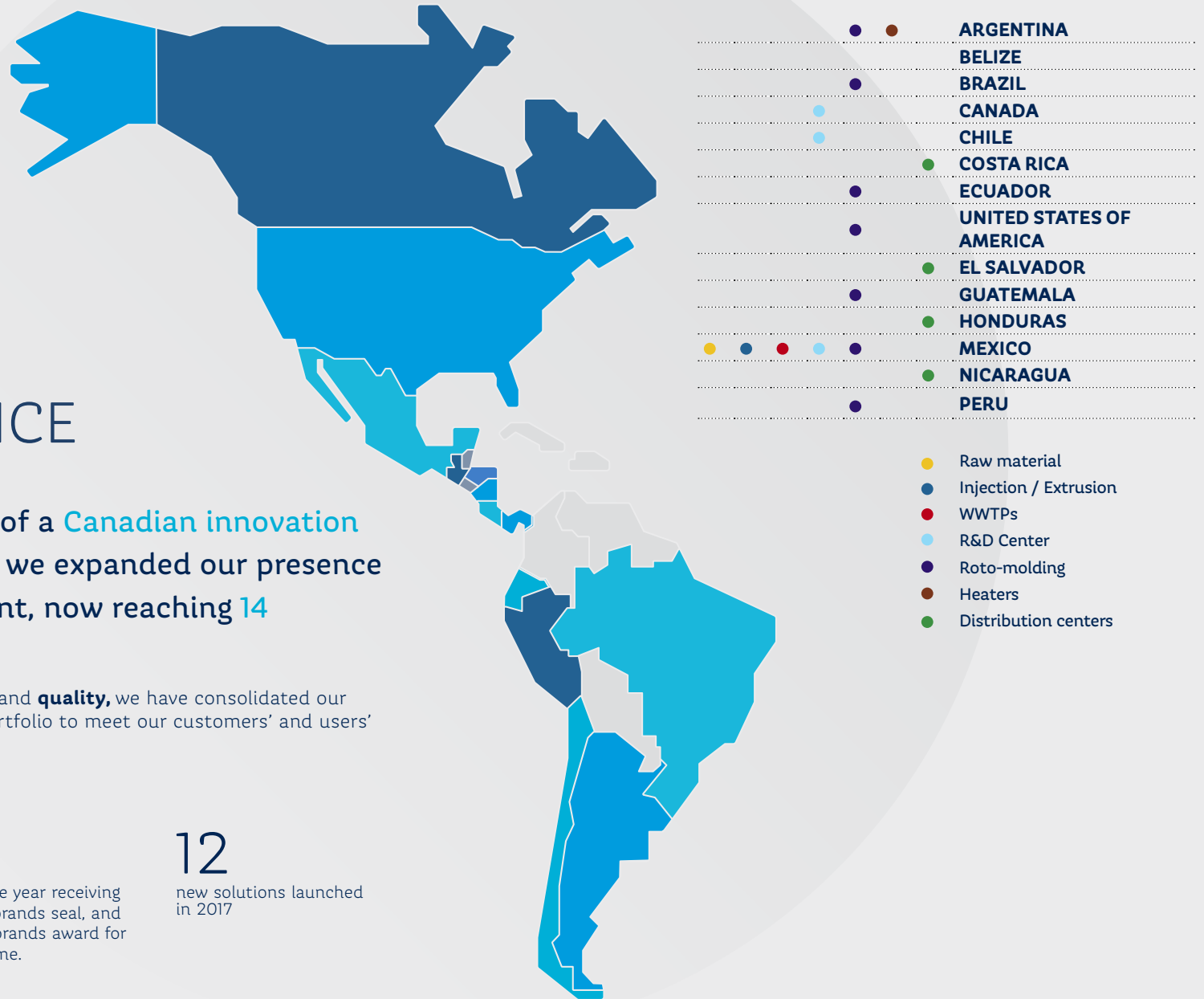
Through the acquisition of a **Canadian innovation center Sanzfield in 2017**, we expanded our presence in the American continent, now reaching **14 countries**.

With a focus on **service, innovation, and quality**, we have consolidated our individual and integrated solutions portfolio to meet our customers' and users' **water and sanitation needs**.

3
innovation centers enable us to generate state-of-the-art solutions with the highest technology and quality.

4th
consecutive year receiving the Superbrands seal, and the Greenbrands award for the first time.

12
new solutions launched in 2017



INDIVIDUAL SOLUTIONS

The individual solutions in its **storage, waterflow, and improvement** categories offer a range of solutions to improve water management in both urbanized and rural environments, destined mainly to home improvement stores, construction companies, government agencies, and non-governmental organizations (NGOs).



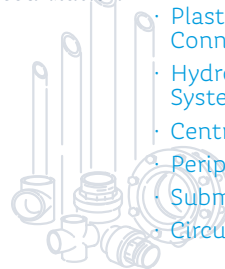
STORAGE

- Storage
 - Specialized storage
 - Water Harvesting
 - Accessories
- Water tanks, Cistern, and Accessories
 - Urban Rainwater Harvesting System
 - Tanks for Water and Chemicals
 - Inductor tanks
 - Horizontal tanks
 - Feeders



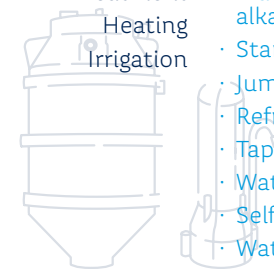
WATERFLOW

- Pipes
 - Valves
 - Connectors
 - Pressurization
- Hydraulic Tuboplus pipe
 - Tuboplus Fortech-CT@ pipe
 - Valves
 - Plastic Bolts and Connectors
 - Hydropneumatic Systems
 - Centrifugal Pump
 - Peripheral Pump
 - Submersible Pump
 - Circulation Pump



IMPROVEMENT

- Sanitation
 - Purification
 - Filtering
 - Treatment
 - Heating
 - Irrigation
- On-Sink Purifier
 - Under-sink Purifier
 - Reverse Osmosis Purifier
 - Water purifier and alkalinizer
 - Standard Filter
 - Jumbo Filter
 - Refrigerator Water Filter
 - Tap Water Filter
 - Water Filter Jug
 - Self-Cleaning biodigestor
 - Water Heaters (Arg.)
 - Heaters (Peru)
 - Family-Orchard-Type Agricultural Irrigation System



INTEGRATED SOLUTIONS

Integrated solutions cover more complex water and sanitation needs and/or those with a greater scope, including value-added services, such as engineering, installation, training site development, operation, and maintenance. These solutions are designed for individuals, industrial, or commercial customers who seek an efficient use of water for their operations, as well as for government entities and NGOs that develop water and sanitation projects.

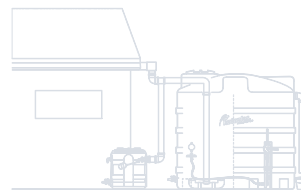


SELF-SUSTAINING



- Rural Rainwater Harvesting System
- Outdoor toilet with biodigester

WITH MAINTENANCE SERVICE



- Drinking water fountains
- Water purifying plant
- Wastewater treatment and recycling plants
- Purified Drinking Water Service

LETTER FROM THE CHAIRMAN

(102-14, 102-15)

In 2017, Rotoplas consolidated its position as a leading company in the development and sale of water solutions focused on innovation and sustainability. Throughout this year, we completed the integration of our most recent acquisitions and capitalized on new opportunities to enhance our research and development department and increase our market share in the US. Likewise, we obtained several international awards to our performance in sustainability.

This year, we launched 12 new solutions developed in our R&D center in Leon, Guanajuato, and acquired a Canadian innovation center Sanzfield, which specializes in the development of wastewater treatment and recycling systems. It is also worth noting the strategic acquisition of the leading e-commerce platform for water storage solutions in the US, which will enable us to strengthen our presence in that important market and leverage the synergies obtained throughout our other operations. Moreover, we successfully completed the integration of Sytesa in Mexico, and Talsar in Argentina.

Thanks to all this, total revenues amounted to \$6.66 billion Mexican pesos and EBITDA to \$1.004 billion Mexican pesos, which translates into 24.4% and 36.1% increases, respectively. EBITDA margin settled at 15.1%, 130 basis points higher than in 2016, while our net profit grew 18.7%.

I would also like to note that, as a result of our efforts and commitment to our Sustainability Model, we issued the first Sustainable Bond in Latin America, worth \$2 billion Mexican pesos. This issuance, which adheres to international standards, will enable us to finance and refinance projects with environmental and social benefits, as well as to contribute to the achievement of various Sustainable Development Goals. Our performance in sustainability was recognized through our entry into the Dow Jones Sustainability MILA Pacific Alliance index and the Greenbrand award, which acknowledges us as one of the most prestigious brands in the market.

On the other hand, we should also mention the response of our company and collaborators to the tragedy of the earthquakes that hit Mexico in 2017. To show our solidarity with the victims, we launched the Water for Affected Areas Program, which benefited over 600 thousand victims through water purifying plants, outdoor toilets with biodigester at shelters, and water storage tanks.

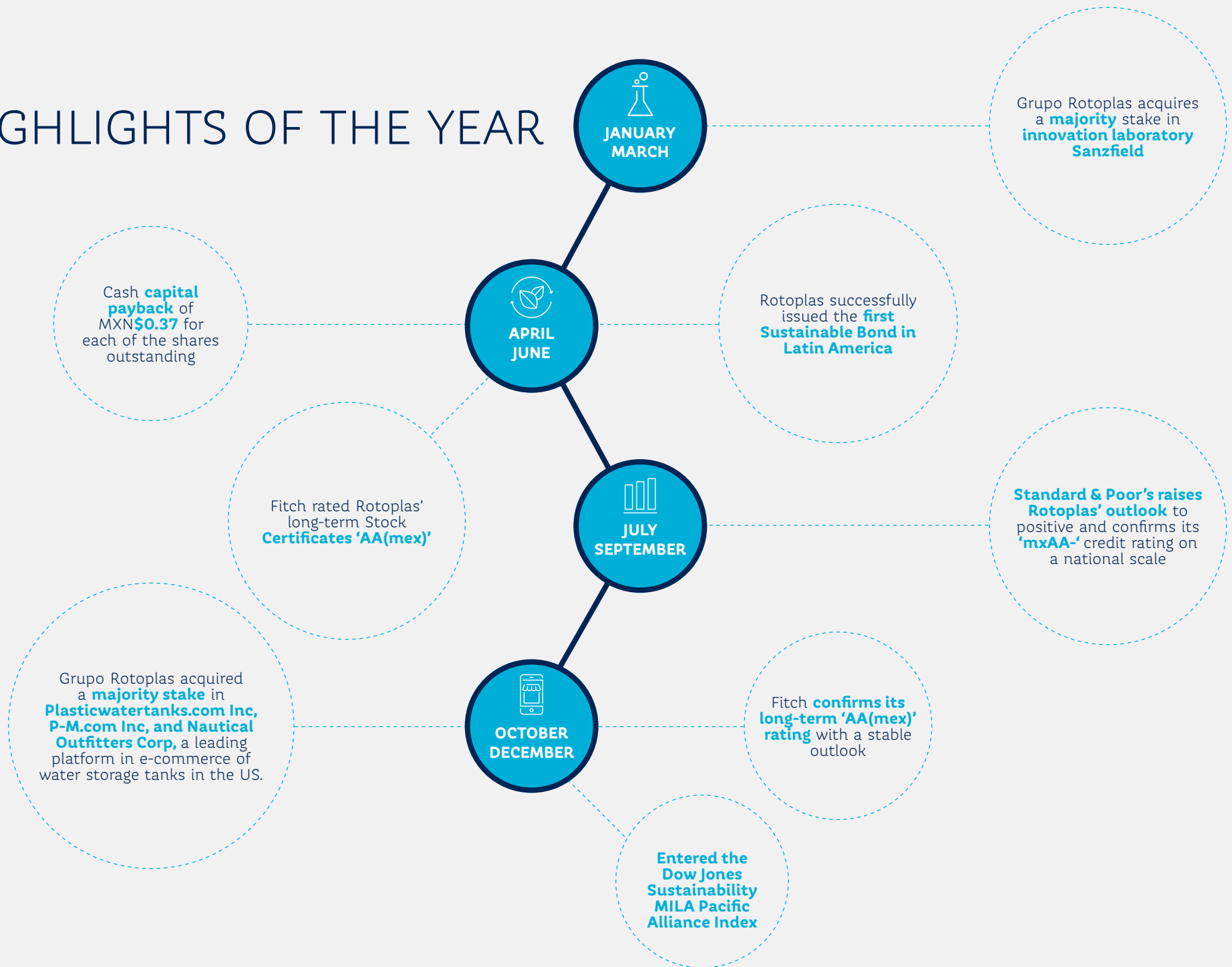
Lastly, I would like to reiterate Grupo Rotoplas' commitment with its mission, sustainability, and the 10 principles of the United Nation's Global Compact regarding human rights, employment and environmental issues, and anticorruption.



I wish to thank our **board members and collaborators** who, through their effort and commitment, make it possible for us to meet our goals and serve our clients, suppliers, shareholders, and users who, by giving us their trust, enable us to realize our mission for people to have **more and better water**.

Carlos Rojas Mota Velasco CEO
and Chairman of the Board

HIGHLIGHTS OF THE YEAR



ECONOMIC RESULTS

(103-2, 103-3)

In order to ensure organic growth, we have reconfigured our portfolio to emphasize solutions with more profitable services that have greater growth potential. This reconfiguration also enables us to establish higher recurring revenues, thus reducing the volatility of our financial results.

\$6,660

BILLION MEXICAN PESOS IN REVENUES

We concluded the [integration of Sytesa and Talsar](#), acquired in 2016 and this year, we continued to make [strategic acquisitions](#) that strengthen our portfolio adding new platforms and favoring innovation, as in the case of the US [e-commerce platform](#) and Canadian innovation center [Sanzfield](#), respectively.

In 2017, the [reconfiguration of our portfolio](#) and the [successful integration of the acquisitions](#) made last year had a positive impact on both sales and EBITDA, proving [the strength of our brand](#) and our [leadership position](#) in the markets where we participate, as well as our bet on more profitable solutions. Our net revenues totaled \$6.660 billion Mexican pesos—a 24.4% increase from last year—mainly explained by the strong demand for our individual solutions in Mexico, Argentina, and Peru, and by the integration of the results of the acquisition of Sytesa and the e-commerce platform.

In 2017, we implemented a [strict cost and expense control](#), keeping a [base zero Budget](#), and we surveyed the [quality of our revenues](#), thus achieving a positive impact on the [profitability](#) of our operations. The gross profit margin decreased by 270 basis points,

given a lower capacity to absorb fixed costs in some countries where we operate, as well as extraordinary expenses and higher resin costs towards yearend, due to the natural disasters that took place.

Operating expenses decreased by 280 basis points as a percentage of sales, given a greater absorption capacity and expense-control discipline, mitigating the effects of the decrease in gross margin and despite the effect of extraordinary donations resulting from the implementation of the Water for Affected Areas Program (PAZA for its Spanish acronym) following the earthquakes in Mexico; this kept operating margin in line with the previous year's level. Along the same line, EBITDA margin grew by [130 basis points compared to the previous year](#).

Net profit [increased by 18.7% year over year](#), with a 40 basis-point decrease as a result of the extraordinary expenses mentioned above.

MAIN ECONOMIC FIGURES (in millions of Mexican pesos)				
	2015	2016	2017	Δ 17-16 (%)
Net revenues	5,700	5,353	6,660	24.4%
Costs	3,397	3,097	4,032	30.2%
Gross Profit	2,304	2,257	2,628	16.5%
Gross Profit margin (%)	40.4%	42.2%	39.5%	(270)pb
Expenses	1,641	1,677	1,899	13.2%
Operating Profit	662	580	730	25.9%
Operating Profit margin	11.6%	10.8%	11.0%	20bp
EBITDA	771	738	1,004	36.1%
EBITDA Margin (%)	13.5%	13.8%	15.1%	130bp
Net Profit	402	449	533	18.7%
Net Profit margin (%)	7.1%	8.4%	8.0%	(40)pb
Earnings per Share (in Mexican Pesos)	0.83	0.93	1.10	19%
Number of shares outstanding (in millions)	486	486	486	0%

CAPITALIZATION (in millions of Mexican pesos)				
	2015	2016	2017	Δ 17-16 (%)
Total Debt	1,217	1,243	1,976	59.0%
Total Shareholders' Equity	6,054	7,221	7,295	1.0%
Total Capitalization	7,270	8,568	9,271	9.5%

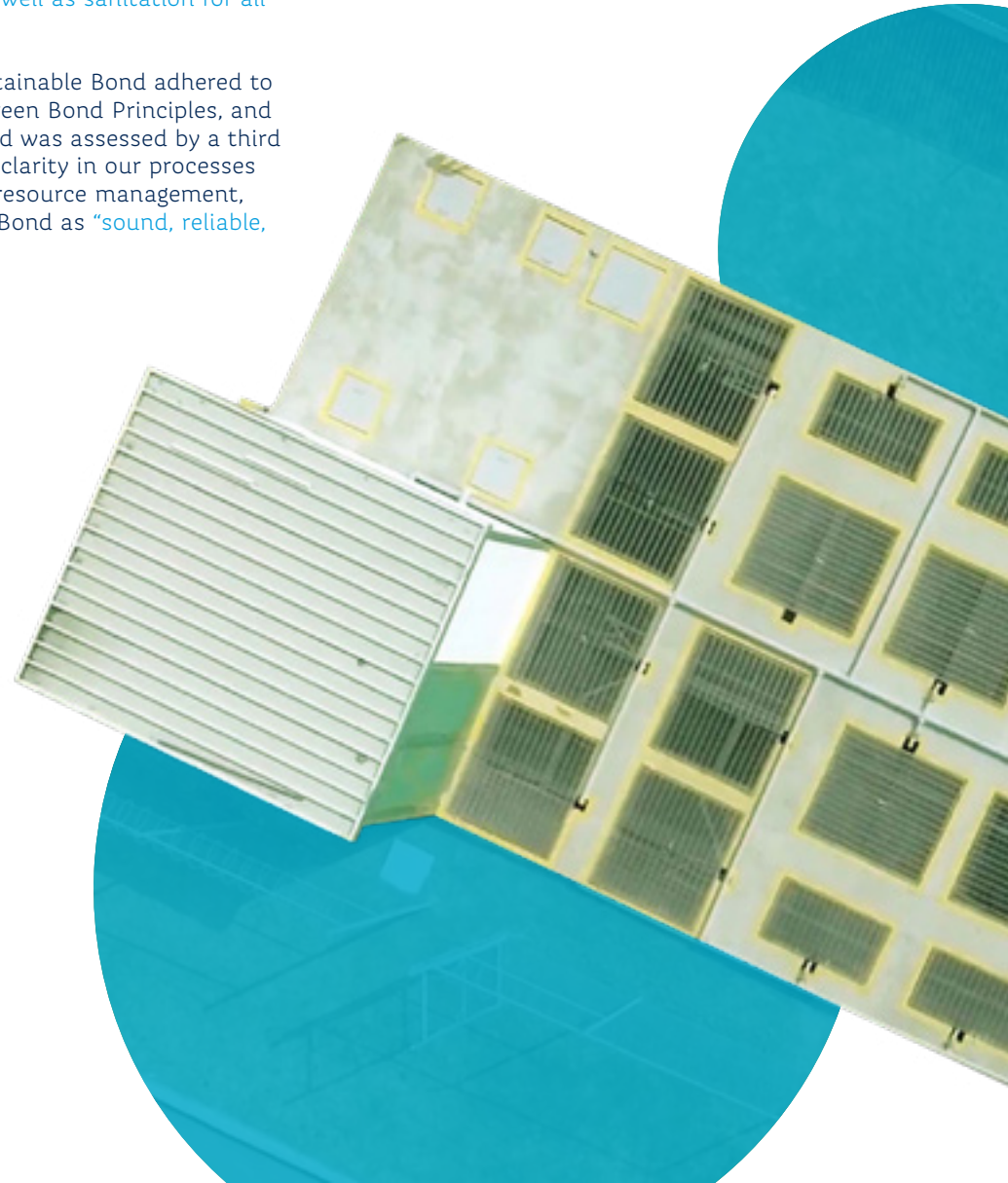
in 2017, we strengthened our long-term financial structure with the [issuance of the first Sustainable Bond in Latin America](#), for a total of \$2 billion Mexican pesos. The placement was made in two tranches, the first with a variable rate and 3-year maturity, and the second, with a fixed rate and 10-year maturity, under a program worth \$3 billion Mexican pesos.

In order to [finance and refinance projects with environmental and social benefits](#), we destined the resources of the Bond mainly to existing and future projects that will foster an affordable basic water and sanitation infrastructure, mainly for marginalized populations, that will improve an efficient use of water in various categories, such as: drinking water, storage, sanitation & treatment, and purification

solutions for water and wastewater. Likewise, it is [in line with, and contributes to the achievement of various Sustainable Development Goals \(SDG\)](#), particularly [guaranteeing water availability and sustainable management, as well as sanitation for all \(SDG N°6\)](#).

We should note that the Sustainable Bond adhered to international [benchmarks](#), Green Bond Principles, and the Social Bond Guidance, and was assessed by a third party who acknowledged the clarity in our processes and the transparency in our resource management, and defined our Sustainable Bond as [“sound, reliable, and transparent”](#).

The first Sustainable Bond in Latin America, for a total of **\$2 billion** Mexican pesos. The clarity in our processes and the transparency in our resource management, defined our Sustainable Bond as **“sound, reliable, and transparent”**.



AGUA 17X SUSTAINABLE BOND REVIEW

Rotoplas operates in markets where clean water is scarce due to droughts, water pollution, as well as limited and unreliable water infrastructure and supply that make it difficult for local populations, especially those living in remote or rural areas, meet their water needs.

Mexico, has been ranked by the World Resources Institute as one of the most water-stressed countries in the world. Areas in northern Mexico, northeast Brazil, and countries in Central America show a consistent drying trend that is expected to persist with climate change. About 20 million people residing in rural communities still lack access to improved drinking water. Furthermore, the quality of the “improved water” is often inadequate and may pose significant risks for public health. A pilot water testing study carried out in Nicaragua found that 16% of water points posed high to extremely high sanitary risk. Moreover, the supply of water is unreliable in many areas, with 13% of the population reporting they do not have continuous daily service. (Sustainabilitycs)

In the region, urban wastewater discharges are increasing due to: population growth (urban population has risen from 314 million in 1990 to nearly 496 million today, and is projected to reach 674 million in 2050) (UNDESA, 2014); and expansion of water supply and sanitation services. In 2015, 88% of the urban population had access to improved sanitation facilities (UNICEF/ WHO, 2015), of which probably less than 60% were connected to sewerage systems (UNICEF/WHO, 2000). Given that there was no parallel expansion of wastewater treatment in most of the region, urban sewage is a key concern for governments.



Nearly all urban wastewater, including all but the most toxic industrial wastes, was discharged into the nearest water bodies without any treatment. Many rivers, lakes and coastal waters, particularly those located downstream of large cities, were, and still are, heavily contaminated. (UN WWDR 2017)

Investments in urban wastewater treatment are justified not only in terms of health and environmental benefits, but also due to their positive impacts on socio-economic development. (UN WWDR 2017)

Mexico is also 2nd country in the world with the most child obesity, which is why Rotoplas is pushing the water fountain project in schools and public areas, we have installed 2,800 solutions, that have a direct, positive impact on the health and wellbeing of the consumers, as well as reduction PET and other plastic usage. (OECD Health at a Glance 2017)

In North America, the U.S Census reports that more than 60 million people depend on septic systems, which are approximately 26 million homes (1/4 of the total) meaning there is a huge market to attain. One in every ten systems has stopped working, making failed septic systems the 3rd most common source of contamination. (National Association of Home Builders)

Use of Proceeds Agua 17X

As established in the Rotoplas Sustainability Bond Framework, the proceeds of this issuance have been used to finance and refinance projects that tend to solve water related problems; as of today, 91.9% of the bond proceeds have been allocated.



Project Evaluation and Selection Process

Rotoplas' Corporate Practices & Strategy Committee will evaluate and select Eligible projects for each Rotoplas Sustainability Bond. This Committee is comprised of 3 board members, as the framework stipulates the Committee will:

- i. Assess and determine project eligibility in accordance with SDG 6 and SDG 9 targets, Eligibility Criteria defined above and alignment with Rotoplas corporate strategy and Sustainability Model; and,
- ii. Determine the allocation of proceeds to eligible past, current and future projects on an annual basis

Any project that Rotoplas may decide to invest in with Agua 17X proceeds must qualify in at least one of the categories established in the framework. The main projects that we invested in fell under categories 1 and 4 (drinking water solutions, and water and wastewater treatment, respectively), which have a direct impact on applicable SDG targets 6.1, 6.3, 6.5, 6.a, 9.1, 9.5.

Category 4 projects were re financed on 2016 and 2017, category 1 projects started on 2016 and all are still ongoing to the date of this publication. The totality of the used proceeds to this date, were used to refinance Rotoplas for the investment on the projects.

Project Categories

Category 1: Provide access to clean water for individuals in areas that lack water supply or where tap water is unsafe to drink, for example drinking water fountains, water filters and water purifiers.

Category 4: Improve water quality and increase water- use efficiency through water recycling and reuse, for example: wastewater treatment and recycling plants, acquisition of technology for water treatment, recycling and purification.

78.1% of the proceeds were used in water and wastewater treatment (category 4) projects, 13.7% were invested in drinking water solutions (category 1), such as water fountains. As mentioned before, the rest of the proceeds hasn't been used yet.

KPI's for category one:	
KPI 1.1	Water Purified (liters of water purified for human consumption)
KPI 1.2	Children benefited (school enrollment)
KPI's for category four:	
KPI 4.1	Water Treated (Liters) (Average treatment capacity*average number of plants*time since acquisition, on compliment to SEMARNAT water treatment norms: 001, 002 and 003)
KPI 4.2	Water reused (Water treated*average rate of reuse)

KPI's are based on the current operation capacity in each of the categories, we expect to continue getting results in a similar rate for each of the current and new projects.

SUSTAINABLE BOND CERTIFICATION LETTER



Grupo Rotoplas SAB

Type of engagement: Annual Review

Date: April 4, 2018

Engagement Leader: Marion Oliver, marion.oliver@sustainalytics.com, (+1) 647 317 3644

Introduction

In 2017, Grupo Rotoplas SAB ("Rotoplas") issued a sustainability bond aimed at financing and refinancing environmentally and socially beneficial projects. In March 2018, Rotoplas engaged Sustainalytics to review the projects funded through the issued sustainability bond and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Rotoplas Sustainability Bond Framework.

Evaluation Criteria

Sustainalytics evaluated the projects and assets funded in 2017 based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Sustainability Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criterion outlined in the Sustainability Bond Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs.

Table 1: Use of Proceeds and Eligibility Criteria

Use of Proceeds	Eligibility Criteria	Potential Impact Indicators
1. Drinking Water Solutions	Projects that provide access to clean water for individuals in areas that lack water supply or where tap water is unsafe to drink;	<ul style="list-style-type: none"> • Descriptions of projects including the need for such infrastructure in various communities • Number of water fountains installed • Number of schools benefitted • Volume of water (m3) purified
2. Water Storage	Projects that provide access to water for households or commercial facilities in water-scarce areas or areas lacking reliable water supply;	<ul style="list-style-type: none"> • Descriptions of projects including the need for such infrastructure various communities • Volume of water (m3) captured/stored
3. Sanitation and Sewage Treatment	Projects that provide access to adequate sanitation facilities in areas with underdeveloped sewage infrastructure;	<ul style="list-style-type: none"> • Descriptions of projects including the need for such infrastructure various communities • Number of sustainable bathrooms installed by region • Number of self-clean biodigesters installed by region • Number of households benefitted
4. Water and Wastewater Treatment	Projects that improve water quality and increase water-use efficiency through water recycling and reuse;	<ul style="list-style-type: none"> • Descriptions of projects including the need for such infrastructure various communities • Volume of water (m3) treated/recycled

	<ul style="list-style-type: none"> Metrics on improvements in water quality e.g. Biochemical Oxygen Demand (BOD)
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Issuing Entity's Responsibility

Rotoplas is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact.

Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Rotoplas' Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Rotoplas' employees and review of documentation to confirm adherence to the Sustainability Bond Framework.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to oversee the process.

Conclusion

Based on the limited assurance procedures conducted,¹ nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Rotoplas' Sustainability Bond, are not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Sustainability Bond Framework. Rotoplas has disclosed to Sustainalytics that 91.9% of the proceeds of the sustainability bond were allocated as of March 2018.

Detailed Findings

Table 2: Detailed Findings

Eligibility Criteria	Procedure Performed	Factual Findings	Error or Exceptions Identified
Use of Proceeds Criteria	Verification of the projects funded by the sustainability bond in 2017 to determine if projects aligned with the Use of Proceeds Criteria outlined in the Sustainability Bond Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
Reporting Criteria	Verification of the projects funded by the sustainability bond in 2017 to determine if impact of projects was reported in line with the KPIs outlined in the Sustainability Bond Framework and above in Table 1. For a list of KPIs reported please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

¹ Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

Appendix 1: Impact Reporting by Eligibility Criteria

Use of Proceeds and Eligibility Criteria Category	Environmental Impact Reported by Eligibility Criteria
1. Drinking water solutions	<ul style="list-style-type: none"> 47,921,710 litres of water purified; 652,959 children benefited through the installation of water fountains.
4. Water and Wastewater Treatment	<ul style="list-style-type: none"> 9,296,640,000 litres of water were treated; 3,253,824,000 litres of water were reused.

Disclaimer

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The Opinion was drawn up with the aim to explain why the analyzed bond is considered sustainable and responsible. Consequently, this Opinion is for information purposes only and Sustainalytics will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, Sustainalytics does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds' use of proceeds.

The client is fully responsible for certifying and ensuring its commitments' compliance, implementation and monitoring.

Sustainalytics

Sustainalytics is a leading independent ESG and corporate governance research, ratings and analytics firm that support investors around the world with the development and implementation of responsible investment strategies. With 13 offices globally, the firm partners with institutional investors who integrate ESG information and assessments into their investment processes. Spanning 30 countries, the world's leading issuers, from multinational corporations to financial institutions to governments, turn to Sustainalytics for second-party opinions on green and sustainable bond frameworks. Sustainalytics has been certified by the Climate Bonds Standard Board as a verifier organization, and supports various stakeholders in the development and verification of their frameworks. Global Capital named Sustainalytics the "Most Impressive Second Party Opinion Provider" in 2017. In 2018, the firm was recognized as the "Largest External Reviewer" by the Climate Bonds Initiative as well as Environmental Finance. In addition, Sustainalytics received a Special Mention Sustainable Finance Award in 2018 from The Research Institute for Environmental Finance Japan for its contribution to the growth of the Japanese Green Bond Market.

For more information, visit www.sustainalytics.com

Or contact us info@sustainalytics.com



DISTRIBUTION OF ECONOMIC VALUE

(201-1, 201-4)

Aside from economic value, at Grupo Rotoplas we understand value as a concept encompassing social and environmental aspects. Together with our mission, our business and sustainability models also seek to create and distribute value among our various stakeholders.

Throughout this report, we reflect how we create and share value among our stakeholders, while this specific section focuses on the creation and distribution of economic value. Below, we present the value generated, understood as our revenues, and the breakdown of their distribution, including the delivery of compensation and benefits to our collaborators, the acquisition of products within the supply chain, the payment of taxes to the revenue service, and returns to shareholders, among others.

The whole pertains to the distributed economic value which, after being subtracted from revenues, reflects the sum that remains as retained value year over year in the company; therefore, this year, we had a lack of said value. This is because of our bet on reinvesting the value generated in elements that will ensure improved results in the long term, such as R&D, acquisitions, and our collaborators.

Given the integration of our annual report, this year we have decided to hone the definition of the various segments of economic value distributed and align the data with the information contained in our consolidated financial statements. Likewise, we have restated 2016 data to offer readers a better understanding of 2017 results.



ECONOMIC VALUE GENERATED AND DISTRIBUTED (EVG AND EVD) (millions of Mexican pesos)

	2016	2017	Δ 2017-16 (%)
Revenues (Economic Value Generated, EVG)	5,353.3	6,660.5	24.4
Costs and Expenses (Economic Value Distributed, EVD)	7,730.4	7,280.5	-5.8
Operating Costs and Expenses	3,844.9	4,768.9	24.0
Salaries and benefits	815.5	959.8	17.7
Payment to Shareholders ¹	263.2	365.2	38.8
Payments to government (taxes and contributions)	194.2	196.3	1.1
Investment in Research and Development (R&D) ²	33.1	48.9	47.7
Acquisitions ³	2,205.0	581.3	-73.6
Infrastructure investments	370.8	327.6	-11.6
Donations (community)	3.8	32.5	755.3
Retained (EVG-EVD)	-2,377.1	-620.0	73.9

1 Not considering the purchase or sale of stocks

2 Not considering salaries, nor depreciation and amortization.

3 In 2016: Talsar, Sytesa, and AIC, in 2017: Sanzfield and e-commerce platform.



In 2017, the reconfiguration of our portfolio and the integration of our acquisitions, linked to client openings and reactivations and a better price management, enabled us to **expand our revenues by 24.4%** vs. 2016. As for the total sum distributed throughout the year, it decreased by 5.2%, largely explained by a 73.6% contraction in acquisitions.

However, **the other distributed value line items increased**, with **R&D investment** standing out particularly at \$48.9 million Mexican pesos; that is, 47.7% higher than in 2016. With \$959.8 million Mexican pesos, we invested another 17.7% in salaries and benefits for our collaborators, mainly due to the integration of the new operations. In turn, with a minimal increase, we maintained our operating infrastructure investment, amounting to \$327.6 million Mexican pesos. Those segments reflect our wish to continue to create, produce, market, and operate water and sanitation solutions that will best serve our customers' and users' needs.

The existence of the acquisitions segment reveals our commitment to incorporate existing technologies and solutions, which allows us to constantly improve the way we serve the needs of the water market and thus fulfill our mission "for people to have more and better water". In 2016, we acquired Talsar in Argentina and Sytesa in Mexico, as well as a stake in AIC in Chile for a total of \$2.205 billion Mexican pesos. On the other

hand, in 2017, we invested \$581.3 million Mexican pesos in the acquisition of Canadian innovation center Sanzfield, and the US e-commerce platform.

To fulfill the obligations incurred to finance our operations, we delivered a total of \$365.2 million Mexican pesos throughout the year—a significant 38.8% increase that ensures, in the context of the issuance of our Sustainable Bond, our commitment to generate economic value for our shareholders. Contrary to 2016, we received no type of financial aid from the National Council for Science and Technology (CONACYT for its Spanish acronym).

As for donations, while we maintained our donation schemes with non-governmental and civil society organizations, as well as other specific donations, the significant increase was due to the activation of our **Water for Affected Areas Program (PAZA for its Spanish acronym)** in response to the earthquakes that Mexico suffered in September. This **totaled the equivalent to 32.5 million Mexican pesos in donated solutions.**

\$32.5

**MILLION MEXICAN PESOS IN
DONATED SOLUTIONS**



01

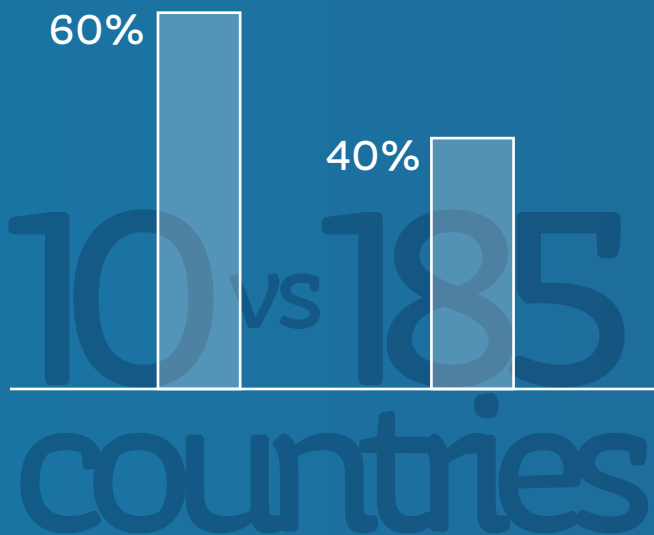
STRATEGY ON STREAM

ADHERING TO THE PREMISE “FOR PEOPLE TO HAVE MORE AND BETTER WATER”, WE STRIVE TO GENERATE A POSITIVE IMPACT THAT WILL TRANSCEND OUR OPERATIONS AND CONTRIBUTE TO FOSTER A MORE SUSTAINABLE SOCIETY, FROM A SOCIAL, ENVIRONMENTAL, AND ECONOMIC POINT OF VIEW.

CONTEXT OF THE WATER ISSUE

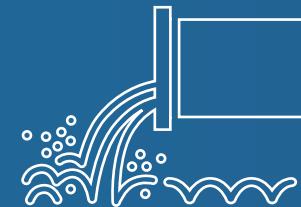
THERE IS AN UNEVEN DISTRIBUTION OF WATER.

ONLY 10 COUNTRIES CONCENTRATE 60%, WHILE THE REST OF THE WORLD REPRESENTS 40%



ON A WORLDWIDE LEVEL, WATER SCARCITY IS ALREADY

AFFECTING 4 OUT OF EVERY 10 PEOPLE



IN LATIN AMERICAN COUNTRIES, ONLY 20% OF THE MUNICIPAL AND INDUSTRIAL WASTEWATER GENERATED IS TREATED

BY THE YEAR 2030, WORLD WATER DEMAND IS EXPECTED TO INCREASE BY 50%. THIS INCREASE WILL TAKE PLACE MAINLY IN THE CITIES.





CONSOLIDATED OUR PARTICIPATION IN EVERY STAGE OF THE WATER CYCLE

Now, more than ever, the ongoing increase in demand for freshwater, as well as the scarcity in water resources, present an opportunity to strengthen water handling and management. While the Latin America and Caribbean regions have significant water resources, the accelerated population growth in urban areas and the high dependence on hydroelectric energy, which furnishes 60% of the energy, has led these regions to further pollute most of the rivers year after year (UNESCO, 2017)⁴, with economic repercussions, and still more importantly, affecting the inhabitants' quality of living.

Likewise, the 2017 edition of the United Nations World Water Development Report notes a significant challenge in managing wastewater sustainably, as this water is an undervalued source of water, energy, nutrients, and other recoverable byproducts. In addition, the report indicates that the improvement of wastewater management generates essential social, environmental, and economic benefits for sustainable development.

Thanks to the integration of Sytesa and the acquisition of Sanzfield, with their corresponding services and technologies for wastewater treatment, we have consolidated our participation in every stage of Water cycle, and adopted an integrated approach to our efforts to guarantee that water management and sanitation can ensure the future availability of this resource.

⁴ United Nations World Water Development Report, "Wastewater: the untapped resource", 2017.

BUSINESS MODEL AND CORPORATE STRATEGY

(103-2, 103-3)

At Grupo Rotoplas, the implementation of our sustainability model has led to a close link between the needs for water and sanitation in the various markets where we participate and the structure of our portfolio. In 2017, through the integration of innovative solutions and new business models, we reconfigured our offer of individual and integrated solutions.

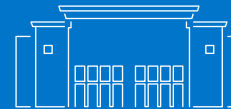
Strengthening the long-term view of our corporate strategy, we began a reflection about our own purpose, linking our existence to the need to transform living standards through a better use of water. This is why we have updated our 2018-2020 Strategy to reflect the profound transformation of our company. In 2017, the integration of our recent acquisitions, together with our dual approach to innovation and operating efficiency, resulted in a dynamic portfolio that covers critical needs through a range of distribution channels, including e-commerce.



Distributors: points of sale devoted to selling products for all-purpose construction, including hardware stores, plumbing, finishes, materials, retailers, and specialized sellers (Government and builders) (B2I)



Direct: including hardware, plumbing, finishes, materials, and retail stores (B2D / B2B).



Organized Sales: including home centers, self-service stores, department stores, price clubs, and convenience stores (B2I)



e-commerce: focused on selling our products and services through direct sales and marketplaces (B2B / B2C)

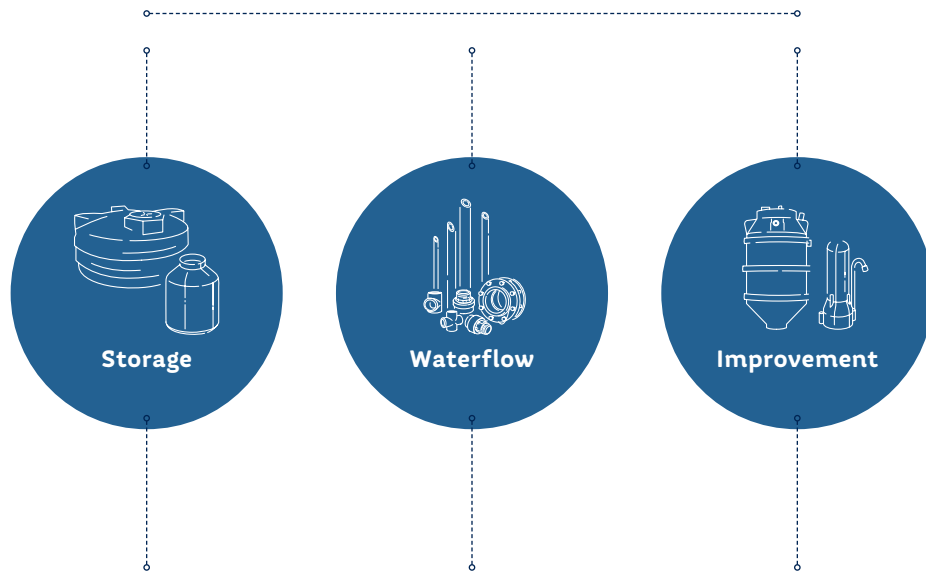


Retail: including hardware, plumbing, finishes, materials, and retail stores (B2D / B2B).

Attending the various water and sanitation needs of the markets throughout the American continent, our portfolio comprises Individual Solutions for water storage, waterflow, and improvement.

Likewise, our portfolio includes segmented Integrated Solutions with installation, operation, maintenance, and training services, based on the needs of the rural and urban areas.

Individual solutions

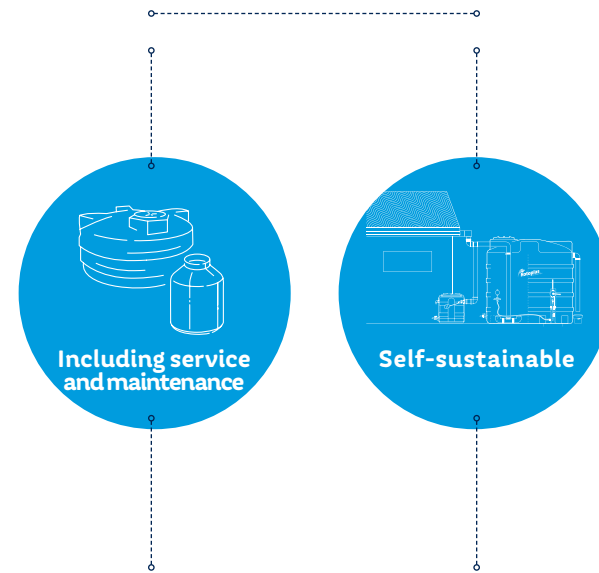


- Urbanization**
- Water scarcity**
- Intermittent supply**
- Obsolete infrastructure**

- Low pressure**
- Water leaks**
- Intermittent supply**
- Obsolete infrastructure**

- Sanitation and health**
- Drinking water scarcity**
- Economic and environmental costs of bottled water**

Integrated solutions



- Access to purified drinking water**
- Pollution of discharges**
- Hydration and health**
- Availability of water**
- Underutilization of wastewater**

- Access to water**
- Access to sanitation**
- Pollution of discharges**

6,496,416

M³ OF TREATED WASTEWATER

We continue to strengthen our position in water treatment and recycling; on a commercial level, we treat over 6,496,416 m³ through Sytesa, which specializes in the construction of wastewater treatment plants, as well as in their operation and maintenance. In turn, Sanzfield complements our business growth strategy at the residential level. Specializing in the development of water treatment and recycling systems, it uses technologies to remove organic matter from wastewater, without generating solid waste.

This acquisition drives forth our commitment to trigger the development of technologies to improve the population's access to water and sanitation, as we have been doing with the Plasma Water Sanitation System (PWSS) developed by AIC.

On a Group level, we manage these and other projects through three platforms based on the PMI⁵ methodology:

- **Optimiza:** to manage projects that seek an improvement in our traditional business processes and the development of our capabilities, to boost what we currently do.
- **Project Management Office (PMO):** manages high impact, investment-intensive projects with strategic relevance that are key to the Company's evolution, to boost its growth.
- **Rotoplas Labs:** manages project development using exponential organization practices, to generate disruptive innovations.

In 2017, together with our collaborators, we continued to evolve in the way we do business, focusing on water as a service. In order to better serve our customers' and users' needs, our solutions integrate installation, maintenance, and training services. Some examples of this are the Purified Water Service platform, the e-commerce platform, and the wastewater treatment and recycling service that Sytesa offers, all of which are explained in the chapter on Applied Innovation.

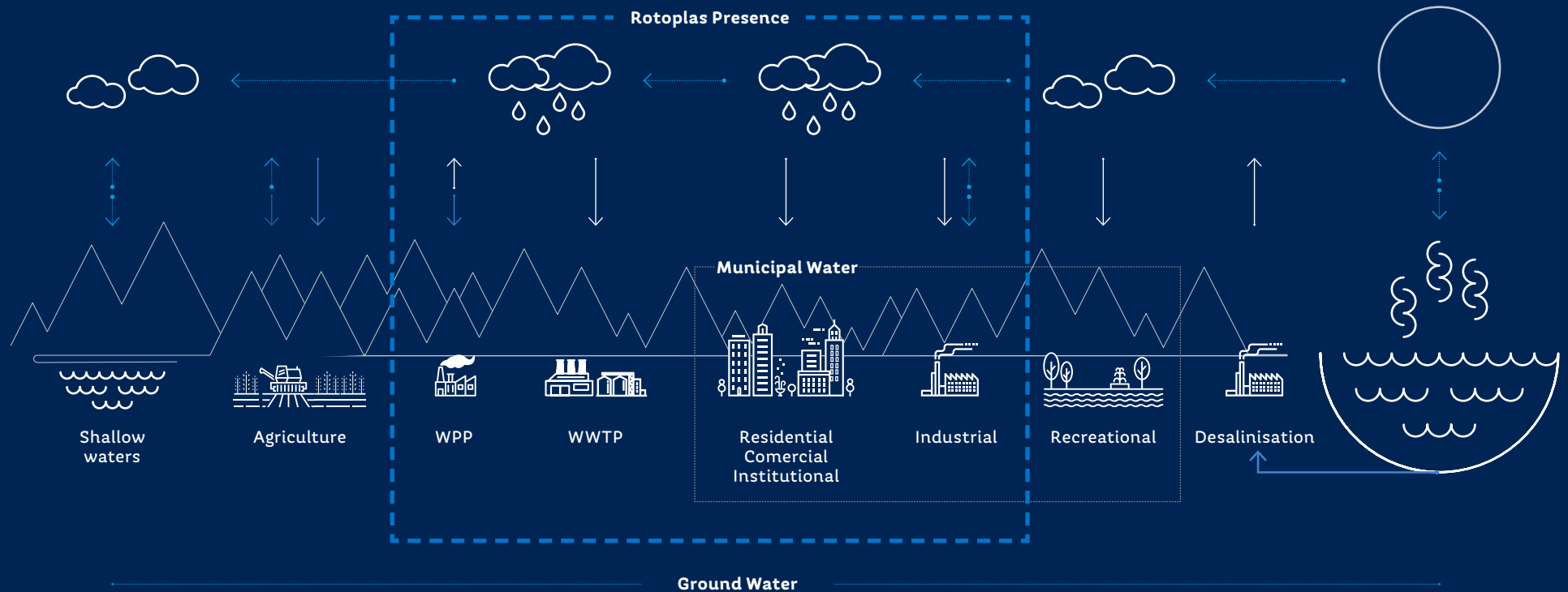
In addition, this year we are expanding our contribution throughout the water cycle, generating value through the three aspects of sustainability (economic, environmental, and social). Proof of this is our acknowledgement as [Greenbrand](#), which is awarded by Superbrands for the launch of new products, such as the Urban Rainwater Harvesting System, and for our commitment to sustainability.

Our performance in sustainability, was acknowledged with our entry into the [Dow Jones Sustainability MILA Pacific Alliance⁶](#) index as one of the 12 Mexican companies included in it, is also remarkable.

⁵ Project Management Institute

⁶ Also known as the MILA sustainability index. This index belongs to the Dow Jones sustainability indices and comprises the 40 "best in class" companies in the region. The MILA comprises the stock exchanges of the countries that integrate the Pacific Alliance: Chile, Colombia, Mexico, and Peru.

GRUPO ROTOPLAS INDIVIDUAL AND INTEGRATED SOLUTIONS IN THE WATER CYCLE



In the context of the Company’s transformation and the integration of our recent acquisitions, the Rotoplas Way and its four pillars (Strategy, Culture, Processes, and Corporate Governance) have bolstered the way we work, playing a key role in our evolution. This corporate identity model is supported by the contributions from our collaborators. Thus, the Managing Committee decided to evolve it, focusing on four main topics: our three platforms to manage projects (*Optimiza*, PMO, and Labs), the management of the talent cycle, the Service Model, and the Sustainability Model. For this purpose, in addition to incorporating key messages, holding quarterly informational meetings, and carrying out communication campaigns on the various strategic topics, we decided to carry out the “Rotoplas

Way Month” for the second consecutive year, this time including operating personnel.

This macro-activity comprises on-site talks, and videoconferences by internal experts and Top Management, as well as various recreational activities on Strategy, Culture, Processes, and Corporate Governance issues.

Throughout the month, the overall participation averaged 85% of the collaborators, in turn 85% of whom declared that they learned and are now well acquainted with what the Rotoplas Way is.

SUSTAINABILITY MODEL AND PROGRESS ACHIEVED

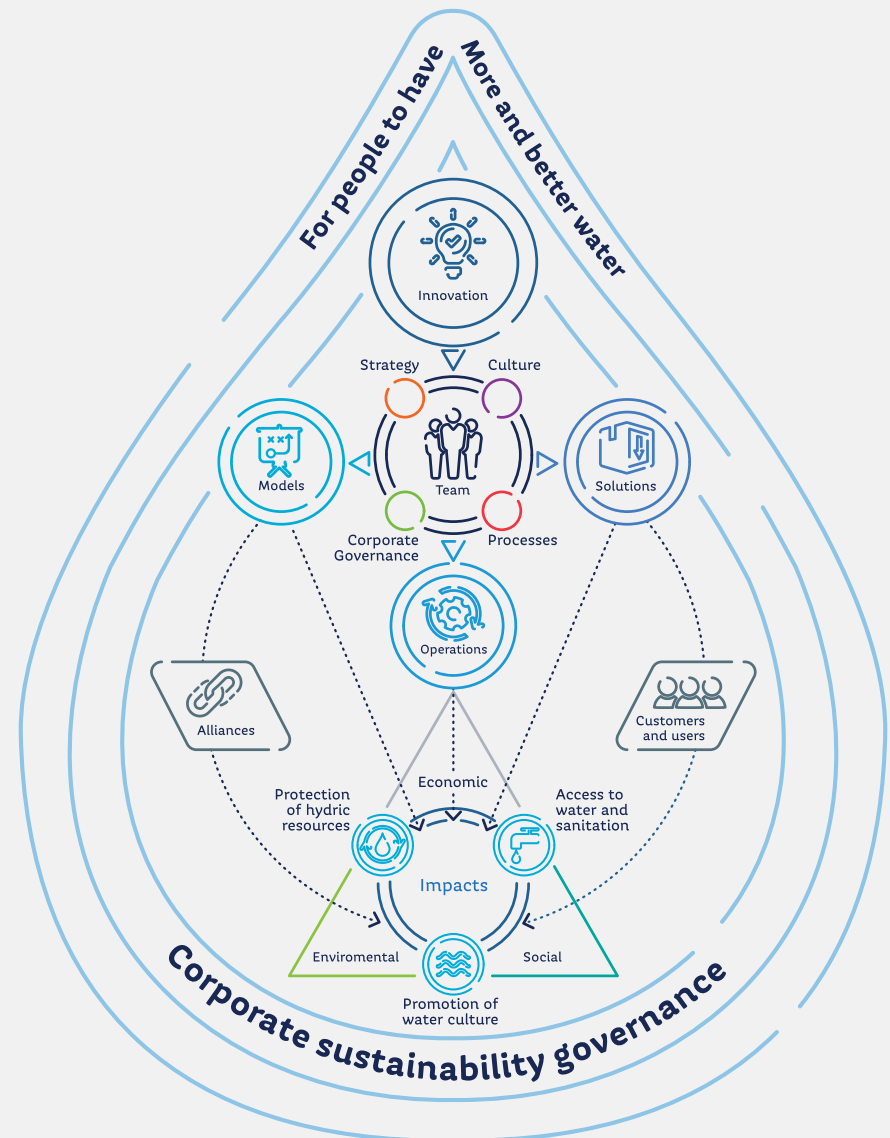
(102-13, 102-16, 102-18, 102-21)

At Grupo Rotoplas, we define Social Responsibility as the direct and indirect effects on society and the environment resulting from the Company’s economic activity, and which lead to activities and programs to bolster the positive impacts and reduce the negative ones to contribute to sustainable development. Likewise, we understand sustainability as the result of executing the organizational strategy to create and distribute economic, social, and environmental value for the company and its stakeholders, ensuring the present benefits without compromising our capacity to generate and distribute results for future generations.

Aware of the existence of a wide range of initiatives that foster sustainability, we have identified those which are aligned with our corporate strategy and mission to add to the achievement of their corresponding goals. A clear example is the United Nations 2030 Agenda and the Sustainable Development Goals (SDG), to which we contribute both directly (SDGs n° 6 and n°9) and indirectly (SDG n°3, n°4, and n°5)⁷.

This understanding led us to design our Sustainability Model and its four focal points. The model is conceived as a flow triggered by innovation and materializing with our team through the business models that we continue to develop, the operations that foster an ongoing improvement of our processes, and the solutions that constantly serve customers’ and user’s water and sanitation needs better.

- Focal point 1:** Corporate Sustainability Governance
- Focal point 2:** Collaborative innovation with purpose
- Focal point 3:** Driving economic and social development
- Focal point 4:** Safeguarding water as a resource for the future

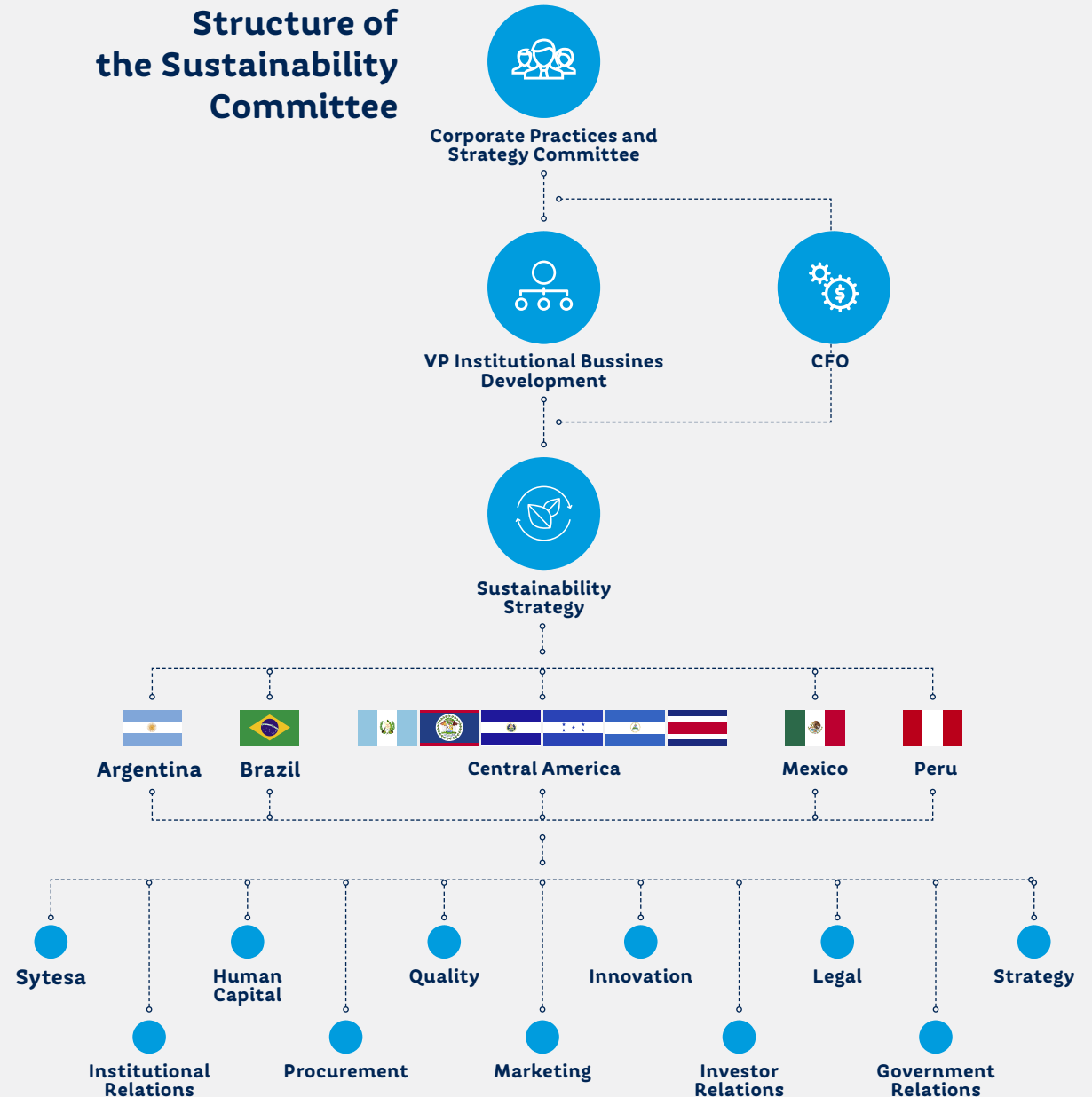


⁷ Goal n°6: Ensure access to water and sanitation for all; Goal n° 9: Build resilient infrastructure, promote sustainable industrialization and foster innovation; Goal n°3: Ensure a healthy life and to promote well-being for all at all ages; Goal n°4: Ensure inclusive and quality education for all and promote lifelong learning; Goal n°5: Achieve gender equality and empower all women and girls.

Our focal points enable us to prioritize our initiatives, and from them come a series of lines of action aimed at the 2020 horizon, where we have already obtained the first results.

The Sustainability Committee is responsible for implementing and keeping our Model updated, as well as aligned to the corporate strategy, through monthly monitoring sessions. Chaired by the Vice-President of Institutional Development, and co-chaired by a member of the Board of Directors (CFO), the Committee is a representative body of our stakeholders. Its composition is multidisciplinary, as it comprises the Strategy, Human Capital, Institutional Relations, Government Relations, Legal, Investor Relations, Quality, Marketing, and Innovation departments. Likewise, we have incorporated representatives from each of the countries where we have operations to drive the implementation of the Sustainability Model throughout the Group and focus on developing initiatives that are suited to the context of each Country. The Sustainability Committee reports its performance on a quarterly basis to the Corporate Practices and Strategy Committee, which in turn reports to the Board of Directors.

Structure of the Sustainability Committee



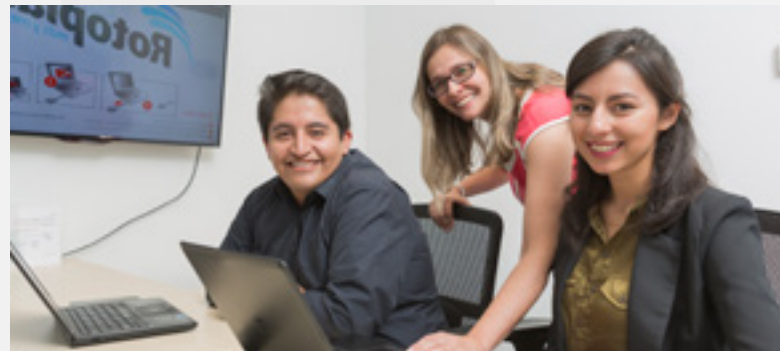


In line with the first focal point defined in our Sustainability Model, “Corporate sustainability governance”, we have published a Sustainability policy and a decalogue to ensure its application throughout our operations. We continue to work on formalizing a management system based on ISO 26000, which will imply constant monitoring and implementation of relevant indicators and initiatives. This system will enable us to consolidate the sustainability and value generation for our stakeholders, as well as for our own evolution.

Convinced that social responsibility is to be equally exercised by everyone at our Company, and that our daily work must focus on sustainability, in 2017, we

worked on the communication and understanding of our Sustainability Model. Through a series of online courses, we sensitized our collaborators and led them to commit, adding a total of 208 participants.

With regard to the external communication of our economic, environmental, social, and corporate governance performance, we added to our annual Integrated Report a sustainability website, and we are preparing a release on our contribution to the Sustainable Development Goals (SDG), which will be available in the first half of 2018⁸.

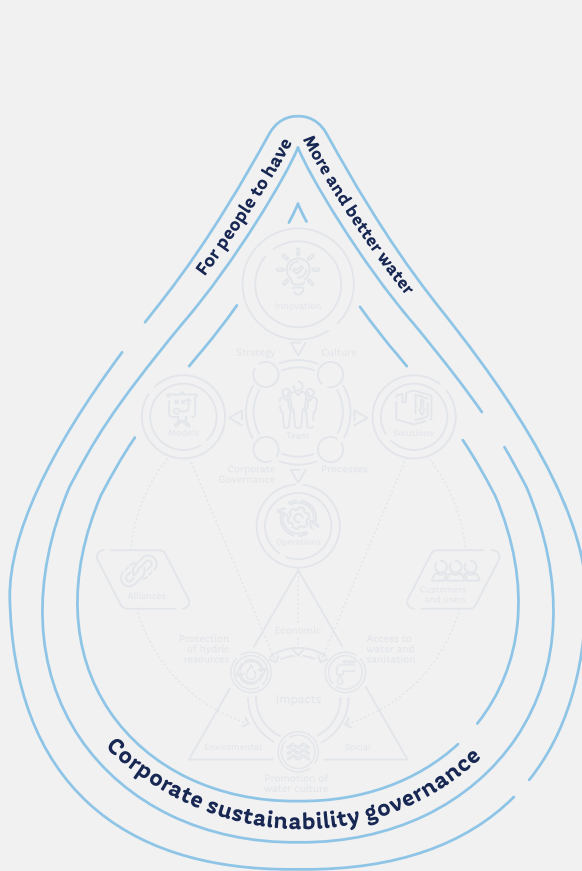


8 We continue to work on our contribution to the SDGs; the document will be available at the following address: <https://rotoplas.com/sustentabilidad/objetivos-de-desarrollo-sostenible/>

Below, we present the main results and key initiatives of 2017, divided by focal point.

FOCAL POINT 1

CORPORATE SUSTAINABILITY GOVERNANCE



Alignment of the sustainability strategy to the 2018-2020 corporate strategy



Publication of the sustainability strategy



Preparation of a Sustainability Policy and a Sustainability decalogue



Consolidation of our Sustainability Committee's structure



Encouraging the internal sustainability culture via an internal communication strategy



Creation of a sustainability website to broadcast our progress and performance on this matter



Adherence to the Global Compact



Inclusion of the sustainability strategy in the external communication strategy



Internal communication channel on sustainability



Including sustainability in introductory course for new collaborators



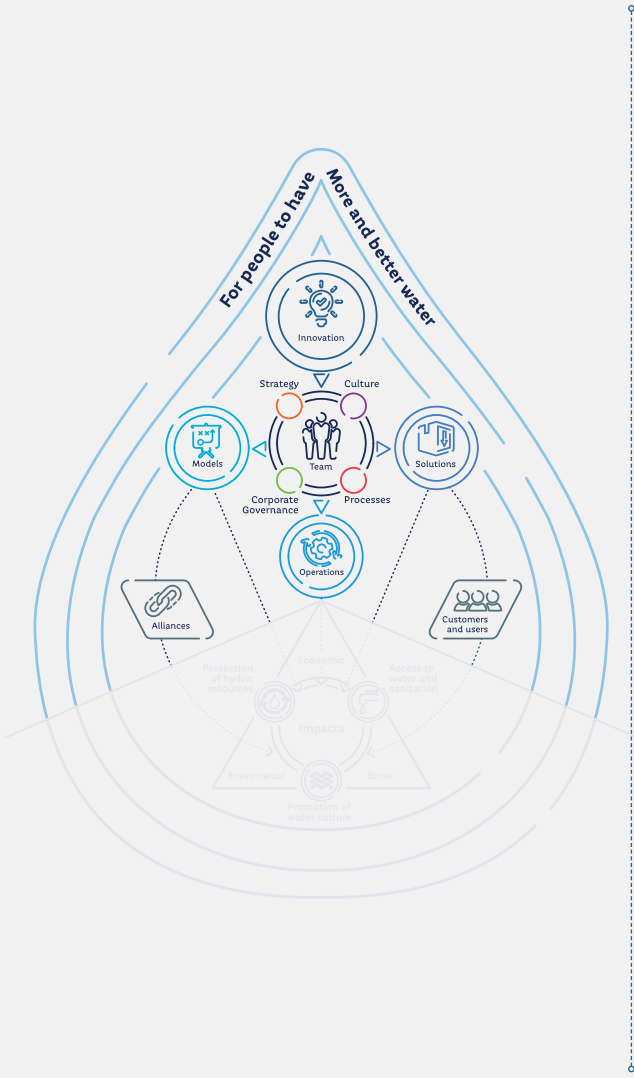
Nomination to sustainability indices: DJSI MILA



Collaborator sensitization campaign via webinars regarding the sustainability model

■ FOCAL POINT 2

COLLABORATIVE INNOVATION WITH PURPOSE



Measurement of the water footprint of our products' lifecycle according to ISO 14046



Measurement of the carbon footprint of our products' lifecycle according to ISO 14064



Development of our emissions inventory according ISO 14064, scope 1, 2 and 3.



Incorporation of recycled resins



Issuance of Sustainability Bond, first of its kind in Latin America



Increase in consumption of energy from renewable sources



Hygiene, Safety, and Environmental Policy



Rotoplas Way Month



Extending the Code of Ethics to suppliers



Pilot projects with Rotoplas solutions



Design of the Innovation Policy

\$48.9

million Mexican pesos invested in research and development



Consolidation of the 3 project management platforms that enable us to evolve the Rotoplas Way 2.0: Optimiza, Project Management Office (PMO), and Rotoplas Labs



Acquisition of Canadian innovation center Sanzfield



Partnership with university institutions and research centers through the signing of 13 agreements



Promotion of internal innovation culture via online courses

FOCAL POINT 3

DRIVING ECONOMIC AND SOCIAL DEVELOPMENT



2,850

Drinking water fountains installed throughout the Mexican Republic, benefiting over half a million children and teenagers



Alliance with Dow to build sustainable housing in the Sierra Tarahumara of Chihuahua



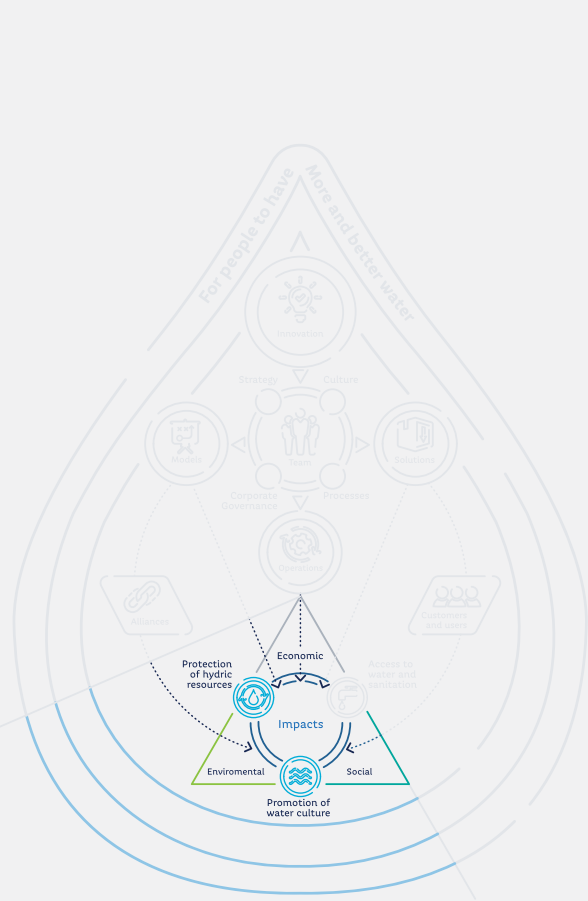
Creation of Committee to manage the Water for Affected Areas Program (PAZA) in response to the earthquakes experienced in Mexico throughout 2017, totaling 24 million Mexican pesos in aid through donations in kind to Mexico City, Chiapas, the State of Mexico, Morelos, Puebla, and Oaxaca



Development of the Social Value Creation Model and measurement of the impact of our integrated solutions

FOCAL POINT 4

SAFEGUARDING WATER AS A RESOURCE FOR THE FUTURE



Collaborative research with *Universidad Iberoamericana* on the uses and habits of water consumption in Latin America



Creation of the Rotoplas Volunteer Network and of the first volunteer activities to lend support after the September 19 earthquake



Inclusion, in the On boarding course, of visits to plants and communities where our solutions are installed, to sensitize and transform our collaborators into the ambassadors of a new culture that values water and end users' experiences



We boosted Sytesa's operations and offer of solutions, contributing to sensitize society regarding the treatment of wastewater and recycle of water



Participation in 14 water-related forums and events to foster and spread the water awareness

STAKEHOLDER ENGAGEMENT

(102-13, 102-21, 102-40, 102-42, 102-43, 102-44)

At Grupo Rotoplas, we value and promote collaboration and dialogue as the guiding axes of our relations with our stakeholders. We are aware that the Company's growth and leadership in the various markets where we participate is the result of a sound network of relations and efforts with our customers, collaborators, and suppliers, as well as with the financial community, authorities, regulators, and the community in general. The definition of these groups is the result of our process to denominate and validate key players. Their prioritization is determined based on their level of involvement and relevance to the Company's activities and enables us to detect those issues that are relevant to them.

We are highly convinced that the interaction and participation of our stakeholders is essential to keep generating and distributing value. Likewise, in addition to our website and the release of our annual Integrated Report, we have a series of specific channels, platforms, and tools for each group, encouraging dialog and feedback with a focus on openness and on listening.

Stakeholders		Communication channels	Relevant topics
 Customers	<ul style="list-style-type: none"> · Distributors · Government entities · End user 	<ul style="list-style-type: none"> · Satisfaction survey · CSC (Customer Service Center) · Avenues for complaints (telephone and website) 	<ul style="list-style-type: none"> · Product quality · Product advertising and promotion · Access to water and sanitation · Training of solution users for better use · Product and service quality
 Collaborators	<ul style="list-style-type: none"> · Part-time: developing professionals and interns · Full time: workers, including union members 	<ul style="list-style-type: none"> · Organizational climate survey · Corporate social network: R-Connect · Avenues for complaints (telephone, website, intranet) · Company's quarterly results Presentation 	<ul style="list-style-type: none"> · Ethics and anticorruption practices · Training and career development opportunities · Safety and health in the work environment · Processes and improvement initiatives

Stakeholders		Communication channels	Relevant topics
 <p>Suppliers</p>	<ul style="list-style-type: none"> · Raw materials and services suppliers 	<ul style="list-style-type: none"> · Annual assessment · External surveys · Avenues for complaints (telephone and website) 	<ul style="list-style-type: none"> · Swiftness and efficiency in the relations with the company · Ethics and anticorruption practices
 <p>Board of Directors and its internal bodies</p>	<ul style="list-style-type: none"> · Board of Directors · Audit committee · Corporate Practices and Strategy Committee · Compensations Committee · Sustainability Committee 	<ul style="list-style-type: none"> · Meetings (monthly or quarterly, as may be the case) 	<ul style="list-style-type: none"> · Strategy, growth and consolidation plan · Innovation model · Risk assessment, audits, and compliance · Best Corporate Governance practices · Compliance with the guidelines provided for a public company · Collaborator attraction, training, and retention · Proposing and monitoring of sustainability initiatives and indicators.
 <p>Financial community</p>	<ul style="list-style-type: none"> · Investors · Financial institutions · Rating agencies 	<ul style="list-style-type: none"> · Meetings · Conference calls · Annual and quarterly reports · E-mail 	<ul style="list-style-type: none"> · Financial and operating results · Risks and opportunities · Organic and inorganic growth
 <p>Authorities and regulatory bodies</p>	<ul style="list-style-type: none"> · Mexican Stock Exchange (BMV) and National Banking and Securities Commission (CNBV) · Tax authorities of each country · Ministry of Labor and Social Security (STPS) 	<ul style="list-style-type: none"> · Quarterly and annual reports (BMV and CNBV) · Monthly tax reports (fiscal authorities) 	<ul style="list-style-type: none"> · Economic results · Risk management · Compliance with fiscal obligations · Management of labor obligations and compliance status
 <p>Community</p>	<ul style="list-style-type: none"> · Non-governmental organizations · University · Community in general · Mass media · Chambers and associations 	<ul style="list-style-type: none"> · Forums in which Rotoplas participates · <i>Fan del Agua</i> Digital platform www.fandelagua.com · Social media · Website: www.rotoplas.com 	<ul style="list-style-type: none"> · Product quality · User training on solutions for better acceptance · Impact of solutions on beneficiaries (household economics, health, and education) · Collaboration plans · Focus on the Group's innovation and investment in this aspect · Access to water and sanitation, and impact of solutions · Practices for rational water consumption and impact · Business performance and evolution (including new solutions, company acquisitions, and collaboration initiatives) · Impact of solutions on social and economic development.

02

INNOVATION THAT FLOWS

WE SEEK TO OFFER HIGH-QUALITY INNOVATIVE PRODUCTS THAT WILL ACHIEVE THE GOAL—FOR PEOPLE TO HAVE MORE AND BETTER WATER—AND WE HAVE A BROAD PORTFOLIO INCLUDING BOTH INDIVIDUAL AND INTEGRATED SOLUTIONS.



CONNECTING INNOVATION WITH PEOPLE

(103-2, 103-3)

At Grupo Rotoplas we strive constantly to keep evolving to bolster the connection between capabilities and technologies and the public that needs water and sanitation solutions.

Innovation flows through our business processes and models, guiding the configuration and expansion of our solutions portfolio. We achieve this through work platforms, fostering our collaborators' creative thinking, technology development and acquisition, disruptive solutions, and the adoption of new business models; this also enables us to bring greater efficiency to our processes and operations.

In the understanding that innovation implies the creation, collection, and exchange of value, we are formalizing our Innovation Policy, which will be released in 2018.

In order to offer effective solutions to the issues of water and sanitation, and to tackle new business opportunities on a large scale, we continue to consolidate the structure of our Innovation Department, integrating the qualified talent of 43 collaborators. In 2017, we destined a total of \$48.9 million Mexican pesos to our innovation projects—47.7% more than a year earlier⁹. After investing in 2016 in Chile's Advanced Innovation Center (AIC) and boosting the Plasma Water Sanitation System (PWSS)¹⁰ technology, in 2017 we acquired Canadian innovation center Sanzfield. This acquisition complements our growth strategy for the water treatment and recycling business and enables us to work on solutions to the problem of underutilization of wastewater¹¹. Sanzfield develops water treatment and recycling systems, which use technologies that can remove organic matter from wastewater, without generating solid waste.

On a Group level, we manage different types of projects and initiatives and the necessary financial, human, and material resources through our three platforms based on the PMI methodology.

⁹ In 2017, we matured our classification of the segments of economic value distributed, implying the restatement of the data presented in our Annual Integrated Report 2016. You will find greater details in the section on Economic Value Distribution in the chapter on Economic Results.

¹⁰ Plasma Water Sanitation System (PWSS) makes it possible to purify 100% of the water polluted with organic matter and recognized internationally for its potential impact on global public health.

¹¹ The underutilization of wastewater is the challenge stated in the 2017 edition of the United Nations World Water Development Report.



PROJECT MANAGEMENT PLATFORMS

(102-13)

Platform	Goal	Main results in 2017
Optimiza	Platform to manage projects that seek to improve our traditional business processes and the development of our capabilities, to enhance what we currently do.	<ul style="list-style-type: none"> · Launch of new solutions, including · Tuboplus Fortech-CT® pipe · Drinking water fountain · Water purifier and alkalizer · Minimal Cost · Go to Market · Exploring cross-sale and geographic expansion opportunities for the portfolio · Brand positioning and new brand architecture · Process optimization and budget models
Project Management Office (PMO)	Platform to manage high impact, investment-intensive projects with strategic relevance that are key to the Company's evolution, to boost growth	<ul style="list-style-type: none"> · Integration of acquisitions · Sustainability strategy · Service model
Rotoplas Labs	Platform to manage innovation project development using disruptive practices of exponential organizations, to generate disruptive innovations.	<ul style="list-style-type: none"> · Purified Drinking Water Service · Sanzfield · AIC · Drinking fountain 3.1 · Vertical Water Storage System · IoT database

Convinced that our collaborators play a key role in the process of innovation, we decided to foster an internal culture of creative thinking and exchange of good practices among the various areas and countries where we have operations. We also seek to foster this culture of innovation among our external audiences, participating in innovation forums and events.

MOVING TOWARDS NEW BUSINESS MODELS

As a natural evolution, we continue to integrate a service approach in our portfolio, as well as in our way of doing business. In 2017, [we strengthened our integrated solutions platform adding maintenance services](#).

Such is the case with our residential and institutional water purifiers where, in response to the trends observed on the markets, instead of offering a product, we are proposing a [subscription to Purified Drinking Water Services](#), which include the purifier, its installation, and the maintenance service. This innovative solution contributes to reduce the use of plastic for jugs or bottles, as well as ensuring a suitable water quality for human consumption.

In a context where technology affects customers' habits, we continue to explore e-commerce opportunities for the whole operation. One of them is the recent acquisition of the [leading US platform specializing in the online marketing of water solutions](#). With it, we seek to benefit from the experience, synergy generation, and good practices to contribute to the development and growth of this and other services in the various markets where we participate. Among other benefits, this platform allows us to make inroads into new sales and distribution channels, aligning to consumers' new buying habits, which contributes to their loyalty to our brand. This platform comprises companies Plasticwatertanks.com, P-M.com, and Nautical Outfitters, and creates a hybrid business combining online and brick & mortar stores.

On the other hand, acquired in 2016, Sytesa drives forth the supply of wastewater treatment and recycling services. In order to strengthen its business model, in 2017, we worked together with the Human Capital Department to develop our collaborators and acquire skills focused on service excellence. We also seek to highlight the added value of the range of services offered, compared to more basic services, or those requiring the client to operate the water treatment and recycling plant themselves.

Our drinking water fountain line offers an integrated service comprising installation, water quality analysis, maintenance, and training. Thus, the contracts signed with government agencies consider a monthly maintenance service for 2

years, ensuring the quality of the water supplied by our drinking water fountains. Aware of the importance of the adoption and appropriation of our solutions, we have established dialogues with various institutions to foster post-sales training and beneficiaries' sensitization.

In 2017, we confirmed our focus on providing solutions through a mixed business model that streamlines and boosts our product and service mix, keeping customers' needs in the spotlight, to provide innovative water and sanitation solutions.



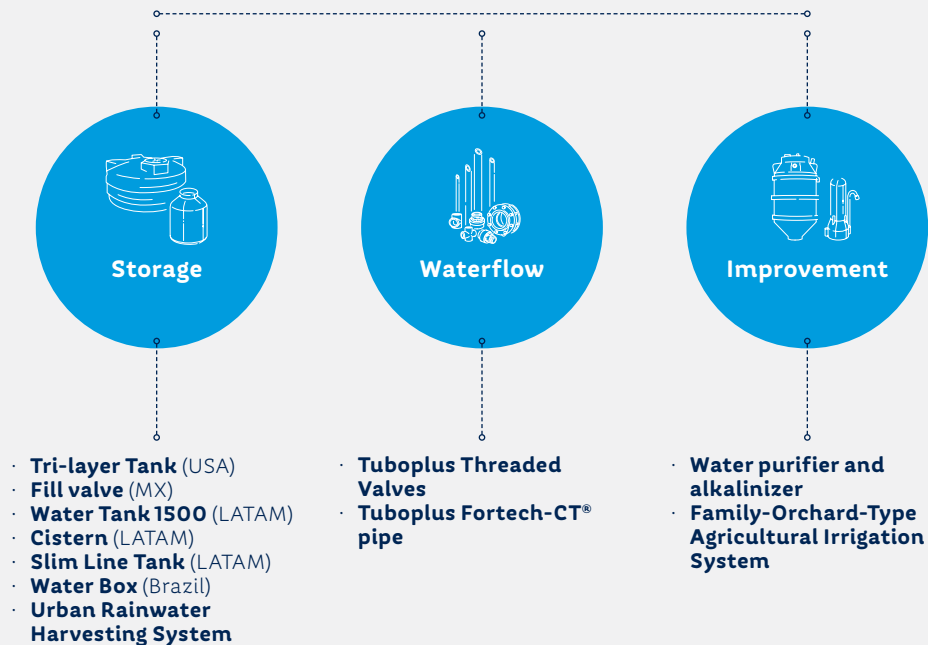
SOLUTIONS FOR NOW AND FOR THE FUTURE

(103-2, 103-3, 203-1)

Our innovation strategy and the initiatives implemented throughout the various work platforms enable us to have a broad portfolio of solutions that meet key water and sanitation requirements in the countries where we have operations.

In 2017, we launched 12 new solutions to complement our individual and integrated solutions portfolio, developed in our R&D center (CID for its Spanish acronym) in Leon, Mexico. Within our waterflow solutions line, we can note Tuboplus Fortech-CT® pipes, for instance, whereas the 3.0 Drinking Water Fountain enriches our integrated solutions offer.

Individual solutions





Integrated solutions



· **Drinking fountain 3.1**

Aside from the current makeup of our portfolio, innovation encourages us to work on those solutions that could narrow the gap between people who have access to water and sanitation and those who don't. In addition to the ongoing innovation carried out in the CID, the collaboration with AIC Chile, and the projects that our new innovation center Sanzfield has implemented, we are also working together with universities and research centers to develop, assess, and validate technology (Universities in Columbia, Texas, and Utah), as well as to develop pilot programs (Universities of Marquette, Wisconsin-Milwaukee, Massachusetts, Stanford, and Caltech). All this is reflected in the signing of 13 research and collaboration agreements in 2017, totaling 43 of these in 6 countries.

The development of pilot projects for testing and validating the estimated impact of our solutions, as well as to detect improvement opportunities in our products, is essential in the Company's innovation process. Throughout this year, several prototypes of the Sanzfield research, innovation, and development projects were installed; we will continue monitoring the results of the project to integrate our findings and keep maturing these technologies.

OPERATIONS: QUALITY AND EFFICIENCY

(102-9, 103-2, 103-3, 203-2, 204-1, 301-1, 301-2, 416-1, 417-1)

The quality of our customer-centered products and services is our main commitment. We work with strict adherence to our Quality Policy, offering a portfolio that meets the highest standards and regulations issued by the regulatory authorities of the countries where we have operations.

Our plants have [quality management systems](#) designed in line with standard ISO 9001, and 12 of our plants in Mexico, Guatemala, and Peru are certified. On the other hand, our plants in Argentina and Brazil operate following the requirements of this standard. In 2017, we worked on implementing updates to said standard to comply with its 2015 version.

To [monitor compliance with our policies and guidelines](#), as well as the specifications of the rules and standards applied in management and to the products, we carry out [internal audits](#) coordinated by the Quality Department, as well as [external audits](#), carried out by specialized third parties.

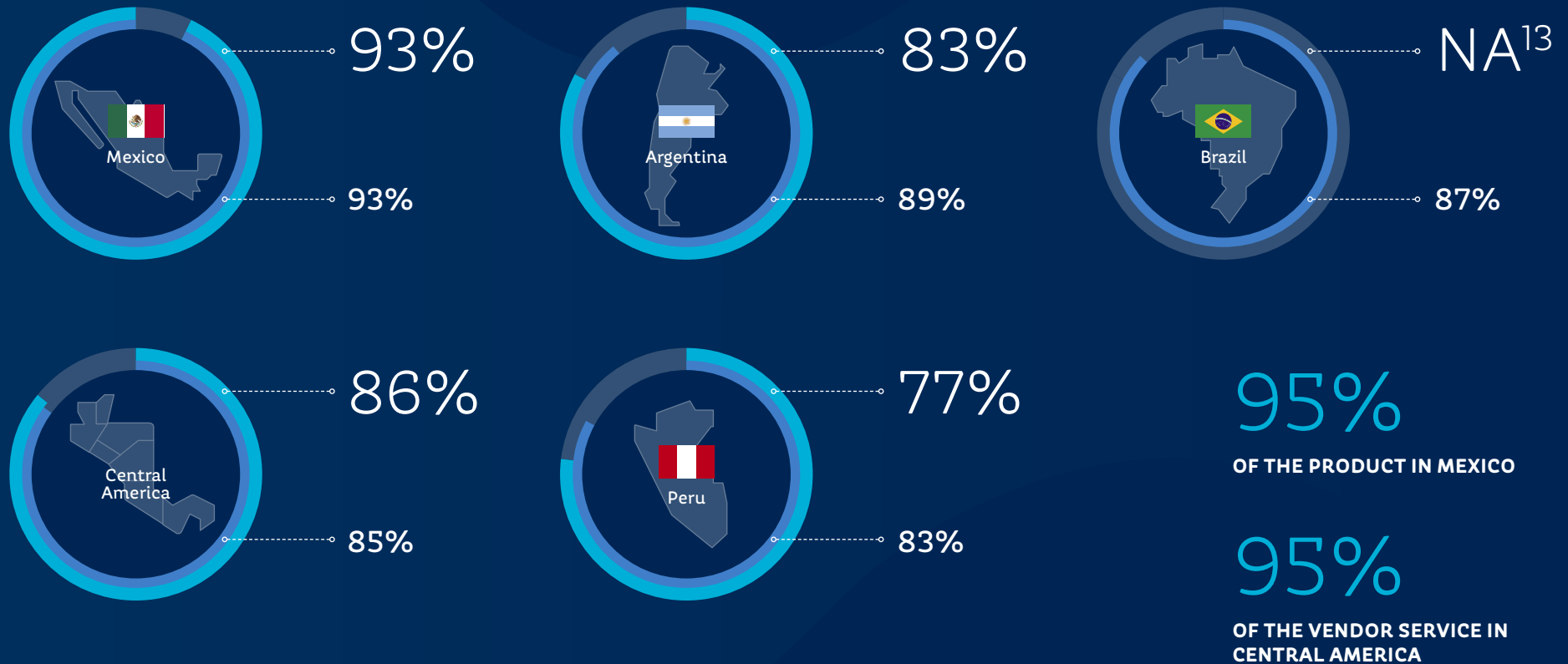
The materials used to manufacture our products are mainly [polyethylene and polypropylene resins](#). In 2017, we consumed a total of 51,109 tons of these materials, translating into a 6.8% increase compared to the figure for 2016. However, we continue to opt for [reusing](#) the plastic that results as waste from our roto-molding and injection processes. Its reintegration meets our safety standards, ensuring that our customers and users receive [the best quality products](#), while [reducing our waste generation](#). In 2017, [we used a total of 5,852 tons of recycled materials in our processes](#), translating into a 40.1% increase compared to 2016.

Our focus on quality is complemented by [timely and transparent communication](#) with our customers and users. For our overall solutions, we adhere to the corresponding standards for the various countries where we have operations, striving to comply with the disclosure requirements of each one. In addition, we have a [communication strategy](#) that defines and unifies the communication messages and tone for our institutional brand and our various business lines, ensuring their effectiveness for the segment to which they are destined.

The evolution of our business model and our [focus on service](#) encourage us to outdo our customers' and users' expectations by focusing on constant improvement. Thus, our Customer Service Center (CSC) carries out a survey to monitor the [satisfaction levels for the various solutions](#) that we offer on a quarterly basis.

CUSTOMER SATISFACTION RESULTS 2016 AND 2017¹²

■ 2016 ■ 2017



¹² Customer satisfaction is assessed on a scale of 1 to 10, where 1 is the lowest rating and 10 the highest. Percentages of satisfied customers consider ratings between 7 to 10 for both halves of 2016 and 2017.

¹³ In 2017, the satisfaction survey was not carried out in Brazil, mainly due to the context of the operations.

On a group level, the indicators with the largest increases were: delivery service, vendor service, and advertising support; another still on an uptrend is the returns indicator. Nonetheless, we must continue to work on the processes that encourage repeat purchases and recommendations of our brand.

The emphasis we place on our product quality pervades our whole supply chain. Our raw materials suppliers, and particularly those who provide us with resins, are key in ensuring the safety and quality of the final product. In 2017, we destined \$4.278 billion Mexican pesos to suppliers, as a result of an increase in sales, as well as a significant hike in raw material prices and transportation costs compared to 2016.

In line with our business model, which favors manufacturing near the destination market to minimize shipping distances, we continue to prefer local supplies. In 2017, 81.5% of spending went to local suppliers, increasing by 16% from the previous year.



In order to ensure that our products achieve maximum quality and get delivered in an optimal time, we develop and train our suppliers with a focus on incorporating best practices.

This is why, in 2017, we provided a total of 2,152 courses to train and develop 17,894 people including plumbers, vendors, and installers. Moreover, we worked together with the Mexican Ministry of Education (SEP for its Spanish acronym) to train and certify plumbers in the country. The *CONOCER* certification, which has curricular value, aims to strengthen the skills and knowledge of the plumber community, opening doors to new job opportunities. This year, a total of 205 plumbers were certified as “Water Solutions Consultants”.

OPERATING EFFICIENCY

(302-1, 302-3, 302-4, 303-1, 303-3, 305-1, 305-2, 305-3, 305-4, 305-5, 305-7, 306-2, 306-4)

At Grupo Rotoplas, we adhere to processes. Our work methodology is based on identifying and mapping these processes to then foster their adoption among our collaborators. Process implementation enables coordination during the development of activities, provides greater operating efficiency, and allows for operating cost and expense reduction. This approach is strengthened through minimal cost and optimal expense initiatives, based on the Plan-Do-Check-Act methodology (PDCA). This initiative enables us to identify breaches in cost and expenditure accounts to manage them in matrix form and achieve their optimization. The methodology pertains to the Supply, Human Resources, and Financial Planning departments, as well as to the managers of every other department in the Company.

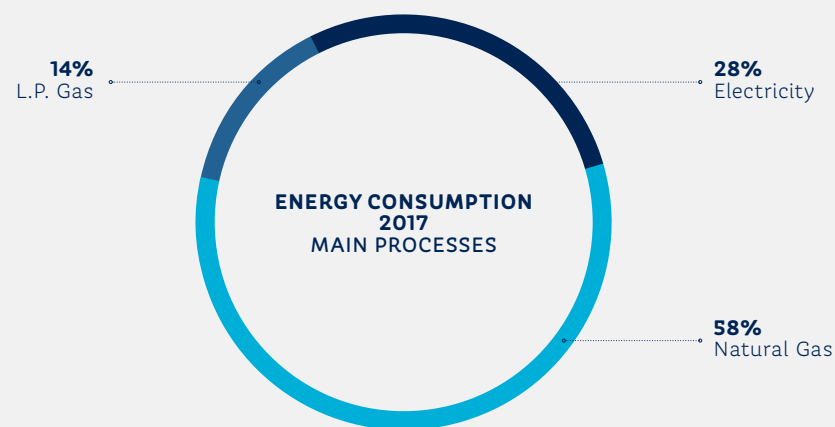
The ongoing improvement and operating efficiency guide our solutions' productive processes, from selecting and supplying raw materials to marketing our products. Proper demand planning is essential; therefore, sales forecasts for the following months and our capacity in terms of machinery and inputs are all taken into account. The next step is to prepare a production plan to distribute the workload among the various plants and set timeframes. As the products are released, their distribution must be coordinated, considering client requirements and available inventory, and coordinating their shipping through third parties.

In the various stages, we strive to achieve efficient resource utilization, including energy, as well as to reduce emissions and waste generation, opting for forms of recycling. With regard to production, we monitor our various plants to identify good practices and replicate them throughout our operations.

We should note that we have environmental management systems adhering to standard ISO 14001, under which three of our plants in Mexico and Peru¹⁴ are certified; however, the rest of our plants function in accordance with the guidelines of this standard.

We need electricity, liquefied petroleum gas (L.P. gas) and natural gas for our roto-molding, milling, extrusion, and injection processes; the roto-molding process consumes 75.5% of the total energy required in our processes.

ENERGY CONSUMPTION MAIN PROCESSES (KWh)			
Process	Source	2016	2017
Extrusion, injection, and milling	· Electricity	32,200,953	42,144,284 ¹⁵
Roto-molding	· Natural gas	113,228,799	129,642,667 ¹⁶
	· LPG		
	· Electricity		



¹⁴ We have environmental management systems certified under ISO 14001 at our plants in Lerma, State of Mexico, Leon, Guanajuato, and Lima (Peru).
¹⁵ Includes the consumption of electricity at Rotopinsa Lerma, Rotopinsa Leon (90% of the total consumption at the Leon plant) and Compuestos Monterrey.
¹⁶ Includes only consumption of natural and L.P. gas for the roto-molding machines

In 2017, our energy consumption increased by 18.1% compared to 2016, given a 51.6%¹⁷ hike in the amount of processed resin in our plants. As for our energy efficiency, the need for 1,623 kWh¹⁸ per ton of resin that we processed in 2017 translated into a 28.4% decrease compared to the energy required a year earlier.

The decrease in the amount of energy required per ton of processed resin reflects the actions implemented to reduce our electricity, natural gas, and LP gas consumption as part of the minimal-cost initiative implemented in our plants in Mexico, Peru, Brazil, and Guatemala.

We carried out our first Greenhouse Gas emissions (GHG) inventory, following the guidelines of the international Greenhouse Gas Protocol from the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), tallying a total emission of 48,530 tons of CO₂e, which translates into an emissions intensity of 0.46 ton of CO₂e per ton of processed resin.

GHG EMISSIONS (ton CO ₂ e)		
Process	2016 ¹⁹	2017 ²⁰
Scope 1 emissions	21,954	27,468
Scope 2 emissions	14,417	21,063
Scope 3 emissions	Not available	17,671

Moreover, we opt for using clean energy sources, such as electric energy from cogeneration, which is supplied to our extrusion, milling, and injection processes and represents 82.2% of the total electricity destined to production. This technology enabled us to avoid the emission of 6,888 tons of CO₂e throughout 2017.

Striving to find out the effects of our operations during the distribution stage, we included the GHG emissions from shipping vehicles used for product distribution, totaling 17,671 tons of CO₂e emissions during 2017.

In addition to calculating our GHG emissions, we calculated the emissions of other harmful gases into the atmosphere, generated by the combustion of natural and LP gas in our roto-molding process. As a result of this calculation, we arrived at a total of 30.44 tons of nitric oxide (NO_x) and 1.65 tons of particulate matter (PM). In addition to calculating our GHG emissions, we sought to find out the potential impact that a selection of our products could have throughout their lifecycle on global warming. To find out these effects, we are carrying out a Carbon Footprint study, based on standard ISO 14067: 2013, whose results will be available in 2018.

WASTE GENERATED Tons		
Category	2016	2017
Hazardous	48.70	102.97
Special handling	147.00	267.00
Urban solid waste	662.13	516.80
Total	857.82	886.77



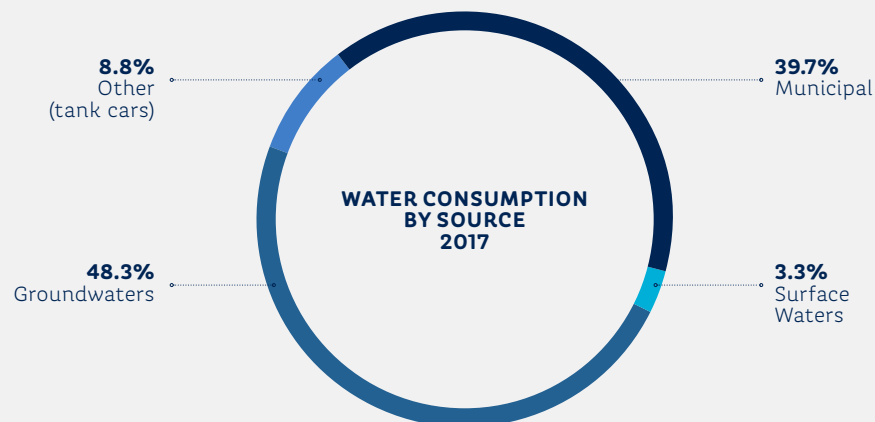
17 For the Rotopinsa Leon and Lerma plants, we consider the quantity of resin purchased and resin processed.
 18 Considering energy consumption in extrusion, injection, milling, and roto-molding processes.
 19 Considering only energy consumption in extrusion, injection, milling, and roto-molding processes.
 20 Considering all sources of emissions at the facilities under Grupo Rotoplas' operational control.

We separate waste at our plants, complying with the conditions for storing it, per our internal procedures related to our environmental management system. Next, they are delivered to companies authorized for their transport and management. Thus, hazardous waste is deposited in regulated secure landfills. For nonhazardous waste, we look for recovery opportunities, destining them to companies that see to their recycling.

DISPOSAL OF WASTE GENERATED IN 2017 TONS	
Co-processing	59.5
Incineration	10.8
Landfill	462.1
Recycling	270.0
Final disposal	1.7
Other	82.7
Total	886.77

While our processes are not particularly water-intensive, we work on optimizing our use of it as part of our commitment with a culture of rational use of water resources. In 2017, we required 106,726,000 liters and recycled 22.3%. The increase in water consumption compared to 2016 reflects the variation in sales and production between both periods.

WATER CONSUMPTION BY SOURCE (LITERS)	
Municipal	42,334,000
Surface waters	3,555,000
Groundwater	51,497,000
Other (tank cars)	9,340,000



In addition to calculating the water consumption of our operations, we seek to find out the potential impact that a selection of our products could have throughout their lifecycle on the resource that is at the core of our business: water. To find out these effects, we are carrying out a Water Footprint study, based on standard ISO 14046: 2014, whose results will be available in 2018.

03

EVERY DROP MATTERS

AT GRUPO ROTOPLAS, WE ARE COMMITTED WITH TALENT AND ENCOURAGE A GOOD ENVIRONMENT FOR OPERATION, FOSTERING THE EMPOWERMENT OF OUR TEAMS AND THE GENERATION OF SPACES TO FAVOR COMMUNICATION.



STAFF DESCRIPTION

(102-8, 102-41, 103-2, 103-3, 201-3, 401-1, 401-2, 403-2, 405-1)


At Grupo Rotoplas we grow hand in hand with our collaborators, focusing our efforts on their empowerment and strengthening critical skills that will enable them, together with the right technological tools, to make effective decisions in line with the corporate strategy. Present in 14 countries, we are enriched by the mindset and cultural diversity of our staff and foster an environment of creativity and innovation to fulfill our mission “For people to have more and better water”.

In 2017, as a result of our acquisitions in the US and Canada, we added new talents to our great team, totaling **2,898 collaborators**—2.4% more than in the previous year. The integration of Sytesa, Talsar, and AIC in 2016, and of the e-commerce platform and Canadian lab Sanzfield is part of the company's evolution towards a dual approach to water and sanitation solutions, including products and services. This evolution challenges us, demanding a flexible and streamlined structure, adapted to the needs of each business.




2,849
 Collaborators
Grupo Rotoplas

+


47
 Collaborators
E-commerce

+


2
 Collaborators
Sanzfield



Aside from employment generation, we seek to offer our collaborators employment opportunities that will include stability and a growth outlook, with a total of 76.6% of our collaborators on permanent contracts—more than a 6-point increase vs. 2016. Committed with job schemes adapted to our collaborators’ needs, we also offer part-time employment contracts to 1.4% of our staff. Despite a slight increase in women’s share of middle management positions, standing at 24.7%, their overall share decreased so they now stand for 22.2% of the whole staff. This leads us to focus more on maintaining a talent attraction strategy that highlights equal opportunities. Thus, over the next few years, we will continue to work on the integration and development of female talent throughout the job categories.

Within the context of our business model’s evolution and of the emphasis placed on the Water as a Service strategy, we are betting on young talent, which comprises 4% of our collaborators aged 30 or under and holding executive positions. In addition to our cultural diversity, we believe that the interaction of various generations encourages innovation, which is a key element behind our leadership position in offering water and sanitation solutions.

Committed to the fundamental rights of our collaborators, we respect the right of association, with 38% of collaborators affiliated to one of the 10 unions that represent their interests and with whom we maintain an ongoing communication.



22%

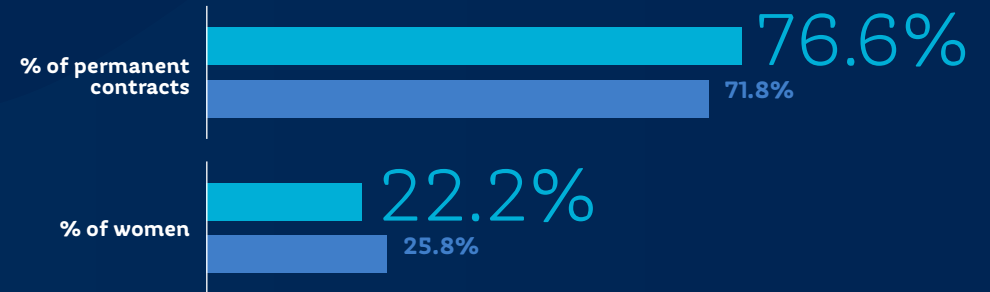
**OF THE WHOLE STAFF
ARE WOMEN**



EMPLOYMENT DEMOGRAPHICS OF GRUPO ROTOPLAS ²¹

■ 2016 ■ 2017

2,851 ^{2,241}
 No. of collaborators

COLLABORATORS BY COUNTRY GRUPO ROTOPLAS

■ 2015 ■ 2016 ■ 2017



²¹ Labor demographics data for 2016, divided into different variables, did not include the Sytesa and AIC operations. The 2017 labor demographics breakdown, divided into different variables, includes Sytesa, as well as Canadian lab Sanzfield, leaving out AIC as Rotoplas is not the majority owner, and also leaving out the US e-commerce platform, given that it is undergoing the integration process.

COLLABORATORS BY AGE GROUP AND GENDER GRUPO ROTOPLAS



EMPLOYEES BY PROFESSIONAL CATEGORY, GENDER, AND AGE GROUP GRUPO ROTOPLAS



Aware of the challenge implied by the sustained growth of our operations, we strive to attract and retain qualified talent capable of connecting with our mission, supported by our leaders under a joint responsibility approach. In addition, and with an integrated vision, we tackle the issue of retention through training, seeking to grow our talent and offer them an environment with development opportunities. In 2017, we hired 1,210 new collaborators, 364 of them under permanent contracts, which translated into a 50% increase in hiring. Mexico remains the country of operation with the most integration of new talent (1,032), followed by Argentina (77) and the US (51). The hiring of female and young talent (under 30) also increased, each standing for 23.6% and 56% of the hirings, respectively. The increase in hiring during 2017 is partly due to the completion of the integration of Sytesa in Mexico, as well as to the generation of new positions within this operation. Lastly, we began working on incorporating the staff of our US e-commerce platform. With regard to voluntary severance of our collaborators with permanent contracts, we noted a slight increase, with turnover²² reaching 17.5% of the staff.

The implementation of a better segmented compensations system that offers differentiated benefits based on the various profiles that make up our staff is further proof of our commitment with both the potential and current talent. As for remuneration, we seek to offer competitive options, considering performance and internal equality criteria. 28.5% of our staff receive variable remuneration, from our executives and middle management to division managers, as well as the departments related to commercial activity and strategic decision making (quality, logistics, finance, and new business). We should note that the variable remuneration of our executives and middle management includes sustainability indicators and initiatives, mainly for the Committee members.

Likewise, there is no difference between the benefits awarded to our full-time, part-time, and temporary collaborators, including those benefits that go beyond the legal requirements of the various countries where we have operations: life insurance, savings fund, Christmas bonus, paid vacation, and maternity or paternity leave. Likewise, our collaborators in the US benefit from a retirement plan and can decide on the sum of their contribution within the contribution limits set by the government.

Aside from having competitive remuneration, we are committed with our collaborators' safety and health, strengthening the safety culture among our staff through sensitization talks focused on joint responsibility. The whole of our plants has an annual training program and the "Do Your Share" campaign. The general goal of this campaign is to create awareness among our collaborators, particularly operations staff, regarding hygiene, health, safety, and the environment as it seeks, specifically, to reduce the number of incapacitating accidents, following the guidelines of the EHS management model. Moreover, the Lerma and Leon plants, as well as those in the US and Peru, have a management system that follows standard OHSAS 18001.

SECURITY AND HEALTH INDICATORS GRUPO ROTOPLAS			
	2015	2016	2017
N° of minor injuries	92	70	95
N° of occupational illnesses	0	6	1
N° of casualties	0	0	0
N° of days lost due to injury	1,298	999	1,164
Accident rate²³	6.69	6.72	5.13

In order to continue to improve year after year and offer safe environments that favor development, we encourage communication and feedback, providing our collaborators with platforms such as our corporate social media network R-Connect, our Roto-Enlace newsletter, and the intranet. Likewise, we implemented the Great Place to Work survey throughout our LATAM operations to learn our staff's expectations and concerns. In 2017, we achieved certification at 13 locations and, on a consolidated level, we improved by 1 point compared to the previous year. The three levels where we obtained the best ratings were: Pride in their Work, Pride in the Company, and Fairness. The results of this survey guide our actions to keep ensuring our collaborators' satisfaction and a healthy work environment.

²² We define turnover as: Voluntary and involuntary severance under permanent contract / average staffing in the year.
²³ Accident Rate = (Total incapacitating accidents reported in the year / average number of collaborators in the year) X 100.

TRAINING AND DEVELOPMENT

(103-2, 103-3, 404-1, 404-2, 404-3)

Our talent is the key to our operations’ growth and efficiency, and to our competitive advantage in generating innovative solutions aligned to our customers’ and users’ needs. Rather than just training, we seek to empower our collaborators and supply them with the right environment and tools for their development and to acquire or strengthen the critical skills required for the execution of the Company’s strategy.

In line with the business’ needs and the trends observed in the markets, our global competencies model is constantly updated. Throughout the year, we placed special emphasis on customer service, leadership, empowerment, strategic adherence, and joint responsibility—issues that we deem essential, both to the Company’s sustainability and to our collaborators’ success. Thus, we implement various on-site courses collaborating with external specialists, to help our leaders to develop and strengthen their leadership skills.

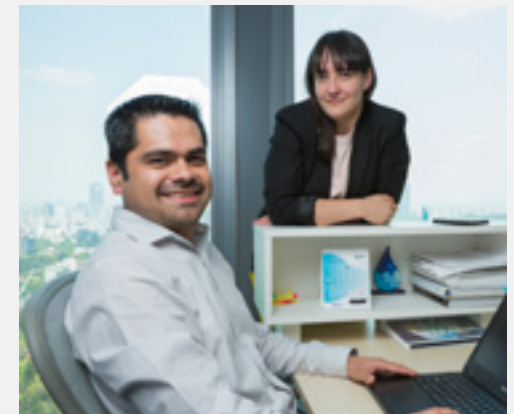
Throughout the year, we provided a total of 28,321.8 hours of training, both on-site and online, which translates into a total average of 9.9 hours per collaborator. We provide courses that follow an e-learning format, particularly for new collaborators to whom we wish to provide basic knowledge of the business and strategy through courses on the Rotoplas Way, management processes, strategy fundamentals, the Balanced Scorecard, and the Code of Ethics.

Within the training programs launched throughout this year, we also included innovation, as well as courses focusing on Design Thinking and Storytelling, planting in our collaborators the seeds of a culture of cross-cutting innovation for the company’s operations. Likewise, with the help of the “Learning solutions” platform, we have strengthened our training processes, opening a space so our collaborators can take both compulsory and voluntary courses.



28,321.8

TOTAL HOURS OF TRAINING



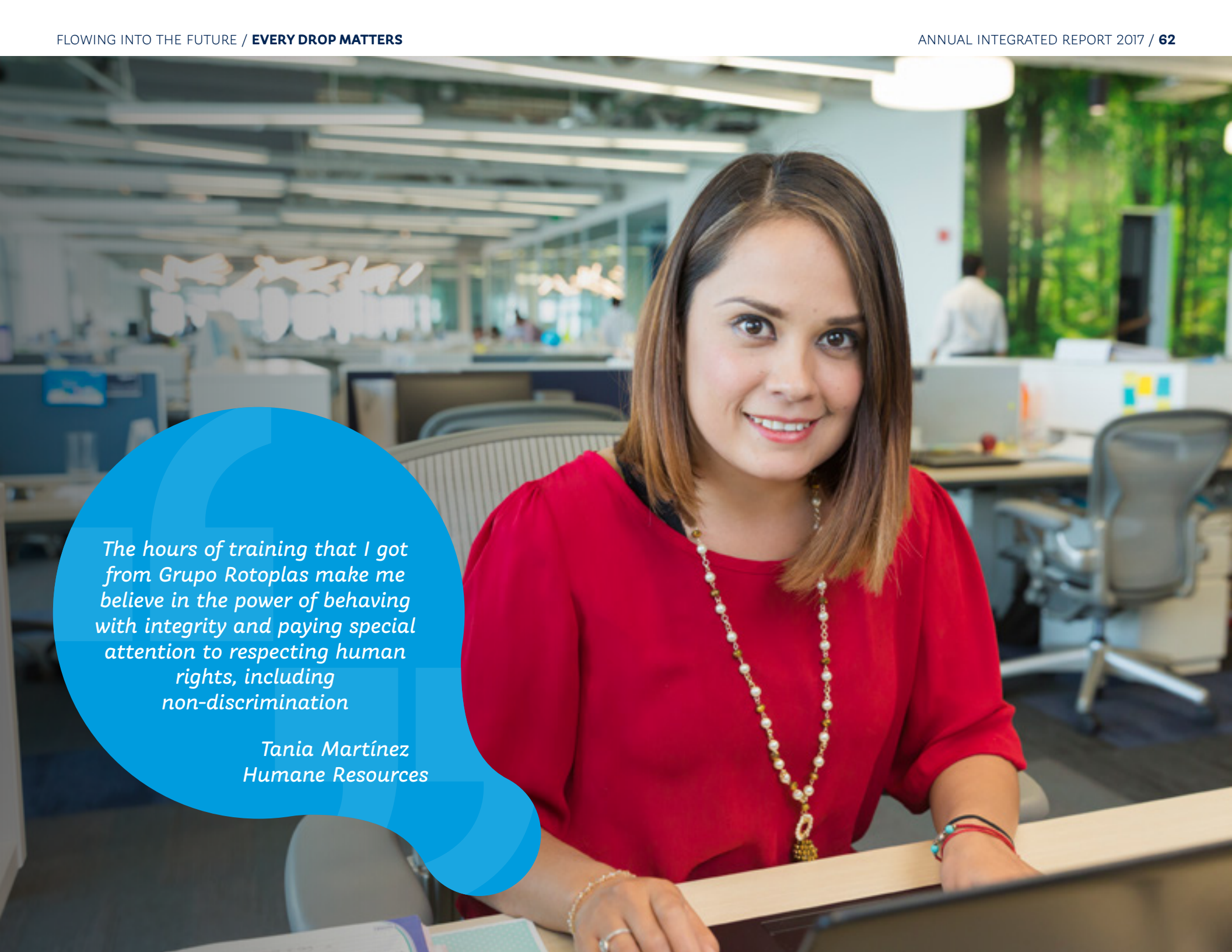


TRAINING BY PROFESSIONAL CATEGORY GRUPO ROTOPLAS					
		2016		2017	
		Total hours	Average hours per collaborator	Total hours	Average hours per collaborator
Administrative	Executives	253.1	4.4	392.4	8.0
	Middle Managers	5,292.2	18.6	2,881.4	9.8
	Individual Contributors	14,559.2	19.3	3,070.0	3.8
Operations staff		14,911.1	13.0	13.0	13.0
TOTAL		35,015.5	15.6	28,321.8	9.9

Convinced of the benefits of the gauge to detect areas of opportunity and implement measures for improvement, we monitor our performance through an annual evaluation, which is considered for our collaborators' growth within the organization. Our SAP Success Factors platform enables us to automate the process, consisting in the following 3 stages: goal-setting, midyear review, and final evaluation. For our coordinators and administrative personnel, the evaluation considers the achievement of the business goals, which derive directly from the Balance Scorecard and each one's Individual Development Plan (IDP), whereas for our executives and middle managers, it also includes the achievement of goals related to management, 360° evaluations, and Talent Review sessions, which are used to strengthen the message. Our performance evaluation considers all our administrative collaborators, who meet the criteria of seniority, contract type, and duties.

All our operations staff are subject to a different assessment process, based on productivity, as well as on the achievement of criteria such as effectiveness of their operation and adherence to safety processes, which determines their variable compensation.

RATHER THAN JUST TRAINING, WE SEEK TO EMPOWER OUR COLLABORATORS AND FURNISH THEM WITH THE RIGHT ENVIRONMENT AND TOOLS FOR THEIR DEVELOPMENT



The hours of training that I got from Grupo Rotoplas make me believe in the power of behaving with integrity and paying special attention to respecting human rights, including non-discrimination

*Tania Martínez
Humane Resources*

04

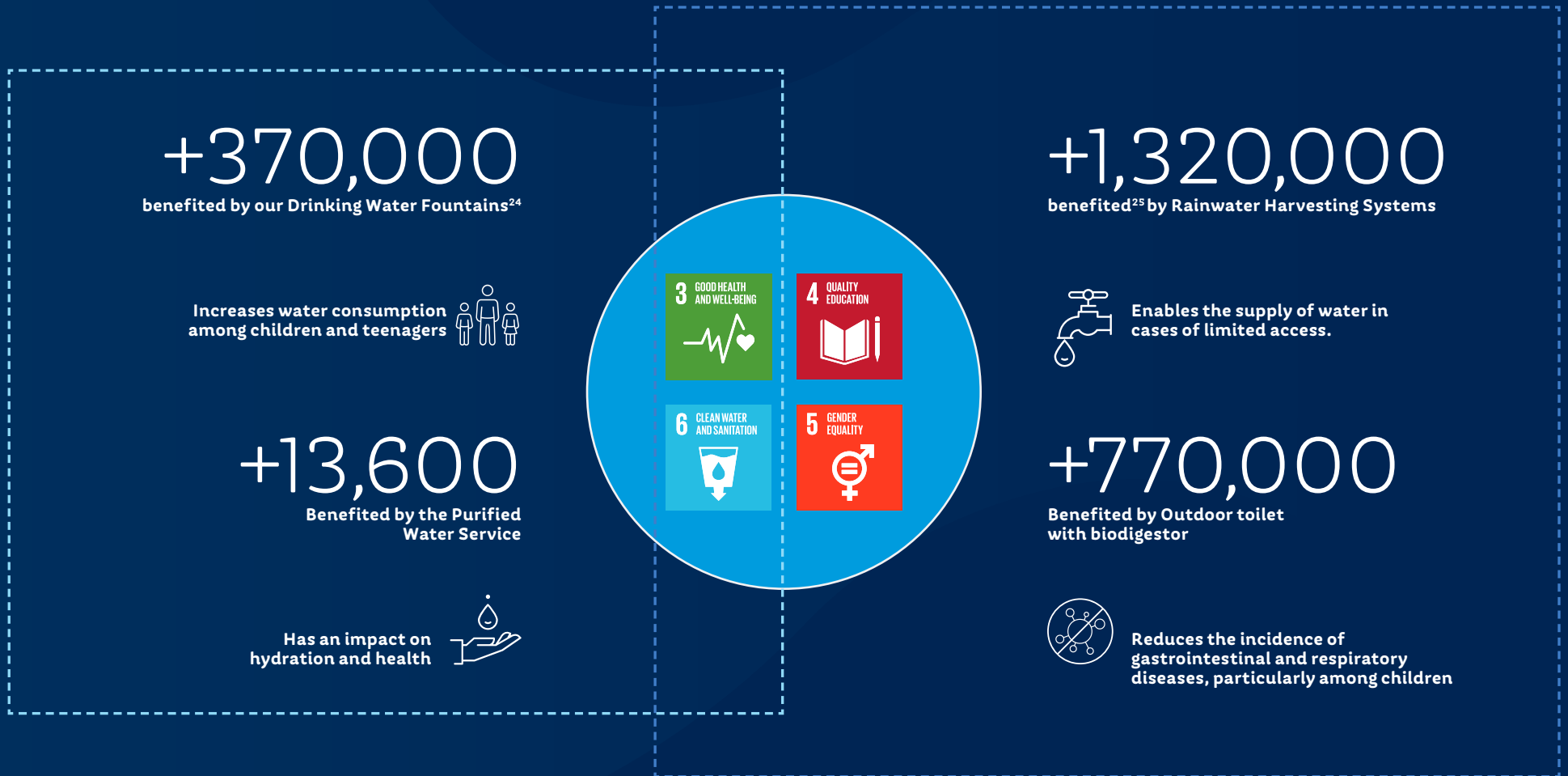
SOURCE OF CHANGE

WE ARE COMMITTED WITH THE QUALITY OF OUR PRODUCTS AND SERVICES, THROUGH WHICH WE AIM TO ACHIEVE FULL CUSTOMER AND USER SATISFACTION. WE WORK ADHERING TO OUR QUALITY POLICY, PROVIDING A PORTFOLIO WITH THE HIGHEST GUARANTEE



AWARENESS AND COMMITMENT WITH THE ACCESS TO WATER AND SANITATION

(102-12, 201-2, 203-2)



²⁴ These beneficiaries are exclusively from the schools under the INIFED National Drinking Water Fountains Program
²⁵ Total beneficiaries in the year 2017

At Grupo Rotoplas, **innovation takes on different shapes in our collaborators' hands, including new solutions and new business models** aimed at improving our customers' and users' experience. Convinced of our mission, "For people to have more and better water", and aware of the challenge that our continent faces in terms of access to water and sanitation, we have deployed actions **to boost socioeconomic development and safeguard water as a resource for the future.**

In the world, **one third of the population lives in water-stressed countries**, and by the year 2025, this number is expected to increase to two thirds (Global Compact, 2016)²⁶. As for Latin America and the Caribbean, considered the most urbanized region in the world, with over 80% of the population concentrated in these cities (ECLAC, 2017), we face a situation of water scarcity and high water stress, which has humanitarian, environmental, and economic repercussions. This reality of access to water and sanitation will be further affected by factors such as inadequate wastewater treatment, population growth, and the effects of global warming.

80%
OF THE POPULATION
CONCENTRATED IN
URBAN AREAS



²⁶ Global Compact website, network Spain, The private sector and SDG 6, <http://www.pactomundial.org/2016/05/sector-privado-y-el-ods-6/>

The region shows a broad diversity in the distribution of water resources, simultaneously housing the most arid desert in the world, with areas where rainfall is practically nonexistent, and areas facing hyperhydricity. Its geography implies a climatic diversity that, joined to global warming, results in a greater occurrence of natural disasters such as hurricanes, floods, and droughts. While in the southeast and north of South America, in the coastal areas of Peru and Ecuador, there has been a gradual increase in rainfall, the effect has been the opposite in most of Chile, the north of Argentina, the south of Mexico, and part of Central America²⁷. As for extreme rainfall, forecasts suggest an increase in the southeast of South America, in the west of Amazonia, in the northeast of Brazil, and in the northeast of Peru and Ecuador²⁸. Likewise, semiarid regions and the tropical Andes are expected to show greater vulnerability in terms of water supply, given the receding glaciers, the decrease in rainfall, and the increase in evapotranspiration²⁹. Meanwhile, the tropical areas will suffer an intensification of the *El Niño* and *La Niña* phenomena, which are related to the increase in the frequency of hurricanes and the persistence of droughts in certain parts of the Andes and the Pacific watershed³⁰. In the 14 countries where we are present, the uncertainty regarding the characteristics of future hydrological events entails the development of a series of strategies and solutions to guarantee water security for the population regardless of any climatic scenario³¹.

In 2017, we continued to identify and classify risks and opportunities derived from global warming to implement mitigation measures; for instance, to keep the intensity of adverse climatic phenomena from affecting our capacity to produce or distribute our solutions.

In response to these scenarios, and based on our Sustainability Model, we have implemented a series of initiatives for each of its 4 focal points. The experience and knowledge acquired through the projects that we carry out with government and NGO customers make us aware of the impact of our solutions in terms of health, education, and women empowerment³². We will continue to seek for collaboration opportunities with third parties to drive socioeconomic growth and better meet the needs for water and sanitation.

To achieve this, we have identified the forums and events related to water, innovation, and socioeconomic development where we can participate and contribute our knowledge and experience. For instance, in the framework of the Alliance for Sustainability, we can note our participation in the Sustainable Cities and Communities Committee. On the other hand, our CEO was invited to participate in The Nature Conservancy's Latin America Conservation Council to share his experience regarding the supply of water and sanitation. Likewise, we continue to chair the committee on "Culture and Sustainable Water Use" committee of the Mexican Water Council

(*Consejo Consultivo del Agua*), a Federal Government advisory body, where we share our knowledge on water issues in Mexico. In turn, our operations in Peru, Brazil, and Guatemala participate in various events together with third parties to expand the scope of our initiatives and solutions, and foster awareness and water awareness.



27 *Adaptación al cambio climático en América Latina y el Caribe*, Graciela O. Magrin, *Estudios del cambio climático en América Latina*, CEPAL 2015.

28 *Desafíos de la seguridad hídrica en América Latina y el Caribe*, Humberto Peña, *Serie Recursos naturales e infraestructura*, CEPAL, 2016

29 *Adaptación al cambio climático en América Latina y el Caribe*, *ibid*

30 *Desafíos de la seguridad hídrica en América Latina y el Caribe*, *ibid*

31 *ibid*

32 The projects help to improve the water supply, and sanitation conditions, and generate impacts such as a reduction of infectious gastrointestinal diseases and more time available as it is no longer necessary to carry water. In turn, these effects lead to less absenteeism both at work and school, and to an empowerment of women, allowing them to grow outside the home.

FORUM / EVENT	GOAL	ROLE OF ROTOPLAS	COUNTRY
<i>Associação AMCHAM Brasil</i>	Forum of executives from the Campinas region	Active participant in the association	Brazil
<i>Associação Trata Brasil</i>	Foster, support, and develop social responsibility actions designed to coordinate a national movement to achieve access to basic sanitation, with the aim to improve the population's health, reduce infant mortality, generate employment, and preserve the environment	Active participant in the association	Brazil
<i>Programa Sectorial de reservatórios polioléfinicos</i>	Ensure the quality of the products sold in the sector	Active participant of the program	Brazil
<i>Cámara Guatemalteca de la Construcción</i>	Ensure that the national construction sector grows in a transparent, healthy, and sustained manner	Participation in the various activities, briefings, and biddings	Guatemala
<i>Alianza por la Sostenibilidad</i>	Foster the 2030 Agenda for Sustainable Development	Founding member and participant of the Sustainable Cities and Communities committee.	Mexico
<i>Campus Party</i>	Gather IT, robotics, and electronics companies and young university graduates to solve challenges through hackathons and contests	Jury and youth coordinator	Mexico
<i>Consejo Consultivo del Agua</i>	Provide knowledge and experience on water issues to the Mexican Federal Government	Chair of the committee on "Culture and Sustainable Water Use"	Mexico
<i>Encuentro Estatal de Cultura del Agua</i>	Public projects that seek to transform communities positively in their care and use of water	Teaching the "Let's Care for the Future of Water Today" workshop	Mexico
<i>Events of the National Association of Water and Sanitation Utilities (ANEAS for its Spanish acronym)</i>	Forum of water and sanitation enterprises in Mexico that provides trainings and information	Participation and interaction with the various lecturers that participate in the events	Mexico
<i>Mexican Network of Technology Transfer Offices (TTO)</i>	Congress bringing together all universities and research centers that have technology transfer offices	Congress participant	Mexico
<i>International Forum Challenges and Opportunities for Sustainable Management of Water Resources—Peru, US, Colombia, Ecuador, Chile</i>	Multi-sector interaction platform to foster the preservation, recovery, and sustainable use of water sources in the cities of Lima and Callao	Member of Aquafondo, institution that leads the platform	Peru
<i>The Nature Conservancy</i>	Preservation of land and water on which life depends	Member of the Latin America Conservation Council	Various countries

Because we are convinced that the right decisions are informed decisions, we strive to foster and share knowledge on the needs for water and sanitation. To achieve this goal, we collaborate with universities, research centers, non-governmental organizations (NGOs), and the private sector. On the other hand, we are developing a publication on our strategic contribution to Sustainable Development Goals N°6 “Ensure availability and sustainable management of water and sanitation for all”, and N°9 “Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation”, in order to report and share these efforts and their results with our stakeholders.

We believe it is essential to [support initiatives that lead to a positive transformation of the communities](#) where we have operations and generate awareness in the use of water resources. For instance, Mexico is known to be the main consumer in the world of high caloric content beverages, according to data from the World Health Organization (WHO). Consumption of this type of beverages, poor nutrition, and sedentarism are the main reasons for the high levels of obesity in the country among adults (7 out of every 10) and children (1 in every 3)³³. Thus, in order to [encourage the adoption of healthy habits](#), we developed the Drinking Water Fountain line, which provides purified drinking water and encourages its consumption. We know, thanks to various studies³⁴, that having a Rotoplas Drinking Water Fountain increases water consumption by 54%, reducing the consumption of sugar-sweetened beverages by 34% and waste related to bottled beverages by 16%. The setting up of over 4,600³⁵ [drinking water fountains](#) in the Mexican Republic [will benefit over 600,000 children and teenagers](#), with a positive effect on their level of hydration and health. Moreover, we have established an alliance with Dow [to build sustainable housing](#). This alliance resulted in a pilot project for

sustainable housing in a rural area of the Sierra Tarahumara in Chihuahua.

On the other hand, [we made a commitment with the rural communities of Nayarit and Jalisco in Mexico](#), assisting farmworkers on the matter of sanitation. Agricultural producers must meet certain sanitation and safety requirements to market and export their products. The installation of our outdoor toilets with biodigestor, which enable a primary level treatment of wastewater, [helps the beneficiaries of 70 plots of land to ensure the quality and safety of the food produced](#).

Over the year and in response to the earthquakes that affected Mexico, we put in motion the Water for Affected Areas Program (PAZA for its Spanish acronym), through it, we benefited more than 600 thousand affected people through purifying water plants, composting bathrooms in shelters and different water storage solutions that alleviated the basic water needs of the most affected population.

The will to [offer solutions that meet communities' water and sanitation needs](#) has led us, throughout time, to form alliances with various players in the countries where we have operations; thus, we have set up over 490,000 rainwater harvesting and outdoor toilet with biodigestor systems that improve the standard of living of [over 2 million people in Latin America](#) since they were launched. Now, in 2017, we also cater to water access needs in urban areas with the launch of the [Urban Rainwater Harvesting System](#), which optimizes space and makes it possible to collect rainwater where a rural rainwater harvesting system would not be able to. This solution benefits from the nearly 1.4 million cubic meters of water that Mexico receives annually as rain³⁶, supplying water that can be used for irrigation, washing cars, floors, and clothes, and generating savings in the use of potable water.

Hoping to ensure the positive effects of this type of solutions, we are carrying out a study that enables us to identify and measure the key moments and processes that have the largest impact. In 2018, this pilot project in housing and schools will provide valuable information to generate improved social projects.

490,000

RAINWATER HARVESTING AND OUTDOOR TOILET WITH BIODIGESTOR SYSTEMS THAT IMPROVE THE STANDARD OF LIVING OF OVER 2 MILLION PEOPLE IN LATIN AMERICA



33 National Health and Nutrition Survey (ENSASUT for its Spanish acronym).

34 Studies performed together with Inmega (2016).

35 At yearend 2017, +2,850 have been installed; *1,770 remain to be installed under the INIFED National Drinking Water Fountains program.

36 Statistics of Water in Mexico (CONAGUA, 2016)

COMMUNICATION AND EMPOWERMENT REGARDING WATER

(102-12, 103-2, 103-3)

In Latin America, the deterioration and overuse of water sources, the increasingly more noticeable effects of global warming, and society's lack of appreciation of water as a resource leads us to focus on implementing actions to build a collective culture for the responsible use and appreciation of water.

Sytesa has enabled us to foster the water cycle's economic, ecologic, and operational sustainability through wastewater treatment for responsible discharges and/or recycling. With a presence in 32 states of the Mexican Republic, we treated over 6,496,416 m³ of wastewater in 2017. The potential impact of this solution goes hand in hand with the progress made in legislation for wastewater treatment and sensitizing society on the recycling of this resource. The fourth focal point of our Sustainability Model is thus centered on **safeguarding water as a resource, both for current and future generations.**

For us, water awareness begins with our collaborators. Thus, in 2017, we included in our Onboarding process visits to our plants, sales routes, and communities where our solutions are set up in order to sensitize and transform our collaborators into ambassadors of a new culture of appreciation of water resources.

Our participation in water-related forums and events also offers an opportunity to drive and spread the water awareness. For instance, the First State Encounter of Water awareness in the State of Mexico enabled us to sensitize over 300 elementary and middle school students on how to care for water, encouraging them to become the agents of change. Moreover, we continued to promote our **"Fan del Agua"** (Water Fan)³⁵ platform with two weekly entries on the blog, whose contents are prepared in line with the global water agenda and the most relevant topics

regarding the sustainable use of this resource. The platform experienced great growth in the year, totaling **+375 thousand fans, +20,500 monthly visitors**, and 91,569 average users. Aware that a change in culture comes with the new generations, we continue to offer **training, workshops, conferences, and expos** at universities and for the general public, reaching +34,000 people. We also sponsored the inauguration of a new permanent space in the *Papalote Museo del Niño* interactive museum in Mexico City. Through the activity called **"Catch the water!"**, our goal is to teach kids aged 3 to 5 about the water cycle through games to make them aware of how to use, save, and care for this vital liquid. With this activity, we managed to reach +750,000 people.

The university environment, and particularly a collaboration with *Universidad Iberoamericana*, provided us with the possibility of expanding our understanding of water consumption through research carried out on water uses and consumption habits in Latin America. We hope to boost the findings of this study through our various initiatives to strengthen the water awareness.



05

TRANSPARENT GOVERNANCE

AT GRUPO ROTOPLAS, WE ARE COMMITTTED TO THE GENERATION OF VALUE FOR OUR STAKEHOLDERS, IN LINE WITH OUR VALUES AND ADHERING TO THE ROTOPLAS WAY. THEREBY, WE FOLLOW THE HIGHEST STANDARDS OF CORPORATE GOVERNANCE, STRENGTHENING THE DUE DILLIGENCE OF THE DECISION-MAKING PROCESS.



STRUCTURE

(102-5, 102-18, 102-19, 102-20, 102-22, 102-23, 102-24, 102-27, 102-28, 102-33, 102-35, 102-36, 102-37, 405-1)

We conceive corporate governance as a framework for action that guides the definition, evolution, and execution of our strategy. Based on our values and adhering to the Rotoplas Way, our corporate governance comprises a set of principles, processes, and controls that strengthen the due diligence and streamline the decision-making process, enabling us to keep creating value for our stakeholders.

Grupo Rotoplas' shares are traded on the Mexican Stock Exchange (BMV for its Spanish acronym), and 35.15% are held by a group of the main shareholders. Our market cap value at yearend was \$14.689 billion Mexican pesos—13.4% higher compared to the previous year.

At the top level, [the General Shareholders' Meeting](#) is responsible for appointing the members of the Board of Directors, proposed by the shareholders. It is also responsible for reviewing and approving, when applicable, the operational and results report each year, including the consolidated and audited financial statements at yearend. the Board of Directors is responsible for the presentation of said report, which enables the Shareholders' Meeting to assess the performance of the board members.

The [Board of Directors](#) comprises 15 members, 7 of whom are independent, thus surpassing the requirement of the Securities Market Law of at least 25% of independent members. Chaired by Mr. Carlos Rojas Mota Velasco, cofounder of the Group and CEO, the Board of Directors has broad knowledge of the Company, the environment in which it evolves, and a deep understanding of the sector. In fact, when they are proposed, the possible members of the Board must prove their experience and that they have the abilities and skills necessary to exercise their fiduciary functions and responsibilities. Appointed by the Shareholders' Meeting, the Board members serve for a renewable term of one year, averaging over ten and a half years in the position.

When they step in, we make sure that all our board members fulfill their duties of loyalty, diligence, and sense; likewise, they receive training regarding their duties and responsibilities, ensuring that they are kept up to date regarding our policies and Code of Ethics and Conduct. In addition, each member of the Board is kept up to date on the inorganic growth, business opportunities, financial results, and state of the buyback fund, among other relevant affairs. Aiming towards continuous improvement, we encourage each board member to take a brief survey that makes it possible for you to assess the efficiency of the meetings in which they take part, and the level of information they are furnished.

The Board has ordinary meetings every three months with an average attendance of 82%. Its functions, stated within the Bylaws, include setting the strategic course and monitoring it through the activities of the management team and their results. Likewise, the Board is responsible for approving the internal control and audit guidelines, as well as the policies for management compensation and the appointment of the CEO. To exercise its functions, the Board is supported by 3 committees, chaired by independent board members and in charge of supplying information regarding their corresponding field. Moreover, each committee is responsible for preparing and presenting an activity report to the Board of Directors, which is in turn discussed in the Shareholders' Meeting, making it possible to assess the performance of the members of the various committees.



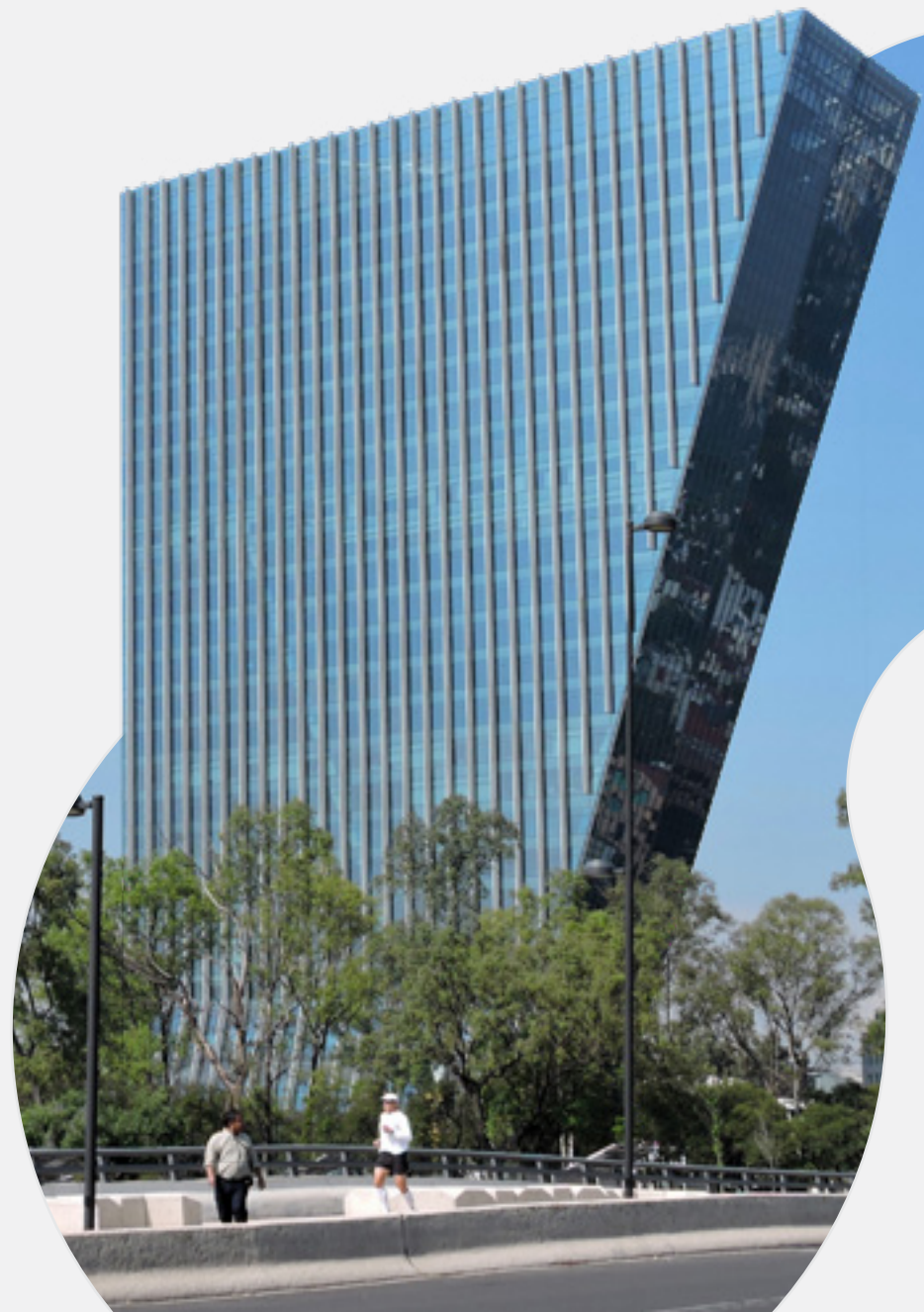
Audit Committee



Corporate Practices and Strategy Committee



Compensations Committee



COMMITTEE	FUNCTIONS
 <p>Audit</p>	<p>It holds quarterly meetings, or more frequently if circumstances require it, and is comprised by 3 independent members. Some of its functions are:</p> <ul style="list-style-type: none"> · Report to the Board of Directors on the irregularities found in audit processes · Supervise collaborators' activities, such as the work of external auditors, including reports and opinions · Report to the Board of Directors on the state of the internal control system and the irregularities found · Supervise related-party transactions · Monitor the activities of the management team
 <p>Corporate Practices and Strategy</p>	<p>It meets on a quarterly basis and is comprised by 3 independent members. Some of its functions are:</p> <ul style="list-style-type: none"> · Give the Board of Directors its opinion on the administrative practices and operations · Request and obtain third-party opinions from independent experts · Assist the Board in preparing the annual reports · Assess inorganic growth opportunities · Monitor the Sustainability Committee's initiatives and indicators · Assess strategic projects and capital investments
 <p>Compensations</p>	<p>It holds quarterly meetings, or more frequently if circumstances require it, and is comprised by 2 independent members. Some of its functions are:</p> <ul style="list-style-type: none"> · Support the Board of Directors in reviewing the organizational structures of the Group and its companies to ensure that they are properly aligned with the corporate vision and strategy · Provide their review and opinion of the guidelines for remuneration · Review the corporate values established within the institutional philosophy and ethics in the relations among collaborators, following the Companies set of beliefs and values · Propose actions to improve the work environment and guide the processes of organizational development · Propose to the Board of Directors the fixed compensation and fringe benefits for board members and management, as well as the policies for positions and salaries · Propose and monitor the performance evaluation systems · Recommend training and development programs

Committed with the execution of the Grupo Rotoplas strategy, we have an experienced and high-performance management team, comprising four vice-presidents and ten top managers. Advised by the Compensations Committee, our management team receives compensation with a fixed part, a Stock Option Plan, and an Allocation Plan of Reference Value Units (UVR for its Spanish acronym). Likewise, the Sustainability Committee is co-chaired by the Vice-President of Institutional Business Development, and a member of the Board of Directors

(CFO), ensuring the management and monitoring of environmental, social, and corporate governance topics, in line with our Sustainability Model and the ensuing action plans. The committee reports its progress on a quarterly basis to the Corporate Practices and Strategy Committee.

ETHICS

(102-16, 102-17, 102-25, 102-26, 205-1, 205-2, 205-3, 406-1, 412-2, 415-1)

The Rotoplas Way and our values guide our operations and interaction with the stakeholders. Specifically, we are defined as a company with integrity, whose actions reflect honesty, justice, ethics, and coherence between what we think, say, and do.

We follow a [Code of Ethics and Conduct](#), reviewed and approved by the Board of Directors. This code includes the general rules of conduct and those specific to our collaborators' relations with each other and with other stakeholders. The Code of Ethics and Conduct is compulsory to each and every one of our collaborators, board members, and suppliers. The Chairman of the Board is responsible for ensuring that all the collaborators are familiar with this code and follow it strictly. On the other hand, it is important to note that we make no political contributions of any kind.

Within our Code of Ethics and Conduct, we have established a set of principles and general rules that guide the ethical behavior of our staff. The document forbids any form of corruption, including extortion and bribery, as well as providing a definition of conflict of interest, the obligations should such a situation arise, and the activities to ensure an adequate resolution.

Aside from our Code of Ethics, we assess the risk of corruption at 27 workplaces, including our plants, corporate offices, and distribution centers. Each department is responsible for supervising the adequate management of resources and compliance with controls, as well as other factors that compromise the integrity and honesty of the Group's processes. If they should identify or suspect some breach of our code, our collaborators can resort to "[Confía Rotoplas](#)" (Trust Rotoplas), a channel that makes it possible to file an anonymous report on whoever is threatening the institutional values. Based on the type of report, our

Human Capital, Controller, and Corporate Security departments get fully involved to take care of these reports and offer an adequate solution. Despite our efforts to prevent any type of breach of our code, in 2017 we found one case of corruption within our operations in Peru. Following the corresponding inquiry, we decided to rescind the contract and file a lawsuit against the collaborator who had incurred in the breach.

In order to share our values and communicate the importance of ethics to our new collaborators, we make our Code of Ethics and Conduct available to them and provide training, as well as requesting their commitment with applying it when exercising their functions. Later, all collaborators are evaluated to confirm their understanding of that code.

To ensure that this document is available and that our collaborators can view it, we have digitalized it and included it in our internal network, R-Connect. Likewise, our suppliers may find the Code of Ethics and Conduct in the invoicing section of the website developed for their use since, as part of the registration process, they must read and agree to it.

On the other hand, in line with our Talent Attraction Policy, our Code of Ethics and Conduct emphasizes our commitment with equal opportunities and fair treatment. To this effect, we should note that there were no cases of discrimination throughout 2017.

Committed with constantly strengthening our corporate governance, we created 15 new policies and updated 8 others throughout the year.

RISK MANAGEMENT

(102-11, 102-15, 102-29, 102-30, 102-31, 103-2, 103-3, 206-1, 307-1, 416-2, 417-2, 417-3, 419-1)

At Grupo Rotoplas, we act preventively to identify, manage, and mitigate risks—both those that we could incur in due to our performance, and those related to external factors.

With a presence in 14 countries, we evolve in an ever more complex economic, social, environmental, and political context, which forces us to keep our risk identification process up to date. Thus, we have a [risk map](#), which we update and revise every year; it helps us to set prevention and mitigation measures, which are monitored through our internal control system.

On the other hand, to guarantee the proper functioning of the internal control system, as well as compliance with our policies, we have sound internal audit processes carried out in line with an annual plan. This is complemented by evaluations carried out by a third party.



MARKET	\$	Increase in raw material prices.	· The main raw materials we use are oil derivatives whose prices vary based on market conditions.
	\$	Changes in consumers' income and preferences.	· We are exposed to the disposable income of our customers, including government entities, given the economic situation of each country. · In a changing environment, consumer confidence can become affected and they can modify their preferences for one type of solution or other, particularly faced with an increasingly more global competition.
	\$	Macroeconomic conditions that affect the sectors that make up our market.	· Demand for our solutions in sectors such as construction of agriculture is influenced by short- and medium-term macroeconomic conditions.
	\$	Decrease in the return on investment destined to increase and improve production capacity, given the changes in the macroeconomic environment.	· The water solutions business requires a significant capital investment to design and build plants near the points of sale and distribution. · Increased exposure to local sales, and thus, to the economic conditions of the country where we are operating, making it difficult to sell that production in markets with better trends.
	\$	Difficulties in the successful entry and expansion of operations in new markets.	· We continually analyze and explore the possibility of expanding our operations and entering new markets. Although decision-making is based on business plans, there are factors inherent to each market that are beyond our control.
REGULATORY	\$	Effects on the limits of foreign trade operations.	· We are exposed to disruptive measures on issues of imports and exports in the countries where we have operations, those from where we import, or to which we export.
		Unforeseen costs of complying with environmental, labor, and security laws.	· We are subject to various laws and regulations on environmental, labor, and security issues, which can be modified. Said modifications may represent additional costs, as well as costs derived from penalties for noncompliance.
OPERATIVE		Operations affected by extreme weather conditions and/or natural disasters.	· Extreme weather conditions and/or natural disasters could hamper our operations or damage the infrastructure including production plants and distribution centers.
		Stoppage and temporary shutdown of plants and/or distribution centers.	· Substantial interruption at production plants, supply chain, distribution centers, or distribution network for reasons beyond our control.
	\$	Inability to develop high quality and innovative products and solutions.	· The strength of our brand could face difficulties if we are unable to supply innovative and quality solutions.
		High turnover and inability to attract talent.	· We are exposed to the loss of technical and strategic knowledge, as well as of investment in development due to turnover.
FINANCIAL	\$	Inability to manage the Company's growth efficiently.	· We are exposed to suffer a lack of own resources, sources of financing, processes, controls, and suitable systems to manage the Company's growth.
EMERGING	\$	Cybernetic vulnerability	· We are exposed to cyberattacks and data leaks in the corporate information security and when incorporating the online sales business and the offer of services contracted by phone.

Although we are guided by our values and adhere to the legality of the various countries where we operate, there is a potential risk of noncompliance resulting from internal and/or external factors. During the year, this risk materialized in 14 monetary sanctions equivalent to \$396,091.52 Mexican pesos. However, we should note the lack of incidents resulting from a breach of regulations regarding the effects of products and services on users' health and safety during their lifecycle.

06

PATHS TOWARDS THE FUTURE

AT GRUPO ROTOPLAS, WE STRENGTHEN OUR PURSUIT FOR INNOVATION AS OUR HALLMARK BY DELIVERING PERTINENT SOLUTIONS TO PROVIDE WATER AND SANITATION, WHICH CONTRIBUTE TO SOCIAL DEVELOPMENT.



FUTURE OUTLOOK

At Grupo, Rotoplas we have transformed our business model, migrating from a model of product marketing to a mixed approach that prioritizes the added value of service in our water and sanitation solutions.

Given the unequal distribution of water, the underutilization of wastewater, and the lack of appreciation of the water resource, as well as the remarkable incidence of global warming on water safety, we are **facing large-scale problems that challenge our capacity to innovate and offer solutions to deal with these issues.**

Aware of the **challenge to recycle wastewater**, we continue to strengthen the offer of solutions through Sytesa to cross borders and meet the needs of other markets. Likewise, we continue to favor innovative technologies, such as the Plasma Water Sanitation System (PWSS) developed by AIC, as well as residential wastewater treatment technologies developed by Sanzfield. In addition to working on developing and upgrading them, we know that part of the challenge lies in revolutionizing the way in which society and the authorities perceive wastewater and foster the value of this resource.

On the other hand, we believe there must be an **intrinsic connection between water and sanitation needs and the solutions that make up our portfolio.** We are convinced that our clients and users play a key role in identifying those needs; thus, we are constantly bolstering the mechanisms that can enable them to voice these needs so we can **collaborate with them in designing, improving, and creating new solutions.**

At Grupo Rotoplas, innovation in terms of solutions, operations, and business models has become our hallmark. We strive to merge our innovation and sustainability models to bring to life **solutions with positive impacts in economic, social, and environmental terms**, and build, together with each of our collaborators, an increasingly more sustainable society, committed with the future generations.



ABOUT THIS REPORT

(102-10, 102-32, 102-45, 102-46, 102-47, 102-48, 102-49, 102-50, 102-51, 102-52, 102-54, 102-56, 103-1)

At Grupo Rotoplas, we bolster our stakeholders' trust by focusing on transparency and accountability regarding how we create and share economic, social, and environmental value.

We are therefore presenting our third Annual Integrated Report, which speaks of our financial and non-financial performance throughout 2017³⁸, in all the countries where we have operations. In line with the reports presented in past years, we continue to apply the methodology developed by Global Reporting Initiative (GRI), which is the international benchmark. This report has been created in compliance with GRI Standards: under the Exhaustive approach and communicates our social, environmental, and economic performance together with the corporate governance practices.

We continued to improve our information management processes, involving and training the departments that participate in developing this report, in order to be able to submit it to external verification in the future, which will enable us to strengthen our relationship of trust with our stakeholders. Thus, the 2017 report includes various

restatements of the information presented in the previous report, and which are integrated, alongside their justification, in the corresponding chapters. The reader can thus properly understand the 2017 data, benefiting from an objective comparison to the previous year's figures.

In 2016, we carried out a materiality analysis that enabled us to add the outlook of our stakeholders to our own, and thus determine the key issues on which we must focus our communication³⁹. This study was the guideline for defining the contents of our report, which have been organized in line with the structure of our Sustainability Model and the elements that comprise it.

Below, we present a list of the material issues and limits, which were validated last year by our Sustainability Committee.

³⁸ The group of Grupo Rotoplas' subsidiaries can be viewed in the Financial Statements presented at the end of the Annual Integrated Report.

³⁹ The stages and activities implemented under our materiality study may be viewed in the chapter on Sustainability Model in our Annual Integrated Report 2016, page 26.

Material Issue (GRI Standard 102-47)	LIMITS (Coverage)	
	Internal (GRI Standard 103-1)	External (GRI Standard 103-1)
Access to water and sanitation	Grupo Rotoplas	<ul style="list-style-type: none"> · Distributors · Government & NGOs clients
Employees' attraction and retention		<ul style="list-style-type: none"> · N/A
Quality		<ul style="list-style-type: none"> · Raw material suppliers
Water Awareness		<ul style="list-style-type: none"> · Authorities · Government & NGOs clients
Employees' development		<ul style="list-style-type: none"> · Training providers
Economic performance		<ul style="list-style-type: none"> · Investors and other capital suppliers · Raw material suppliers · Distributors
Operational efficiency		<ul style="list-style-type: none"> · Suppliers · Distributors · Government & NGOs clients
Strategy, business model and trademark		<ul style="list-style-type: none"> · Investors and other capital suppliers · Distributors · Government & NGOs clients
Risk management		<ul style="list-style-type: none"> · Investors and other capital suppliers · Suppliers · Government & NGOs clients
Innovation		<ul style="list-style-type: none"> · Investors and other capital suppliers · Raw material suppliers · Distributors · Government & NGOs clients · Universities · Strategic partners · Authorities & Regulatory Bodies
Relationship with clients		<ul style="list-style-type: none"> · Distributors · Government & NGOs clients

N/A Does Not Apply

AUDITED FINANCIAL STATEMENTS

Management Comments for fiscal year 2017

2017 was Rotoplas' third year as a public company, and despite the risks prevailing in the markets where we participate, we focused on reconfiguring our portfolio towards higher growth and profitability solutions, as well as on the successful integration of our recent acquisitions, thus achieving a 24.41% increase in net revenues vs. 2016.

Mexico's sales reflect the successful integration of Sytesa and the increase in demand for individual solutions during the first half of the year. Thus, Mexico's annual sales grew 23.7% and stood for 64.4% of the Group's total income, whereas in 2016 they stood for 64.7%.

We should note that, during 2017, we began recording income from the sale of integrated solutions with maintenance service, both for wastewater treatment and recycling plants, and for the drinking water fountains program.

On the other hand, Brazil remained immersed in a tough political and economic environment, considerably reducing the demand for integrated solutions for sanitation and water access. Nonetheless, thanks to higher sales of individual solutions and the reactivation of government contracts, sales rose 11.6%, representing 6.8% of the Group's total income, whereas in 2016 they represented 7.6%.

The Other Countries division, which includes our operations in Argentina, Belize, Costa Rica, El Salvador, the US, Guatemala, Honduras, Nicaragua, and Peru,

showed a significant 29.5% advance in sales, thanks to higher demand for individual solutions, as well as to the incorporation of sales through the e-commerce platform in the United States of America. This division contributed 28.9% of the total income in 2017, whereas in 2016 it represented 27.7%.

At the solutions level, individual solutions stood for 88.6% of sales, growing 18.8% vs. 2016, mainly supported by higher sales in the traditional channel in Mexico, as well as by the integration of Talsar in Argentina.

Integrated solutions stood for 11.4% of total sales, growing 97.2% vs. 2016, mainly due to the integration of Sytesa in Mexico.

The consolidated gross profit margin decreased by 270 basis points, given a lower capacity to absorb fixed costs in some countries and the increase in resin prices resulting from the scarcity caused by natural disasters. Lower operating expenses thanks to a higher capacity to absorb and control expenses partially mitigated the hike in costs, keeping the operating margin in line with the previous year.

Thereby, EBITDA margins in Mexico and Brazil rose to 23.0% and (15.1%), respectively. On the other hand, the profitability of the Other Countries division decreased by 380 basis points to 4.5%. On a consolidated level, it increased by 130 basis points, achieving a 15.1% margin.

By solution, the EBITDA margin of individual solutions grew by 290 basis points, given a greater capacity to absorb fixed costs and expenses, thanks to higher sales. On the other hand, the profitability of integrated solutions decreased significantly, from 26.0% to 10.0% vs. 2016, due to a slowdown in government spending during the second half of the year.

We must note that net profit increased 18.7%, whereas in terms of margin, it contracted by 40 basis points compared to the previous year. This is due to extraordinary expenses resulting from the

donations made under the Water for Affected Areas Program (PAZA for its Spanish acronym) following the earthquakes that struck Mexico.

The comprehensive financing result at December 31, 2017 stood at \$0 million Mexican pesos, compared to the positive balance of \$70 million Mexican pesos generated a year earlier. This was because of a revaluation of the currencies of the countries where Rotoplas has operations, and interest paid, given the issuance of a Sustainable Bond worth a total of \$2.0 billion Mexican pesos to finance and refinance some of the company's strategic projects.



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		401-3		Not applicable, as the company has no significant impacts in terms of gender equality	Principle 6
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		103-2	60		
		103-3	60		
	GRI 404: Training and education 2017	404-1	60		Principle 6
		404-2	60		
		404-3	60		Principle 6
	GRI 405: Diversity and equal opportunity 2017	405-1	55, 71		Principle 6
		405-2		Not applicable, as the company has no significant impacts in terms of gender equality.	Principle 6

MATERIAL ISSUE	GRI STANDARD	CONTENTS	PAGE/LINK	OMISSION	UN GLOBAL COMPACT PRINCIPLE	
Economic performance	GRI 103: Management Approach 2017	103-1	79			
		103-2	12			
		103-3	12			
	GRI 201: Economic performance 2017	201-1	23			
		201-2	64			Principle 7
		201-3	55			
		201-4	23			
Operating efficiency	GRI 103: Management Approach 2017	103-1	79			
		103-2	48			
		103-3	48			
	GRI 204: Procurement practices 2017	204-1	48			
	GRI 301: Materials 2017	301-1	48			Principle 7 and 8
		301-2	48			Principle 8
		301-3		Does not apply. Given the durability of the products that the company manufactures, the useful life is extended in such long intervals that the utilization when it ends does not generate a significant impact.		Principle 8
	GRI 302: Energy	302-1	51			Principle 7 and 8
		302-2		Does not apply. The products manufactured by the company either do not require energy consumption for use, or this consumption is negligible.		Principle 8
		302-3	51			Principle 8
		302-4	51			Principle 8 and 9
		302-5		Does not apply. The products manufactured by the company either do not require energy consumption for use, or this consumption is negligible.		Principle 8 and 9
	GRI 303: Water 2017	303-1	51			Principle 7 and 8
		303-2		Does not apply. The significance of the impact on the need for water in the company's operations lies in quantity, not in source.		
303-3		51			Principle 8	

MATERIAL ISSUE	GRI STANDARD	CONTENTS	PAGE/LINK	OMISSION	UN GLOBAL COMPACT PRINCIPLE
Operating efficiency	GRI 305: Emissions 2017	305-1	51		Principle 7 and 8
		305-2	51		
		305-3	51	.	
		305-4		Not available; we will work to have this information in the next report.	Principle 7
		305-5		Not available; we will work to have this information in the next report.	Principle 8 and 9
		305-6		Not available; we will work to have this information in the next report.	Principle 8
		305-7	51		Principle 7 and 8
	GRI 306: Effluents and waste 2017	306-1		Does not apply. The manufacturing processes of the product that the company makes do not generate significant water discharges.	Principle 8
		306-2	51		Principle 8
		306-3		Does not apply. The manufacturing processes and the materials handled do not lead to significant risks and/or impacts related to spills.	Principle 8
		306-4	51		Principle 8
		306-5		Does not apply. The manufacturing processes and the materials handled do not lead to significant risks and/or impacts related to spills.	Principle 8
Strategy, business model, and brand	GRI 103: Management Approach 2017	103-1	79		
		103-2	29, 48		
		103-3	29, 48		
	GRI 206: Anticompetitive behavior 2017	206-1	75		
	GRI 307: Environmental compliance 2017	307-1	75		
	GRI 415: Public policy 2017	415-1	74		Principle 10
GRI 419: Socio Economic compliance	419-1	75			

MATERIAL ISSUE	GRI STANDARD	CONTENTS	PAGE/LINK	OMISSION	UN GLOBAL COMPACT PRINCIPLE
Risk management	GRI 103: Management Approach 2017	103-1	79		Principle 4
		103-2	75		Principle 5
		103-3	75		
		201-2	64		Principle 7
		307-1	75		Principle 8
		205-1	74		Principle 10
		205-2	74		Principle 10
		205-3	74		Principle 10
		406-1	74		Principle 6
		412-2	74		Principle 1 and 2
Innovation	GRI 103: Management Approach 2017	103-1	79		
		103-2	43		
		103-3	43		
Customer relations	GRI 103: Management Approach 2017	103-1	79		
		103-2	48		
		103-3	48		
	GRI 417: Marketing and labeling 2017	417-1	48		
		417-2	75	Not available; we will work to have this information in the next report.	
		417-3	75		

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(102-1, 102-3, 102-5, 102-53)

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