

Rotoplas. In_

ANNUAL INTEGRATED REPORT 2016

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Main figures (102-7)



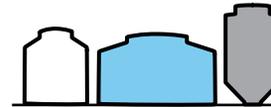
2,829

EMPLOYEES



13

COUNTRIES IN
OPERATION



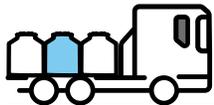
18

SOLUTION LINES



21

PRODUCTION
PLANTS¹



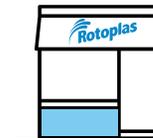
4

DISTRIBUTION
CENTERS



6,330

DIRECT CUSTOMERS



+23,000

SALE POINTS



\$5,353

MILLION MEXICAN
PESOS INCOME



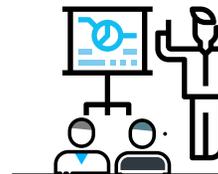
\$77.7

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



\$449

MILLION MEXICAN
PESOS OF NET PROFIT



15.6

AVERAGE HOURS OF
TRAINING PER EMPLOYEE



+83%

OF SATISFIED CUSTOMERS
IN ALL OUR MARKETS

¹ 21 Rotoplas' plants also operate as distribution centers.

Grupo Rotoplas

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

In Grupo Rotoplas we have almost 40 years of experience offering individual and integrated solutions for storage, flow and improvement of water. We have operations in 13 American countries, being pioneers and leaders in the development and distribution of water and sanitation solutions that allow to improve the quality of people´s life, the quantity and quality of the resource, and contribute to economic development.

Our mission:

“For people to have more and better water”

Our vision:

“To be a global company that is a point of reference for individual and integrated water solutions whose success is founded on the Rotoplas Way”

Our values:

Collaboration:

We demonstrate a committed and participative attitude that allows us to align our efforts and work with joint responsibility to achieve a common goal.

Service Attitude:

We identify our clients' internal and external needs and focus our efforts on meeting and exceeding the level of service they expect.

Social and Environmental Responsibility:

We are committed to generating actions that promote wellness, quality of life, and care for the environment in all the communities where we have a presence.

Humility:

We show an attitude that allows other points of view to be taken on board, valuing the contributions of others and promoting constructive feedback.

Passion for Business:

We have the conviction, enthusiasm, and commitment to give our very best and make things happen

Integrity:

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



U.S.A.

Mexico

Belize

Guatemala

Honduras

El Salvador

Nicaragua

Costa Rica

Ecuador

Peru

Brazil

Argentina

Chile

We provide solutions attached to the highest quality standards, focused on innovation in the redesign and development of our portfolio, which we are also reinforcing with an increasing service offer.

Individual Solutions

Our **individual solutions** facilitate the storage, flow and improvement of water quality in urban and rural areas, without requiring additional services to operate. Major customers are home improvement stores, as well as building materials & supply stores, government entities and civil society organizations.



STORAGE	FLOW	PURIFICATION	FILTRATION	TREATMENT	HEATERS
Cistern	Hydraulic pipe Tuboplus	On-sink water purifier	Standard filter	Self-cleaning Biodigester	Thermo tanks (Argentina)
Water tank	Hydropneumatic systems	Under sink water purifier	Jumbo filter		Thermos (Peru)
Tanks for water and chemicals	Centrifugal pump	Reverse osmosis purifier	Refrigerator water filter		
Hoppers	Peripheral pump		Tap water filter		
Horizontal tanks	Submersible pump		Jar with integrated filter		
Feeders	Circulating pump				

Integrated Solutions

Our **integrated solutions** are those meant to cover more complex and/or larger needs, which may include individual solutions as well as added value services such as engineering, installation, site development and maintenance. They are intended for government entities and civil society organizations that develop water and sanitation projects, with whom we work under B2B or B2C models², as well as to industries looking for a more efficient management of water for their operations. Grupo Rotoplas offers solutions and services for different needs that arise throughout the water cycle: before, during and after its use.



SELF-SUSTAINING

Rain water harvesting system

Outdoor sustainable Bathroom (sanitation system)

WITH MAINTENANCE

Drinking water fountains in schools

Water purifying plants

Wastewater treatment plants

Drinking water service

² B2B: working directly with the customer (Government Entity, NGO and/or company), B2C: working with the end user.

Message from the CEO

(102-14, 102-15)

Dear stakeholders,

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

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

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

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

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

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

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

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

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



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

Sincerely,

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

Relevant events of the year

January - March



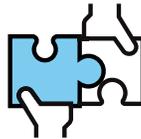
The acquisition of all shares of the Argentinian Company Talsar S.A., for a price of \$642 million MXN has been completed.

April - May



Payment of a dividend in cash of \$0.25 MXN for each outstanding share.

Jun - August



Closing of the acquisition of a minority stake of Advanced Innovation Center (AIC) in Chile.

September - December



The acquisition of a majority stake of *Soluciones y Tratamiento Ecológico S.A.* (SYTESA), a company in Mexico that operates water treatment plants is completed.

The tender award, within the *Programa Nacional de Bebederos* (PNB) (National Drinking Water Fountains Program), to install, operate and provide maintenance to 866 solutions, in the 5th region in which the country has been divided; this adds to previous tenders awarded through the year, committing ourselves to install 3,193 drinking water fountains in 4 of 5 regions.

A dynamic splash of water against a blue background, with many droplets and bubbles in motion.

Rotoplas. Intelligent investment

ECONOMIC PERFORMANCE

Economic performance

Relevant financial data

In Grupo Rotoplas, we have been focused on a realignment of our portfolio in order to enhance solutions with increased profitability and growth, as well as lower vulnerability segments, making a balance between our different distribution channels.

In addition, we have made strategic acquisitions, with own funds. Through the incorporation of Talsar and Sytesa, we reinforced our portfolio with solutions which have accelerated growth potential, and our commitment to innovation through the AIC.

With all this, we have been able to minimize the complex economic situation in some of the markets in which we operate, such as Brazil and Mexico, with particularly successful results through the year. Thus, the reduction of **sales** has been only of 6.1% compared to 2015, especially due to the lower demand of integrated solutions.

On the other hand, the growth of our **gross profit margin** by 180 basis points stands out this year; due to best prices of our portfolio and a composition of sales by higher-margin solutions.

The **operating profit margin** decreased by 80 basis points, as a result of the decrease in sales among which fixed expenses are divided.

In this context, despite the expense related to the growth of our operations in the U.S.A. and manufacturing costs in Brazil and Argentina, the **EBITDA margin** only decreased by 30 basis points, thanks to the addition of sales in Talsar in Argentina and Sytesa in Mexico.

As a result of our optimal expenditure guidelines, especially with regard to non-operational resources, we were able to increase our net profit by 11.6%, to 449 million pesos, and its margin by 130 basis points.

Main Economic Figures

(in millions of Mexican pesos)

	2014	2015	2016	Δ 16-15 (%)
Net sales	6,552	5,700	5,353	-6.1
Cost	4,037	3,397	3,097	-8.8
Gross profit	2,514	2,304	2,257	2.0
Gross Profit Margin (%)	38.4%	40.4%	42.2%	180 pb
Expenses	1,816	1,641	1,677	2.2
Operating Profit	698	662	580	-12.4
Operating Profit Margin	10.7%	11.6%	10.8%	-80 pb
EBITDA	860	771	738	-4.3
EBITDA Margin (%)	13.1%	13.5%	13.8%	30 pb
Net Profit	417	402	449	11.6
Net Profit Margin (%)	6.4%	7.1%	8.4%	130 pb
Profit Per Share (in Mexican pesos)	0.86	0.83	0.92	11.6
Number of Outstanding shares (in millions)	486	486	486	0.0

Capitalization

(in millions of Mexican pesos)

	2015	2016	Δ 16-15 (%)
Total Debt	1,217	1,243	2.1
Total of Stockholders' Equity	6,053	7,221	19.3
Total Capitalization	7,270	8,464	16.4

Economic value distribution (201-1, 201-4)

In Grupo Rotoplas we generate economic income through the design, distribution of water solutions and the provision of related services, which we transform into economic value for our different stakeholders.

This occurs through items as employees' wages and other benefits, the purchase of products in the supply chain, paying taxes to public administrations and the delivery of dividends to shareholders, among others. The entirety corresponds to the distributed economic value which, after being deducted from income, reflects the amount that the company keeps as cash flow year after year.

Generated and distributed economic value (GEV & DEV)

(millions of Mexican pesos)

	2015	2016	Δ 16-15 (%)
Income (Generated Economic Value, GEV)	5,700	5,353	-6.1
Expenses (Distributed Economic Value, DEV)	5,038	4,775	-5.2
Operating expenses (includes spending on suppliers)	1,281	1,236	-3.5
Salaries and benefits (to employees)	795	770	-3.1
Payment to capital providers	282	405	43.3
Governmental taxes	174	196	13.0
Investment in Research & Development (R&D)	74	78	5.1
Acquisitions (Sytesa, Talsar, AIC)	-	2,205	-
Investment in Infrastructure (new plants)	328	371	13.0
Donations (communities)	3.6	3.8	5.7
Retained (GEV-DEV)	662	578	-12.7



Within the socio-economic context of the Latin American region, our income decreased by 6.1% compared to 2015, whereas the amount we distributed among our stakeholders decreased slightly below, by 5.2%. Despite this scenario, **we remain firmly committed to innovation**, with an increase of 5.1% in the budget for Research and Development (R&D), reaching \$77.7 million pesos. Regarding **investment in operating infrastructure**, the increase was 13.0%, constituting an item of \$370.8 million Mexican pesos. This is consistent with our goal of further increasing sales and, accordingly, the ability to produce a wider portfolio.

In Grupo Rotoplas we are committed to the development of solutions, combined with the incorporation of technologies and products that we think can add value to our portfolio, customers and users. This year, we had an especial **inorganic growth** from the acquisition of Talsar in Argentina, AIC in Chile and Sytesa in Mexico, for which we altogether invested \$2,205 million Mexican pesos.

To comply with the obligations incurred for the financing of our operations, we delivered this year \$404.5 million Mexican pesos, with a remarkable increase of 43.3% compared to 2015. It is worth mentioning that we received a \$6.3 million pesos grant from the National Council on Science and Technology (CONACYT) as support to innovation.

In addition, we contributed to enable the availability of our solutions in underserved rural communities through joint investment schemes with Non-Governmental Organizations (NGOs), to double the impact of their efforts and social work. Furthermore, specific donations were provided to address other social initiatives. Together, we donated a total of \$3.8 million Mexican pesos in 2016, a 5.7% more than in the previous year.



Rotoplas. Innovation & strategy

CREATION OF VALUE

Creation of value

Access to water and sanitation context (102-12, 201-2, 203-2)

Latin America and the Caribbean have one-third of the planet's water resources. In the region, water availability exceeds 22 million liters per capita a year, a figure that nearly quadruples the world average (ECLAC, 2016). However, there is a heterogeneous distribution of the resource and large populated areas in regions with low availability or high water stress. 70% of water is used for agriculture, while domestic use occupies the second place of greater intensity, which demands 19% of it (ECLAC, 2016). This scenario suggests the need to prioritize efficiency in agriculture and ensure water supply to households.



11%

OF THE WORLD'S
POPULATION DO NOT
HAVE ACCESS TO
DRINKING WATER.



32

MILLION PEOPLE DO
NOT HAVE ACCESS TO
DRINKING WATER IN
LATIN AMERICA.



40%

OF THE WORLD'S
POPULATION DO NOT
HAVE BASIC SANITATION
FACILITIES.



80%

OF GLOBAL DISEASES
ARE RELATED TO
POLLUTED WATER.

In this regard, the concept of **water security** stands out, which means to ensure the **availability of safe water to be supplied to the population for subsistence uses**, among other aspects. Access to appropriate drinking water levels and sanitation, availability of the resource to ensure a sustainable productive development and to reduce associated conflicts, the conservation of water bodies in a condition compatible with human health and environment protection, as well as the reduction of risks connected with climate change (which leads to situations of water deficit or excess) are priority areas that must be addressed in the region. (ECLAC, 2016). **Grupo Rotoplas is aware of these priorities and addresses them by providing solutions for storage, flow, purification, filtration and treatment.**

The **most vulnerable population** regarding access to water and sanitation **usually lives in less-favored areas of large cities and in rural regions**, where coverages for this and other basic services are less efficient. This goes against the declaration of the United Nations that refers to water and sanitation as essential to the realization of all human rights, as well as their inclusion in the 2030 Agenda for Sustainable Development.

Mexico has 9 million people without access to piped water, and 50% of wastewater does not have an appropriate treatment (CONAGUA, 2015). The magnitude of these figures in the country and in the region, forces governments to the development of programs to reverse such situation. It is the case of Brazil with the “*Agua para Todos*” (Water for All) initiative, in which we participated between 2013 and 2014 with the provision of rainwater harvesting systems for the semiarid region. We evaluated the impacts generated, identifying an improvement in the hygiene and health conditions of communities, an increase in food intake, and in the use of water for cooking, as well as an increase in school attendance. (Vox Populi Institute, 2014).

In Mexico, 10% of the population lacks access to drinking water and 43% do not have minimum sanitation facilities.*

As for Mexico, programs and social initiatives of different government departments have included Grupo Rotoplas’ solutions, such as rainwater harvesting systems, outdoor sustainable bathrooms and water purifying systems, which help reduce gastrointestinal, respiratory, and infectious diseases as well as school and work absenteeism (GESOC A.C., 2015).

During the year, an important event was the implementation of the *Programa Nacional de Bebederos* in public preschool, primary and secondary schools, promoted by the National Education Infrastructure Institute (INIFED from its Spanish) and its representatives at State level. The program aims to increase pure water consumption, promoting a change towards healthy nutrition habits that foster a multidimensional approach against childhood obesity, in which Mexico ranks first globally. After public tenders were carried out, we were awarded the installation of 3,193 drinking water fountains and our solutions are now part of the PNB in 4 of the 5 regions in which the country has been divided for the initiative.

We have been able to provide our experience in previous projects of drinking water fountains in Mexico City, Coahuila, Nuevo León and Yucatán. Specialized institutions have carried out studies on the impact of Rotoplas’ drinking water fountains in habits of school children, particularly in Coahuila. As a result, we identified a decrease by **34% in the amount of consumption of soft drinks at school**, which decreases from 55% to 36% when drinking water fountains are available to students; other effects such as the reduction of plastic bottles and savings for the families were also found. Once we have achieved these results, we work on redesigning the drinking water fountains taking advantage of the experience of such programs, with an approach based on continuous improvement.

*Source: *Panorama del agua en el mundo, Consejo Consultivo del Agua.*

In Grupo Rotoplas we also develop pilot programs with some integrated solutions in Guatemala, Mexico and Peru, which will be expanded to other countries in the region; we contribute as well with in-kind support to different NGOs' initiatives, that benefit rural communities through joint working models.

COLLABOTATION AGREEMENTS WITH NGOs FOR THE DEVELOPMENT OF WATER AND SANITATION PROJECTS

- *Fondo para la Paz*
- *Fundación del Empresariado Chihuahuense*
- *Fundación Haciendas del Mundo Maya*
- *Fundación Patrimonio Indígena*
- *Hábitat para la Humanidad Internacional*

We are contributing to improve the conditions of water supply and sanitation in different rural communities through our solutions, reaffirming that our portfolio of products is a win-win option for the population and the company, a business proposal that helps social development. With a history that demonstrates this contribution, the acquisition of Sytesa puts us a step forward participating in the wastewater treatment process, with which we completed our presence in the whole water cycle.



References:

Peña, H. (2016). *Challenges of water security in Latin America and the Caribbean*, ECLAC.
National Water Commission. (2015) *Situation of Drinking Water, Drainage and Sanitation Sub-sector*.

Business model and corporate strategy (102-16)

In Grupo Rotoplas we seek to offer high quality innovative products in order that people will have more and better water, and we have a large portfolio that includes individual and integrated solutions.

Our **design and innovation** team leads the development of products that offer differentiated value considering users' needs; these needs are frequently evaluated by our team on-site. This is how **ideas become solutions**, for which we consider materials from a sustainability approach, such as polyethylene and polypropylene, both of less environmental impact than other alternative plastics. These materials are prepared in company's **plants**, and then distributed to the injection and rotomolding plants.

In the case of solutions with greater diversity of components, we have specialized assembly plants. In order to ensure our high-quality standards, we maintain strict quality standards on parts produced by third parties.

It is worth mentioning that together with the development of high quality solutions, we pay attention to technologies and new solutions arising from the market that may complement our portfolio. An example is the line of water heaters, which we are selling from the incorporation of Talsar, a leading company in that industry in Argentina.

Our products reach the market and consumers through a **large network of distributors**, including home improvement and construction material stores, and other specialized stores. With NGOs, we establish direct relations, either through donations, 1:1 contributions or other collaboration models. On the other hand, we have a team of experts who are responsible for advising Governments to identify needs and possible solutions.

In the case of large projects including Grupo Rotopla's solutions, we also provide training in situ to users, in order that they can take full advantage of our products.

It is important to highlight the active role that we are playing to participate in international tenders, as providers of water solution and in alliance with different entities.



In Grupo Rotoplas we are convinced of the **potential of collaboration** and we want to trigger the development of technologies that improve the population's access to water and sanitation, contributing to the construction of a community focused on it. This is the purpose of **Rotoplas Labs**, our innovation platform for the future, in which disruptive ideas are conceived to develop new solutions that, based on the users' experience and needs, will build innovative business models. Also, we are focusing our efforts to provide value-added services, as those provided by the newly acquired Sytesa, which in addition to the construction of wastewater treatment plants, is a specialist on their operation and maintenance.

Based on our corporate strategy, we have worked in the excellence of our teams and the transformation provided by our solutions, which contribute to economic and social development.



The Rotoplas Way identifies us as creators of a collaborative culture, with people committed, innovative and aligned to processes. It constitutes our collective understanding of how to do things and facilitates interaction among multidisciplinary teams.

The **4 pillars of Rotoplas Way**, are reflected in our Manifesto, with confluent purposes in our Mission and Vision. A monitoring committee evaluates progress weekly. This committee includes members from different areas of the company, which are responsible of suggesting and follows up on initiatives to expand our work style across the Company. After its launch, this year we put emphasis on training and internal communication in this regard, through initiatives such as the *Mes del Estilo Rotoplas* (Rotoplas Way Month), including activities in all our workplaces. Our Rotoplas Way, increasingly present in our daily work life, stands out for the dynamism that is acquiring, evolving with the employees' contributions.



With a historically recognized trademark as a synonym of quality brand, we have expanded our diversity of solutions, attached to an innovation with purpose, seeking from the beginning to transcend as an agent of change for a society that requires “more and better water”.



Relation with stakeholders (102-13, 102-21, 102-40, 102-42, 102-43, 102-44)

Grupo Rotoplas trajectory, performance and perspectives, are the result of a strong network of relationships and collaborative efforts with our different stakeholders. We understand the actively and multidirectional interaction, with an approach to maximize the created value.

This collaboration was also present during the identification of our stakeholders. The diagnosis was made by teams of Investor Relations

and Government Relations, based on the company’s impacts, which we strengthened through consultations with key partners within the company.

Along with our web site and the publication of our integrated report, we also have channels, platforms and other tools to interact with each group of stakeholders.

Stakeholders		Communication channels	Relevant topics
Customers 	Distributors	<ul style="list-style-type: none"> Satisfaction survey CSC (customer service center) Complaint means (by telephone and web site) 	<ul style="list-style-type: none"> Quality of Products Advertising and promotion of products Access to water and sanitation Users’ training on solutions, for a better acceptance
	Government entities		
	End user		
Employees 	Part-time: professionals in development and alumni	<ul style="list-style-type: none"> Organizational climate survey Corporate social network: R-Connect Complaint means (by telephone and web site, intranet) Company’s quarterly results 	<ul style="list-style-type: none"> Ethics and anti-corruption practices Training and career development opportunities Safety and health in the work environment Processes and improvement initiatives
	Full time: workers, including union members		



Stakeholders		Communication channels	Relevant topics
<p>Suppliers</p> 	<p>Raw materials and service suppliers</p>	<ul style="list-style-type: none"> • Annual assessment • External surveys • Complaint means (by telephone and web site) 	<ul style="list-style-type: none"> • Agility and efficiency regarding the company • Ethics and anti-corruption practices
<p>Board of Directors and its internal bodies</p> 	<p>Board of Directors</p> <hr/> <p>Audit Committee</p> <hr/> <p>Corporate Practices Committee</p> <hr/> <p>Compensation Committee</p> <hr/> <p>Sustainability Committee</p>	<ul style="list-style-type: none"> • Meetings (monthly or quarterly, as appropriate) 	<ul style="list-style-type: none"> • Strategy, growth and consolidation plan • Innovation model • Risk assessment, audits and compliance • Compliance with guidelines provided for a public company • Employees' attraction, training and retention • Approaching and monitoring of sustainability initiatives
<p>Financial community</p> 	<p>Investors</p> <hr/> <p>Banks - incurred debt</p> <hr/> <p>Rating agencies</p>	<ul style="list-style-type: none"> • Quarterly meetings • Telephone conferences • Annual and quarterly reports 	<ul style="list-style-type: none"> • Economic performance • Operating results • Organic and inorganic growth • Economic results • Risk management • Financial performance
<p>Authorities and regulatory bodies</p> 	<p>Mexican Stock Exchange (BMV) and National Banking and Securities Commission (CNBV);</p> <hr/> <p>Tax authorities of each country</p> <hr/> <p>Secretary of Labor and Social Welfare</p>	<ul style="list-style-type: none"> • Annual and quarterly reports (BMV and CNBV) • Monthly tax statements (tax authorities) 	<ul style="list-style-type: none"> • Economic results • Risk management • Compliance of the tax obligations • Management of labor obligations and compliance status

Stakeholders	Communication channels	Relevant topics
Community 	Non-governmental organizations <ul style="list-style-type: none"> • Forums in which Rotoplas participates • Fan del agua digital platform www.fandelagua.com • Social media 	As customers: <ul style="list-style-type: none"> • Quality of Products • Users' training on solutions, for a better acceptance • Impacts of the solutions on beneficiaries (household economics, health, and education) • Collaboration schemes
	Universities	<ul style="list-style-type: none"> • Collaboration schemes • Company's innovation approach and investment thereon.
	General community	<ul style="list-style-type: none"> • Access to water and sanitation, and impact of solutions • Practices for rational water use and impact
	Communication media	<ul style="list-style-type: none"> • Business performance and evolution (including new solutions, acquisition of companies, collaborative efforts) • Impact of the solutions in the socio-economic development
	Chambers and associations	<ul style="list-style-type: none"> • Collaboration schemes • Impact of solutions in the socio-economic development

We also collaborate with sectoral associations, contributing to the analysis of the common challenges and proposing solutions.

Associations in which Grupo Rotoplas is involved

Confederación Patronal de la República Mexicana (COPARMEX)

Consejo Consultivo del Agua (CCA)

Associação Brasileira dos Fabricantes de Materiais para Saneamento (ASFAMAS) (Brasil)

Instituto Trata Brasil (ITB)

Cámara Guatemalteca de la Construcción (CGC)

Aquafondo - Fondo de agua para Lima y Callao (Perú)

Foro Argentino del Agua (FAaA)



Sustainability model (102-13, 102-16, 102-18, 102-26, 102-43, 102-46, 102-47)

In Grupo Rotoplas we consider sustainability as a crossed drive to our corporate strategy and our relation with stakeholders. Under the phrase “For people to have more and better water”, we want to generate a positive impact that will transcend our operations and will contribute to promote a more sustainable society, from the social, environmental and economic perspectives.

In addition to incorporate sustainability into our goals, we have integrated this approach in our operating model, being a principle of the Rotoplas Way.

In order to focus our efforts on the most significant issues from our stakeholders’ perspective and from the Company’s strategy, this year, we carried out a **materiality** analysis, through a 4-stage process: identification, prioritization, validation and review, whose main activities are below.

Review and identification

Grupo Rotoplas’ Approach	<ul style="list-style-type: none"> • Analysis of corporate documents, including our Code of Ethics and Conduct and some major policies. • Interviews were made to prominent executives of the Company, who raised many topics.
Our stakeholders’ overview	<ul style="list-style-type: none"> • Analysis of the results obtained from the different interaction channels with our stakeholders, including “Great Place to Work” survey and supplier satisfaction survey, along with the main information requirements by investors and the press appearances. • Also, we carried out an analysis of the main issues reflected by the industry, according to publications as <i>Sustainability Topics for Sectors of Global Reporting Initiative (GRI)</i>, the annual analysis of RobecoSAM (<i>Sustainability Yearbook</i>) as well as the materiality provided by the <i>Sustainability Accounting Standard Board (SASB)</i>.

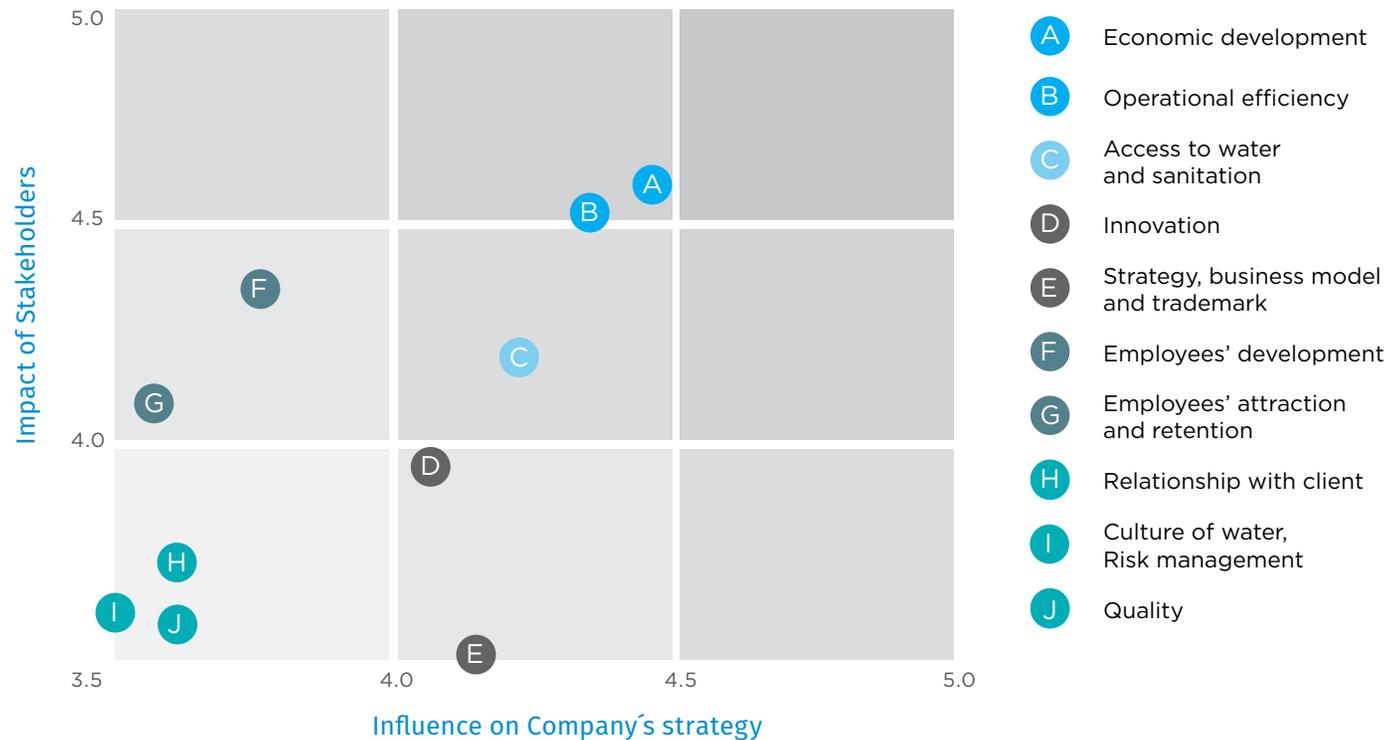
After having created the list of potentially relevant topics, we proceeded with their prioritization and afterwards we determined the material issues. Though the process we considered both the company’s strategic overview and the stakeholders’ approach, drawn up by:

Prioritization and validation

Grupo Rotoplas’ Approach	<ul style="list-style-type: none"> Executive in-depth interviews.
Our stakeholders’ overview	<ul style="list-style-type: none"> Direct consulting through interviews with strategic clients (including NGOs and Government entities) and a survey to employees. In addition, consultations were conducted to raise the overview of government customers and distributors through interviews with the teams in charge of the relations with them.

As a result, we obtained the following material issues:

Materiality Matrix



These topics served as the basis for our **Sustainability Model**, that we defined during 2016 and which will be released in the following year. This Model is also based on the Corporate Strategy 2014-2019 and our understanding of the way in which Grupo Rotoplas creates value. With the support of external specialists, we obtained a flow originated from innovation that our team materializes through the different **business models** that we are developing, our **operations** aligned to processes and the **solutions** that we make available to our customers and users.

Our new **business models**, highly linked to collaborative economy and other disruptive trends, are based on work with third parties, through partnerships for the creation or strengthening of existing platforms, with a prominent role in our Rotoplas Labs initiative.

To guarantee a continuous innovation in our solutions, we evaluate customer's and users' needs, approaching to co-creation thanks to our teams' performance in the field and studies carried out. We contribute to address primary needs through the provision of water and sanitation, for which, a close relation with the beneficiaries is a key factor.

Our processes are the channels through which we articulate the power of innovation and the employees' commitment; a working method that is closely associated with the Rotoplas Way and with an approach of continuous improvement to guarantee efficiency and excellence.

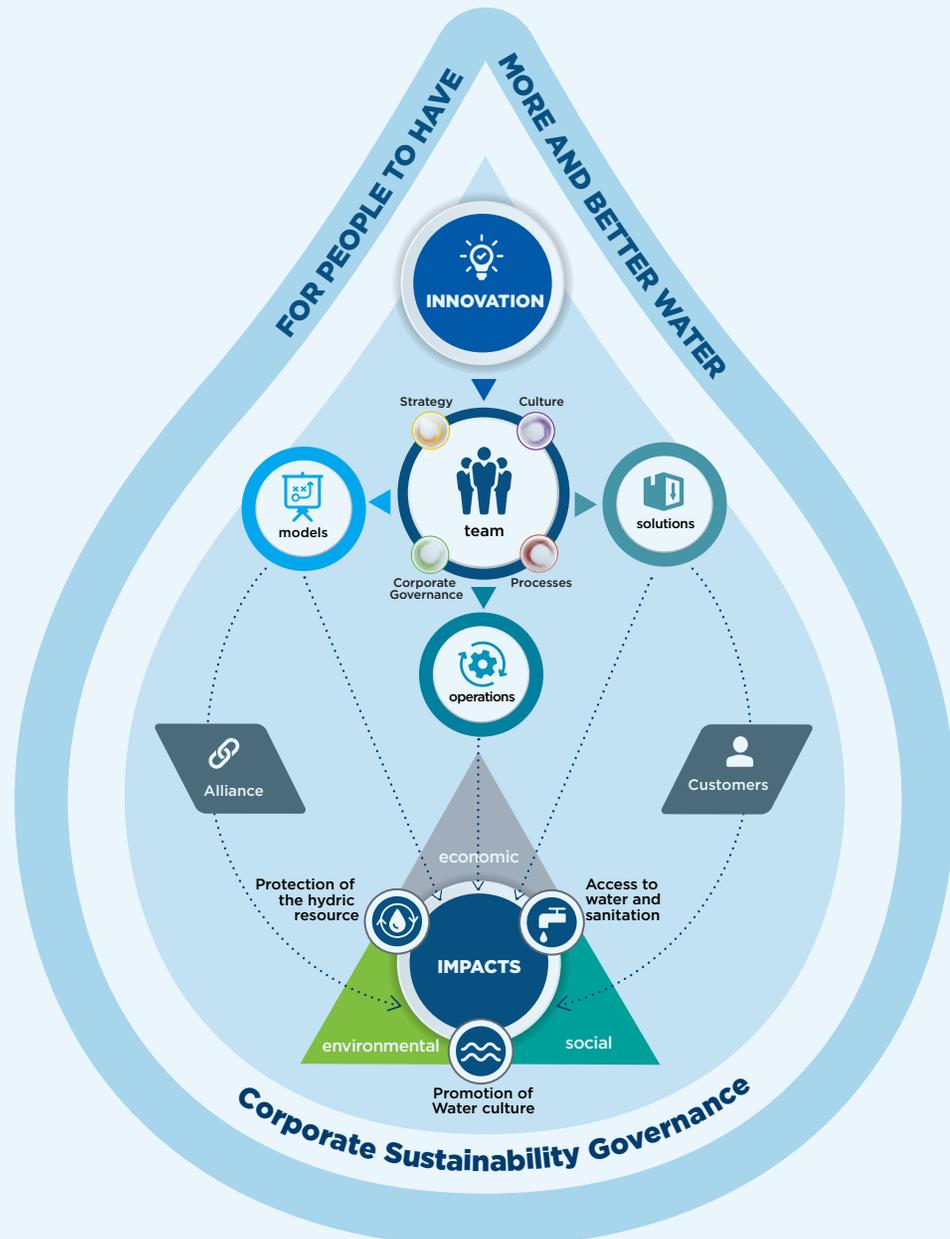
Because of the innovation that we are implementing and accelerating, we are responsible for a series of **impacts in the three sustainability aspects**: economic, social and environmental, including water supply and sanitation, the promotion of water awareness in society and contribution to ensure the availability of water. In this last aspect, our contribution has increased from the integration of wastewater treatment solutions provided by Sytesa.

Four large focal points in which we prioritize our actions arise from our understanding of value generation: **Corporate Sustainability Governance, Collaborative innovation with purpose, Driving economic and social development, and Safeguarding water as a resource for the future**. Each focal point comprises a series of lines of action, which set the guidelines of our performance and the creation of the Model Implementation Plan, for the next 3 years which we are currently developing.

It is worth mentioning that the Model seeks to show mainstreaming of operations and impacts of Grupo Rotoplas, and its implementation is responsibility of every single person who participates in this company. It is also achieved through a close cooperation with our stakeholders, especially customers, users and partners in innovation. The **Sustainability Committee**, approved the Model which is being communicated to the different teams.

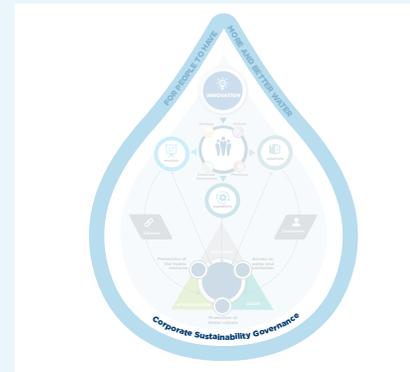
The Sustainability Committee of Grupo Rotoplas has played, since its creation, an active role in the follow-up of environmental, social and corporate governance issues. It is multi-disciplinary composed by Strategy, Human Resources, Institutional and Government Relations, Legal, Investor Relations, Quality, Marketing and Innovation areas. It is in charge of implementing, coordinating and monitoring different initiatives related to sustainability and reporting to the Board of Directors.

Sustainability model



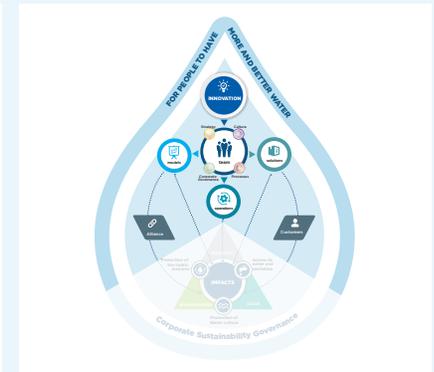
Focal point 1:

Corporate Sustainability Governance



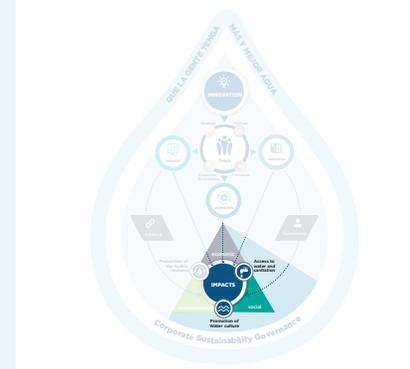
Focal point 2:

Collaborative innovation with purpose



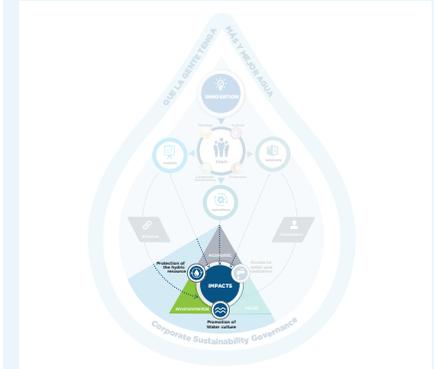
Focal point 3:

Driving economic and social development



Focal point 4:

Safeguarding water as a resource for the future



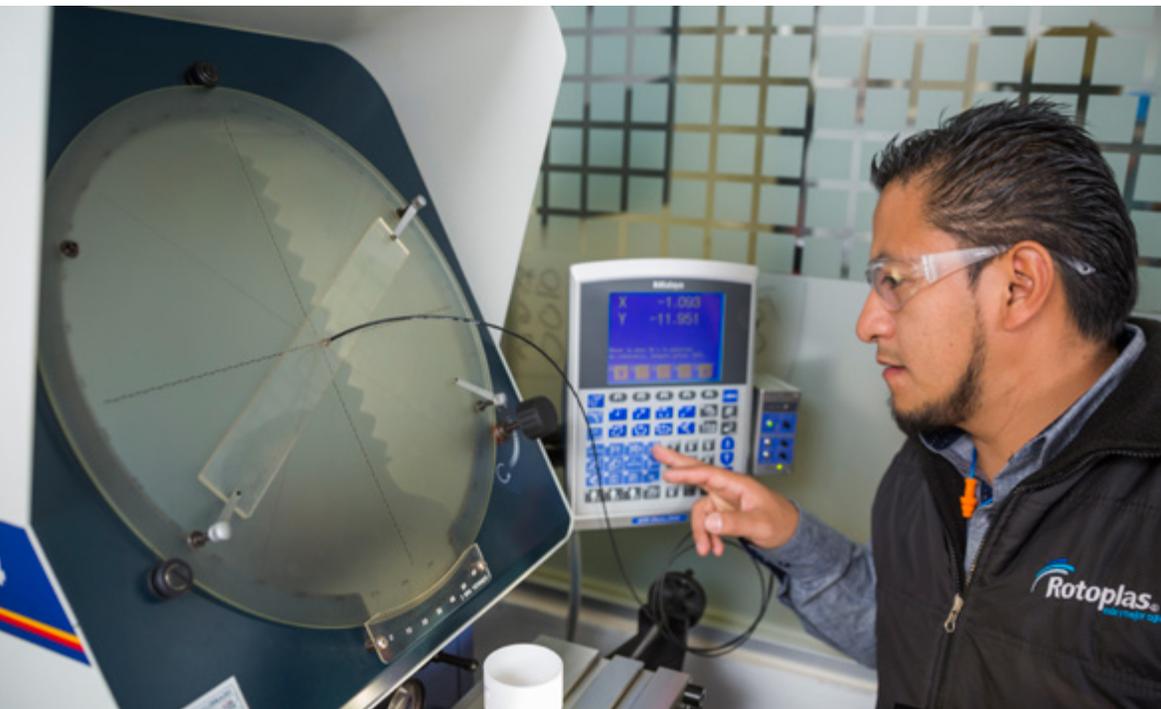
For more information, please visit our website.

In Grupo Rotoplas we also support important international initiatives in which we seek to contribute through our knowledge of the water and sanitation sector, the impacts of water supply and the sustainable management of our operations. It is the case of the United Nations Global Compact, which we joined and are working in the implementation of the 10 principles, which cover Human Rights aspects, Labor Matters, Environmental and Anti-corruption issues.

Since its launch this year, we also participated in the *Alianza por la Sostenibilidad* (Alliance for Sustainability), a platform for business collaboration with the Mexican Government to jointly develop projects aimed to the fulfilment of the 2030 Agenda for Sustainable Development.

In regards to the 2030 Agenda and the Sustainable Development Goals (SDG) we are working in order to strengthen our contribution and to identify new win-win business opportunities that boost socio-economic development³.

Innovation (102-12, 201-1, 203-1)



In Grupo Rotoplas we are characterized for being a company in constant growth, whose passion is to innovate and develop new technologies allowing to expand our portfolio and find new solutions to address the global challenges of water, while retaining a high-quality approach and best guarantee to end users.

³ More information about Grupo Rotoplas contribution to the Sustainable Development Goals (SDG) in specific section.



Last year, after having created the Innovation Office, in charge of the internal development of products and process as well as new relations with universities and research centers, in 2016, we focused on the wastewater treatment and water purification lines. We invested \$77.7 million pesos, a 5.1% increase over the previous year for all our innovation projects.

Our understanding of innovation goes far beyond its role as the company's intellectual asset, we believe that it **is the collective strength of a community in which we want to be part and facilitators for its development.**

We identify innovative technologies, integrating them to our platform in order that they can reach their full potential and contribute to supply more and better water to all. In 2016, we invested in the Advanced Innovation Center of Chile (AIC), a leading research center with whom we shared the **innovation with propose** approach. The resources provided are intended to promote the development of Plasma Water Sanitation System (PWSS) technology, created and patented by AIC, which allows to purify water contaminated by organic matter in a 100%. Already recognized internationally, PWSS is being applied in 13 pilot projects in communities in Chile and has a huge potential impact on global public health.

In addition to our participation at AIC, we executed agreements with different universities and research centers, to contribute to the development of technologies and water and sanitation solutions. We hope to add new agreements soon, which we are working with institutions in Mexico and United States, to our current initiatives.

Agreements with universities and research centres

Columbia Water Center - Columbia University, (EE.UU.)

University of Utah, (EE.UU.)

Universidad Nacional Autónoma de México, (México)

Centro de Investigaciones en Óptica - Consejo Nacional de Ciencia y Tecnología, (CONACyT, México)

An outstanding part of our progresses during the year, is the launch of **Rotoplas Labs**, a platform with which we are looking to create an innovation community, providing capacities and technologies to communities that need water solutions. The emphasis on creating projects through Rotoplas Labs also extends to our portfolio, an example is our new offer of water purifiers through monthly lease schemes, as a solution for homes and workplaces. It is a business model aligned with the new trends of the economy, that are moving towards offering services rather than products; it also helps to reduce the use of plastic bottles and provides quality water, completely safe for human consumption. With all this, we contribute to return the citizens the right to use water.

The nature of Rotoplas Labs offers a unique opportunity for exponential growth, which could allow to decrease the gap between people with access to water and sanitation and people without them.

Rotoplas. Involvement in development

VALUE TRANSFER

Quality (102-9, 102-43, 203-2, 204-1, 301-2, 416-1, 417-1)

Grupo Rotoplas is committed with the quality of its products and services, in order to achieve full customer's and user's satisfaction. We work according to our Quality Policy, providing a portfolio of best guarantee which also complies with several standards and certifications of the countries in which we operate.

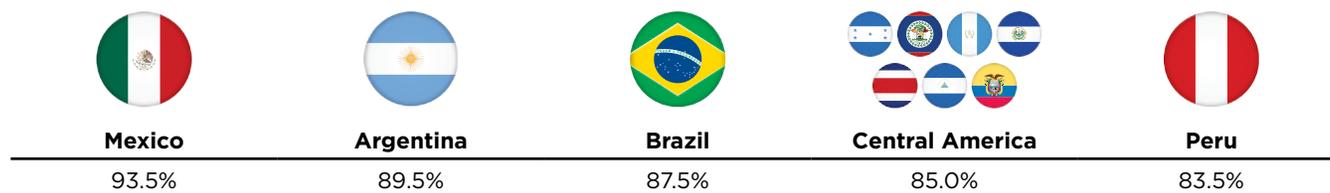
Our plants have quality management systems designed in accordance with ISO 9001 standard, those located in Mexico, Guatemala, and Peru are certified; however, our plants in Argentina and Brazil operate according to ISO 9001 standard requirements. In addition, our products meet certain standards, considering also particular requirements that customers may have, following the proper tests and specifications.

For the monitoring of compliance with our policies and guidelines, as well as of the requirements of the rules and standards applied to management and products, we carried out internal audits coordinated by the Quality Department, as well as other external audits by third-parties.

The **Rotoplas** trademark is historically known because of its quality and trustworthiness, result of our continuous efforts. We truly inform product specifications to our customers in order that they can make their best decision. In addition, we have guidelines in regarding marketing, ensuring that messages are clear and relevant to the needs of the segment to which they are addressed.

The Company cares about the **customers' and users'** satisfaction of our solutions, which we monitor twice a year via survey. Our Customer Assistance Center (CAC) is responsible for its application in order to monitor satisfaction of the products or services provided, their recommendation and the repurchase probability. The satisfaction of our products is above 83% in all markets in which we operate, and the recommendation exceeds 95%.

CUSTOMERS' SATISFACTION – 2016⁴



98.5%
OF RECOMMENDATION
IN MEXICO

96.0%
OF RECOMMENDATION
IN BRAZIL

⁴ Customer's satisfaction is assessed on a scale of 1 to 10, in which 1 is the minimum score and 10 the highest. The percentage of satisfied customers ranges from 7 to 10 for both semesters of 2016.

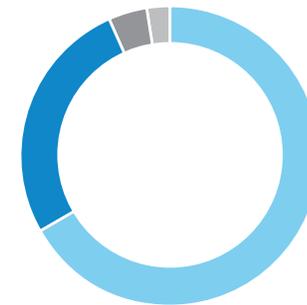
The emphasis on quality that we put into our products is extended also to our **supply chain**, as it is related with the characteristics of raw materials that we use. We mainly use resins, but also other materials on a smaller scale. In the case of some solutions we are also incorporating already-made components, in which there is a strict quality control. This evaluation and monitoring is also present in the provision of services, when we involve third parties, for example, in the installation and/or maintenance of our solutions.

In 2016, we assigned \$3,371.9 million pesos to suppliers, a 6.5% less than the previous year, due to the variation in volumes and composition of our portfolio sales, which conditioned manufacturing through demand planning and inventory management.

51% of the supply expenditure was focused on the following main categories of materials and services.



Expense in main suppliers - 2016



● Materials	66.9%
● Services	26.7%
● Equipment	3.9%
● Other	2.5%



We are committed to local supply, which is completed with a business model that encourages manufacturing near target markets, in order to reduce the transportation due to the volume occupied by many of our solutions. 68.7% of expenditure was for local suppliers, aligned with 2015.

In addition to our emphasis on quality, we are looking to work with alternative materials with lower impact on the environment. In this regard, it is worth mentioning that most of the resins used are polyethylene and polypropylene, less polluting than other plastics in their manufacturing process. In the case of polyethylene terephthalate (PET) used in biodigesters, it is 100% recycled.

We reuse the plastic waste from our rotomolding processes, which is incorporated back into the process guaranteeing the safety and quality of the final product; these plastics constitute 30% of the material of the intermediate layer of the three-layer storage tanks.

We work closely with our suppliers to promote innovation that characterizes our solutions, both in terms of materials and components. We therefore contribute to their development through commercial relations and innovations they incorporate in their production.

In addition, we develop training programs particularly for suppliers that provide installation and maintenance services. It is the case of our Plumbers' program that trains and certifies them in the installation of hydraulic solutions, supporting professionalization and gender equity in the sector. We also have the Promoting a Profession initiative that trains college students and students from technical careers in the installation, management and operation of our solutions.



Water culture (102-12)

Recognized since 2010 by the United Nations as a human right, **access to drinking water and sanitation should also be continuous and sufficient for personal and domestic use**, according to provisions of the multilateral organization. The World Health Organization (WHO) estimates that between 50 and 100 liters of water per person per day are necessary to cover basic needs and prevent major health threats. In Latin America, we face a complex hydrological reality due to the degradation and over-exploitation of water sources and the increasing incidence of climate change effects, which makes the supply of quality water, in sufficient amounts, a challenge.

There is also **little valuing of water as a public resource, a responsible use and no preservation of its quality**, which drives the need for a collective culture in this regard, in which appropriate governmental institutions, the private sector and the civil society are involved. In Grupo Rotoplas we pursue to promote different **awareness** activities, acknowledging our responsibility to do so and according to the transformation approach which we also show in our products and services.

Due to our strong presence in Mexico and Brazil, these countries have been benefited with the development of initiatives to **raise awareness about responsible use of water**. For their success and incredible

reach, the **“Água cuidado porque amo”** (I care for water because love it) and **“Fan del agua”** (Water Fan) campaigns, turned into permanent platforms for the community, whose content is reinforced and have a life of their own through all those who participate in them. On the other hand, this year we launched the initiative **“La canción más larga”** (The longest song) in Mexico, with the purpose of saving water during shower time, and we deliver this water volume to a vulnerable community. The success of participants allowed the **donation of 30,000 liters of water** to the Miravalle community, in Mexico City, accompanied by sessions and workshops on how to use water in a responsible way. On the occasion of the World Water Day, in which we take part every year in 2016, we created the **“Movimiento In”** (In movement) in Mexico, which is an initiative that takes action around 3 topics regarding the importance of water and its rational use: development and screening of a documentary, a survey to citizens about their habits of consumption, production and delivery of training materials.

⁵ www.fandelagua.com
www.acqualimp.com/agua-cuido-porque-amo/



Fan del agua (Water fan)

+50,000

VISITS PER YEAR



COMMUNITY OF FOLLOWERS ON
FACEBOOK AND TWITTER.

We share tips and educational content for water care, and promote the involvement of users by encouraging them to calculate their water footprint and start saving it.

Being aware that **the change in culture comes with the new generations**, we established an alliance with the *Papalote Museo del Niño* (Children's Museum) in Mexico City, to develop an interactive exhibition of the water cycle, which will invite visitors to purify, deliver, store and reuse water, and will continue to be available in 2017. We also worked with elementary school students in order to raise awareness about the use of water through the "*Cuidado del Agua*" (Water Care) program as well as in Universities, giving conferences about the global water situation, water awareness and new technologies. In this regard, we gave continuity to the MER (Meyer-Edify-Rotoplas) contest, in which future generations of architects of the UNAM must reflect and propose their projects on topics that promote innovation in terms of water and sustainable housing.

We also took part of collective initiatives that create a new water culture, as the Water advisory council⁶, in which we chair the Committee on Culture and Sustainable Water Use.

⁶ An NGO that pursues to create bounds between the spheres of public administrations, enterprises and other organizations, and promote best practices in the management and use of water.

Operational efficiency (102-9, 302-1, 302-3, 302-4, 303-1, 303-3, 305-1, 305-2, 305-4, 305-5, 306-2)

In Grupo Rotoplas we perform in accordance with **processes**, through a working methodology that starts from their identification and mapping, to their subsequently promotion to be adopted by the employees. Their implementation facilitates coordination in the development of activities, greater operational efficiency and reducing costs, looking for a continuous **improvement**. It is part of the Rotoplas Way, which also constitutes the way in which we understand how to implement the organizational culture.

With this approach, the **operational flow to produce the products in our portfolio** proceeds, from the selection and supply of raw materials, to the commercialization of the resulting solution.

The proper **demand planning** is essential; the sale estimates for the following months and our capabilities in terms of machinery and input are considered. The next step is the preparation of a **production plan**, in order to assign the activities between the different plants and set terms and timings. As the products are being released, their **distribution** is being coordinated, according to the customers' requirements and on-hand inventory, coordinating their transport by third parties.

We pursue to be efficient in the use of resources, including energy, as well as to reduce emissions and waste generation, adopting reuse schemes through the different stages. Regarding production, we monitor our different plants to identify good practices and replicate them all.

It is worth mentioning that we have an environmental management systems according to ISO 14001 in four of our plants in Mexico and Peru⁷, although the others operate according to the standard's guidelines. We plan to continue certifying the other plants until we complete all our operation sites in the coming years.

Regarding our energy consumption, it is mainly concentrated in the extrusion and milling, injection and rotomolding processes. We require electricity, as well as liquefied petroleum gas (LPG) and natural gas, looking for a more efficient consumption, for its lower emissions related to Greenhouse Gases (GHG).

Energy consumption 2016- Main processes

Process	Source	Consumption (kWh)
Extrusion and milling Injection	Electricity	32,200,953
Rotomolding	Natural gas	113,228,799
	LPG	
	Electricity	

⁷ We have environmental management systems certified according to ISO 14001 in our plants in Lerma, State of Mexico, León, Guanajuato, and Lima (Peru).

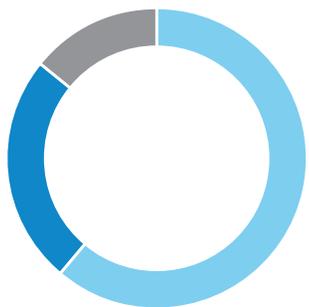
We are working on the implementation of measures that will allow us to have a more efficient energy consumption, especially in the redesign of gas-burner systems for our rotomolding machines, which allow us a reduction of 5% in energy demand and 12% in the generation of Greenhouse Gases (GHGs). With all this, the energy intensity in the manufacturing processes was of 2,159 kWh per ton of processed plastic material⁸. In addition, we are committed to the use of renewable resources and our energy supply comes from wind energy for extrusion, milling and injection processes, which represents the 86.0% of total electricity used for production⁹.

86%

OF TOTAL ELECTRICITY USED FOR PRODUCTION COMES FROM RENEWABLE WIND ENERGY.

GHGs emissions related to the Company's operations are mainly due to the energy we need. Whereas the consumption of electricity, natural gas and LPG, the figure is 36,371 tons of CO₂e, that in terms of intensity compared to production is 0.52 tons of CO₂e per ton of processed plastic material.

Energy consumption 2016 - Main processes



● Natural gas	61.2%
● Electricity	24.9%
● LPG	14.0%

GHGs Emissions 2016¹⁰ (tons of CO₂e)

Consumption of fuels (natural gas and LPG) (Scope 1)	21,954
Electricity consumption (Scope 2)	14,417

Energy consumption 2016 - Main processes

Source	Annual Consumption (kWh)
Electricity	37,447,647
Natural gas	92,142,125
LPG	21,086,673



⁸ Contemplate the energy consumption of extrusion and milling, injection and rotomolding processes.

⁹ Total of electricity consumption related to more demanding processes: extrusion and milling, injection and rotomolding processes.

¹⁰ Contemplate only the energy consumption of extrusion and milling, injection and rotomolding processes.



In addition, we work with our transport suppliers for greater efficiency in the process, especially in the redesign of the cages to be able to increase the number of products in each transport unit and, thus, reduce the GHG emissions related to the distribution of our solutions.

We apply our approach on operational efficiency also to the use of materials and waste generation. We reuse plastics resulting in obsoletes and scraps from the manufacturing processes. However, we generate another series of waste, as non-hazardous waste.

Waste 2016

Category	Quantity (kg)
Hazardous	48,697
Hazardous and of special handling	147,000
Urban solid	251,000
Non-hazardous	411,127

We separate the waste in our plants, complying with their storage conditions, all according to our internal management procedures of hazardous chemical substances, segregation, and other which constitute the environmental management system. Subsequently, they are delivered to companies authorized to transport and treat them. Thus, hazardous wastes are deposited in regulated safe landfills. We seek for reutilization opportunities for non-hazardous wastes by giving them to companies who are responsible for recycling.

We are a company focused on water, in the provision of solutions to facilitate its access and quality. Although we don't have highly water demanding processes, we work to optimize our use, as part of the commitment of a culture of rational use of water. In 2016, we used 75,538,000 liters, of which we then reuse the 26.7%. In order to increase this percentage, we worked during the year in the development of a recirculation system for the rotomolding process that allows us to reuse the remaining water (not evaporated) after the cooling phase of the product in the mold. This system will start to operate in some of our plants in 2017.

WE REUSE THE

26.7%

**OF THE WATER FROM OUR
PRODUCTION PROCESS.**

A high-speed photograph of water splashing, creating a dynamic and energetic background. The water is captured in mid-air, with numerous droplets and bubbles visible. The overall color palette is a monochromatic blue, ranging from light to dark, which gives the image a clean, modern, and refreshing feel.

Rotoplas. Inclusion of talent

OUR TEAM

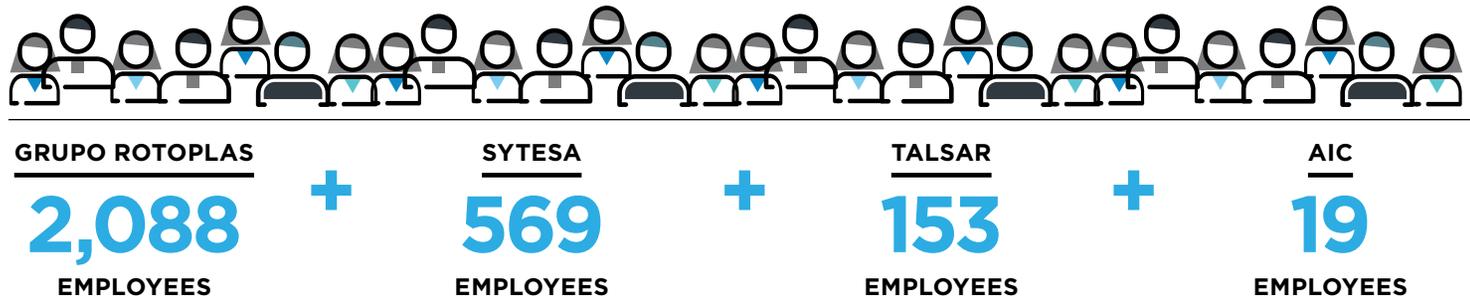
Rotoplas Team

Description of employee workforce (102-8, 102-36, 102-37, 102-41, 201-3, 401-1, 401-2, 403-2, 405-1)

Grupo Rotoplas is committed to talent and to promote a pleasant environment for operation, promoting the empowerment of our teams and creating spaces to enable communication.

We added new forces during the year, with the incorporation of Sytesa in Mexico, Talsar in Argentina and AIC in Chile. Their incorporation strengthens our commitment to provide innovative solutions for water supply and sanitation. Thus, our employee workforce reached 2,829, 24.5% more than the previous year.

Employee workforce in 2016



Along with job creation, we promoted stability through personal and professional development opportunities. In this regard, 71.8% of our employees have permanent contracts and only 0.7% of the cases have part-time jobs. Likewise, we firmly believe in the value of diversity, enabling equal opportunities for women in industrial activities where they have traditionally been less present. Currently, they represent 25.8% of the workforce, being the 17.2% in executive positions. We work for their progressive incorporation in management positions, related to generational replacement that will occur gradually.

With a workforce consisting of different generations, young people under 30 years old represent the 28.2% of the total and 8.1% of the middle manager providing new performance approaches to the experience of our most veteran employees. On the other hand, our regional presence allows us to create employment opportunities in the different countries in which we operate, especially in those where we have production plants.

We respect the right of association of our employees, the 52.1% of the workforce is unionized and there are nine organizations that represent them, considering all countries in which we operate.



Labor demographics - Grupo Rotoplas¹¹

	2016
N° of employees	2,241
	
% of permanent contracts	71.8%
	
% of women	25.8%
	

¹¹ Labor demographics data displayed including employees into different variables, correspond to Grupo Rotoplas' s and Talsar' s operations, excluding Sytesa' s and AIC' s operations, which are included into the next year' s report.

Employees by country

	2015	2016
Mexico	1,684	1,643
Brazil	214	94
Argentina	106	253
Central America	102	89
Peru	117	116
US	49	46

Employees by sex and age group - 2016

	Men	Women	Total
Under 30 years old	477	154	631
Between 30 and 50 years old	1,041	383	1,424
Over 50 years old	144	42	186
Total	1,662	579	2,241

Employees by professional category, sex and age group - 2016

Professional category	N° employees	(%) Women	(%) Under 30 years old	(%) Between 30 and 50 years old	(%) Over 50 years old
Executives	58	17.2%	0.0%	81.0%	19.0%
Middle managers	285	22.1%	8.1%	82.1%	9.8%
Individual contributor	755	26.8%	26.9%	64.2%	8.9%
Operational staff	1,143	26.6%	35.4%	57.6%	7.0%
Total	2,241	25.8%	28.2%	65.5%	8.3%

In 2016, we continued strengthening our strategy for the **attraction and retention of talent**, by reinforcing internal communications, leadership, training, and positioning of Grupo Rotoplas as an attractive company for performance and professional growth. Also, we gave continuity to the Sustainable Successions initiative, with which we identify existing strategic talent inside the team and promote the development and exchange of knowledge, of the future leaders of the company.

The difficult economic environment of the region, including different countries in which we operate, allowed us to have a 36.4% less hiring than the previous year, although we will continue generating opportunities. In this regard, we hired 803 employees from which 179 have permanent contracts, during the year. It is worth mentioning that we increased 8.9% **of young talent recruitment** (under 30 years old) and **19% of women recruitment**. In addition, we integrated the workforces of Talsar, Sytesa and AIC.

The workforce rotation was 9.9%, showing an increase of 2.2 percentage points from 2015¹², which encourages us to continue implementing initiatives to retain our employees.

In order to contribute to the well-being of our employees, we offer more benefits than the mandatory obligations of each country in which we operate, and which include: life insurance, savings fund, annual bonus, vacation bonus and extended parental leave.

We determine our workforce's compensations based on the rate, considering the situation of the sector, in order to be competitive. It is worth mentioning that the 55.8% of our employees has a variable portion in their compensation, subject to monthly goals. This practice applies to areas related to commercial activities and strategic decision-making (quality, logistics, administration and finance, and new business).

Likewise, we are committed to safety, so we have management systems in our plants according to OHSAS 18001 standard, five of them already certified hoping to include the others¹³. We are implementing a strategy with the goal of zero accidents and incidents, with an emphasis on prevention. To do this, we train our employees, as well as we carry out awareness raising campaigns. In addition, we include measures to reduce the risks in the use of machinery and monitor processes. These efforts allowed us to achieve promising results, with a decrease of 23.9% in the number of minor injuries compared to the previous year and of 23.0% in terms of the number of days lost for that reason.

Indicators of health and safety

	2015	2016
N° of minor injuries	92	70
N° of occupational illnesses	0	6
N° of casualties	0	0
N° of days lost due to injury	1,298	999
Accident rate ¹⁴	6.69	6.72



¹² We determined the rotation as: Voluntary layoffs and indefinite contract / turnover rate in the year.

¹³ Plants of Lerma, State of Mexico, León, Guanajuato, and Lima (Peru) are already OHSAS 18001 certified.

¹⁴ Accident index = (total disability accidents reported in the year / average number of employees in the year) X 100.



The internal **communication** is a key factor for the company's success, by its effect in the work environment and our employees' satisfaction. We make them feel part of a team, committed to common objectives and that they collaborate in the Company's performance, according to the Rotoplas Way. We work to promote an environment that facilitates the exchange of ideas with a fluid communication in the different teams and departments through platforms such as our business social network R-Conecta.

Every two years, we apply the **Great Place to Work (GPTW)** survey to know the status of the **work environment**, our employees' overview and meet their expectations and concerns. Its scope has been progressively extended, and this year we participated in 15 working centers in Mexico, Central America, Peru, Argentina and Brazil¹⁵. With a satisfaction of 66% in the results of this year, we had an increase of 7 percentage points regarding 2014. It is significant to note the pride that our employees feel of their work, as well as of the teams in which they participate and of being part of Grupo Rotoplas. On the other hand, we have opportunities to improve the way we communicate equity principles, which are not appreciated in all their dimensions. The company considers the work environment measurement as an important issue, so we will apply the survey each year starting from 2017.

¹⁵ The GPTW survey was implemented in 11 plants in Mexico, as head quarters in Mexico City, Lerma and León (Customer Service).

Training and development (102-35, 404-1, 404-2, 404-3)

Internal talent is one of our greatest strengths, a key to generate innovative solutions according to our customers' and users' needs, as well as their attention and the efficient performance of processes. We are committed to training and providing an environment of personal and professional development for our employees, according to the position and the different knowledges and skills required.



We have defined a system of **abilities** promoted among the workforce, required to accomplish our corporate strategy. On the one hand, there are enabling capabilities as empowerment and strategy adherence, among others. On the other hand, we have our differentiating capabilities, which contribute to make the company stand out in the market, for example, the innovation in our solutions to increase the value received by our customers.

The Rotoplas Way, which constitutes our *modus operandi*, has undergone specific training. In this regard, we gave continuity to the Strategic Adherence Initiative, started in 2015, and we launched the Rotoplas Way Month¹⁶.

We are working to strengthen the training and career development programs, with additions that we presented to our employees during the Development Month, in which we communicate about the training strategy, learning models, as well as the key processes for the talent management, performance and skills, during a period of 5 weeks. In addition, with the launch of our Learning Solutions platform, we provided access to different training materials.

¹⁶ More information regarding Rotoplas' Way in the chapter "Creation of value".

In 2016, we provided a total of 35,015.5 hours of both face-to-face and online training, which represents a total of 15.6 average hours of training per employee.



All our employees receive training on common matters such as the Rotoplas Way, the Code of Ethics and management through Balanced Scorecard. Additionally, we implemented specific programs by position, such as leadership for middle and upper managers, and the Sales Academy for the staff in charge of the commercialization of our solutions.

Training by professional category - 2016

		Total hours of training	Average hours of training per employee
Administrative staff	Executives	253.1	4.4
	Middle managers	5,292.2	18.6
	Individual contributors	14,559.2	19.3
Operational staff		14,911.1	13.0
Total		35,015.5	15.6

Together with the commitment to our **employees' development**, we monitored their performance with **an annual assessment**, considered for internal promotions. It is an automated process in our SAP Success Factors platform, which consists in three stages: to set objectives, mid-year review and the final evaluation. For all administrative employees, the assessment is according to the achievements of the company's and employees' objectives which are set in the Individual Development Plans (IDP's); also management objectives for executives and middle managers are set in every department, which determine their variable compensation. Of the total administrative staff, 89.8% was assessed during 2016, which represents all employees required to be assessed due to their seniority, type of contract and duty conditions.

On the other hand, in the case of the operational staff, assessment variables are considered in the collective agreement, and they include productivity and adherence to safety rules, among others, applied to all employees with these functions.

A high-speed photograph of a water splash against a blue background. The water droplets are captured in mid-air, creating a dynamic and energetic scene. The lighting highlights the texture and movement of the water.

Rotoplas. Integrity & leadership

CORPORATE GOVERNANCE

Corporate governance

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)

In Grupo Rotoplas we are committed to generate value for our stakeholders according to our values and to the Rotoplas Way. On this basis, we follow the highest standards of corporate governance, strengthening due diligence in the decision-making process.

All Grupo Rotoplas' capital stock are listed in the Mexican Stock Exchange (BMV), and 35.8% of them is distributed among a group of major shareholders. The share capitalization value in the year was of \$12,948 million Mexican pesos.

The **General Shareholders' Assembly** is responsible for appointing members of the Board of Directors, upon shareholders' proposal; the financial statements and accounts of the company are also approved every year therein.

The **Board of Directors** consists of 15 members, 7 of which are independent members, representing 47% of members which means 22 percentage points over the requirements of the Securities Market Act¹⁷.

The directors are appointed in the Assembly upon shareholders' proposal, and their appointment is renewable yearly. They must prove their experience, at the moment of being proposed, as well as they have the competencies and abilities required to comply with their responsibilities and fiduciary duties. As of the date of this report, the Board is chaired by Mr. Carlos Rojas Mota Velasco, appointed by the members, who is co-founder of the Company and CEO. Mr. Carlos Rojas as well as the other members, have extensive knowledge of the company and of the industry sector. The Directors have an average seniority of 9 years in office.

Grupo Rotoplas makes sure that all directors comply with their loyalty, diligence and informed judgment duties, through the implementation of an induction and update process on the Company's internal policies, the Code of Ethics and Conduct, as well as the description of their main duties and responsibilities. Similarly, they are periodically surveyed to evaluate efficiency of the meetings in which they participate and the level of information provided, as well as to consider possible improvement opportunities.

¹⁷ The Securities Market Act provides that at least 25% of members that constitute the Company's Board of Directors must be independent individuals.

LIST OF BOARD MEMBERS

LINK



Meetings of the Board of Directors are quarterly. However, their duties are defined in Grupo Rotoplas' bylaws including: (i) to establish the Company's strategy, (ii) to monitor the management of the executive team and results, (iii) to approve internal control and audit guidelines, (iv) to appoint the CEO and his/her compensation and (v) to approve compensation policies of Directors. Some of the duties are jointly performed under prior review and approval of the appropriate Committee, pursuant to bylaws.

The Board of Directors has also the authority to convene The General Shareholders' Assembly, overseeing the implementation of resolutions; it also has the obligation to review the CEO's annual report, gives its opinion thereof and, subsequently, submit it for approval at the Annual General Shareholders' Assembly.

Grupo Rotoplas has three committees that assist the Board of Directors in the performance of its duties:

Committee	Duties
Audit	<ul style="list-style-type: none"> To inform the Board of Directors about the irregularities found in the audit process, to monitor the employees' activities, as well as the independent auditors' work; to analyze the opinion, comments, reports or statements prepared and signed by the independent auditor as well as audit reports prepared by company's accountants. To inform the Board of Directors the status of the internal control system and any irregularity. To monitor transactions with related parties, To monitor the board members' activities.
Corporate Practices	<ul style="list-style-type: none"> To provide collegiate opinions to the Board of Directors regarding administrative practices and actions. To request and obtain opinions of independent experts. To provide assistance to the Board in the preparation of annual reports.
Compensations	<ul style="list-style-type: none"> To support the Board of Directors in the review of organizational structures of the Company and its affiliates for appropriate compliance with the company's vision and strategy, including compensation guidelines. To review the corporate values established in the institutional philosophy and ethics in relations between all employees, the company's beliefs and values as a guideline. To propose actions to improve the work environment and to lead organizational development processes. To propose fixed compensation and benefits of Board members and Director, as well as job titles and salary policies to the Board of Directors. To propose and monitor performance evaluation systems. To recommend training and development programs.

In order to have an excellent operation, Grupo Rotoplas has a management team comprised of four Vice-Presidencies and ten Directions, which are led by people with the highest standards of honesty, technical quality and professional experience in their subject, being responsible for carrying out the daily operations. Their compensation includes, in addition to the fixed portion, an Executive Stock Option Plan and an Allocation Plan of Unit Reference Value (URV).

FLOW CHART OF DIRECTORS



Directors participate monthly in the Strategic Review Meeting (SRM), in which strategic issues of the company are followed-up. The objective is to promote team work and decision making based on corporate responsibility, transparency and accountability principles. In addition to the SRM, the follow up of all strategic projects are weekly reviewed in the Project Management Office (PMO) meetings.

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

In Grupo Rotoplas we promote the performance and execution of tasks according to our values, which include integrity shown as honesty, justice, and ethics, among others, when operating.

We have a **Code of Ethics and Conduct**, which was approved by the Board of Directors; such Code is reviewed and updated annually, and includes the general rules of conduct and specific community rules for relations among employees and with other stakeholders. Compliance with the Code of Ethics and Conduct is mandatory for employees, directors and shareholders of Grupo Rotoplas and its subsidiaries.

Prohibitions for the execution of acts involving **any form of corrupt practices**, including extortion and bribery, as well as **conflicts of interest** requirements are the most important topics specified in our Code of Ethics and Conduct, among others. It is significant to note that the company does not perform political contributions.

When joining Grupo Rotoplas, we give the Code of Ethics and Conduct to our new employees and they are trained to comply with it and they commit to implement it and respect it. The document is available on our internal network R-Conecta, as well as on our website for the rest of our stakeholders.

Our Code of Ethics and Conduct is to be implemented, is the essential instrument for the daily performance.



Periodically, we perform campaigns to remind featured contents of the Code of Ethics and Conduct; we also have online training in this regard and implement talks in our plants. During 2016, 2,180 employees spent 1 hour in these trainings.

We also developed specific training in terms of corruption prevention for executives, middle managers and employees of our administrative and support teams, with a participation of 64.0%.

The Code of Ethics and Conduct represents our commitment to equal opportunities and fair treatment principles, which are also included in the talent attraction policy and that we promote among our employees. In this regard, it is worth noting the absence of discrimination cases in 2016.

We believe in the power of acting with integrity and we put special attention in human rights, including non-discrimination.

We offer our employees the *Confía Rotoplas* (Trust Rotoplas) service, which includes a telephone line and a specific website to report any breaches of the Code of Ethics and Conduct and the company's values. The complaints are submitted anonymously, the system is managed externally, and by a third party and all complaints received are submitted to the Ethics and Conduct Committee. It is responsible for establishing appropriate measures, including penalties, if any, as well as to inform the Board of Directors.

Compliance with the Code of Ethics and Conduct is evaluated in internal audit processes, in addition to monitoring carried out by the Ethics and Conduct Committee. All this, together with the proactive diffusion of our values and code of conduct, and the employees' commitment, results in the company's performance according to these guidelines. As an example of the foregoing, it should be noted that, in 2016, we detected two cases of conflicts of interest among Company's employees and suppliers, which resulted in the implementation of disciplinary measures, including one employee dismissal and a contract recession with one supplier.

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

Our performance considers a proactive risk management, under a precaution approach, in order to be prepared before those internal and external circumstances that could cause situations thereon.

We have a **risk map** that we regularly update and it is the basis on which we implement measures to maintain or mitigate them, which are monitored by our internal control system. Internal audit processes are complemented with third-party assessments. The Audit Committee analyzes the results of the different evaluations and reports to the Board of Directors quarterly.

The following are our main risks:

Category	Risk	Detail
Market 	Increase in the price of raw materials.	<ul style="list-style-type: none"> The main raw materials that we use are derived from oil. The prices fluctuate according to market conditions, especially the prices of these materials.
	Changes in income and consumers' preferences.	<ul style="list-style-type: none"> We are exposed to customers' income, especially Government entities, due to the economic conditions of each country. In a changing environment, consumers can consider their reliance to the brand affected and modify their preferences for one or another type of solution, especially facing a global competition.
	Macroeconomic conditions affecting sectors constituting market.	<ul style="list-style-type: none"> The demand for our solutions in sectors like construction, or agriculture, is heavily influenced by their conditions as well as short and medium-term perspectives.
	Decrease in the return on investment for the increase and improvement of production capacity, by changes in the economic environment.	<ul style="list-style-type: none"> The business of water solutions requires a significant investment in the design and construction of plants near sale and distribution points. This increases exposure to local sales and, therefore, to the economic conditions of the country in which it is operating, making compensation difficult through the sale of such production in other markets showing better trends.
	Difficulties for entry and successful expansion of operations into new markets.	<ul style="list-style-type: none"> We continuously analyze and explore the possibility of expanding our operations into new markets. Although decision-making in this regard is supported by business plans as a result of an in-depth analysis, there are factors, specific to each market, that are beyond our control.

Category	Risk	Detail
Regulatory framework 	Affecting the limits of foreign trade operations.	<ul style="list-style-type: none"> There is the possibility that the countries where we obtain raw materials, those in which we operate plants and the recipients of our solutions, implement disruptive measures in relation to import and export.
	Unanticipated costs to comply with environmental, labor and safety laws.	<ul style="list-style-type: none"> We are subject to different environmental, labor and security laws and regulations, which can be modified and provide new conditions, which compliance generates us additional costs, as well as those that would arise from penalties for breaches if these amendments are not observed.
Operational framework 	Operations affected by extreme weather conditions and/or natural disasters.	<ul style="list-style-type: none"> Extreme weather events and/or related natural disasters could difficult our operations, damage infrastructure or adversely affect production plants and distribution centers.
	Stoppage and temporary closure of plants and/or distribution centers.	<ul style="list-style-type: none"> Substantial interruption in production plants, supply chain, distribution centers or distribution network for reasons beyond our control.
	Inability to develop products and solutions of high quality and innovation.	<ul style="list-style-type: none"> Our trademark's strength is due to the quality of the solutions, as well as the ability to meet the consumers' needs. Innovation is an essential part of the Company, it allows the diversification of our portfolio and the development of new business models.
	High rotation of workforce, as well as the rotation and talent attraction for certain key positions.	<ul style="list-style-type: none"> Employees participate and develop the Company's know-how, as well as we invest in their training. In addition, there are certain strategic positions by technical expertise and/or executive responsibility involved.
Financial framework 	Inability to effectively manage the Company's growth.	<ul style="list-style-type: none"> To effectively manage the business and Company's growth it is required to continue improving processes, controls, systems and operational, financial and administrative procedures. In order to achieve it, it is essential to make own resources available, as well as having possible access to third parties funding in appropriate conditions.

Grupo Rotoplas operates according to its values, and pursuant the law and our internal guidelines in terms of ethics, compliance with procedures and rules provided for the different operation processes, with constant monitoring and evaluation by audits. However, there is a potential risk related to Company's factors or external factors, considering the scope of our operations throughout the continent. All the foregoing resulted in 33 monetary penalties in the year, with a total value of \$742,182 pesos, with 6 non-monetary penalties and 56 arbitration processes initiated, without specific causes.

A dynamic splash of water in shades of blue, with droplets and ripples, set against a solid blue background. The water is captured in mid-air, creating a sense of movement and freshness.

Rotoplas. Inspiration for progress

FUTURE PERSPECTIVE

Future perspective (102-15)

Grupo Rotoplas bets on innovation as its differentiator, providing appropriate solutions for water supply and sanitation, contributing to social development.

In a context of economic slowdown in Latin America, the need for this kind of solutions is fostered by the population growth and the increasing impact of climate change, which compromise water security as extreme phenomena of drought and rainfall intensify.

We are diversifying our portfolio, with individual and integrated solutions **also implementing the provision of value-added services** as installation and maintenance. In this regard, from being a company entirely focused on products, we are becoming a service company, adapting to new consumption habits. Along with innovation in products and processes, we are innovating through the development of new business models, such as the delivery of decentralized water services, where the user pays a monthly lease that includes the equipment and its maintenance, without an initial investment to acquire the solution.

Convinced of the collaboration potential, we work to **detonate the development of new technologies in Rotoplas Labs**, our innovation platform. Together with research centers, universities and startups, we create a community of water and sanitation, by joining efforts. In addition, we are incorporating disruptive technologies, which we believe would shape the future already from the present, as the Plasma Water Sanitation System (PWSS) from the AIC, to scale and develop them to a commercial level. We also work with clients in the

identification of opportunities for which our solutions can improve the population's quality of life.

Being aware of the need to preserve water resources, we are focusing also on **solutions to reuse and recycle water after its use**. The acquisition of Sytesa will permit us to fully participate in the water cycle and contribute to sustainability in terms of the availability of water in the environment.

Being a **solid team**, we can face future challenges. With the wealth of the diversity in the countries in which we operate and new companies that we are incorporating, we work towards operational efficiency, collaboration and living the Rotoplas Way.



SUSTAINABLE DEVELOPMENT GOALS

Contribution to the Sustainable Development Goals (102-12)

We are committed to sustainability in a strategic way, as a feature of our portfolio and operation, given the contribution to the socio-economic development provided by our solutions and operational efficiency with which we work to reduce our negative impact, for example, on environmental matters.

Through our innovation approach, we pursue to develop win-win solutions that contribute to improve access to water and sanitation, the quality of the available resource and its reintegration to the environment after its use.



In order to determine our sustainability model, we consider the major international initiatives that relate to the impacts and risks of our operations. As part of this, we contribute to development through our solutions portfolio, as well as by aligning our operations to the **2030 Agenda** approved by the United Nations. It is a framework that promotes economic growth, social inclusion and environment protection, through the **17 Sustainable Development Goals (SDG)**. Collaboration between public administrations, companies and civil society is required for its achievement.

Water is the essence of our company, access, use, and availability are the purpose of our solutions and services. Facing the negative impact on populations' development due to water shortage, its poor quality and sanitation deficiencies, a sixth SDG specific to water and sanitation was stated, which we are contributing as part of our business model and the new opportunities we are working in. Our commitment to innovation also allows us to contribute to the achievement of the ninth SDG, including the construction of resilient infrastructure to climate change effects.

In an indirect way, consequently, and considering the need of working together with third parties, we contribute to the health and welfare, education, and gender equality SDGs.

Below, we show how our operations, solutions and services contribute to the achievement of these SDGs and their respective goals.

SDG	Description of SDG	Contribution
	<p>Ensure access to water and sanitation for all</p>	<p>We develop Rainwater harvesting, storage, purification and treatment solutions, including Drinking water fountains in schools and Outdoor sustainable bathroom.</p> <p>We contribute to improve the conditions of vulnerable communities through government programs which include our solutions. Also, our pilot programs and initiatives with NGOs, under schemes of social investment where we provide our solutions.</p> <p>Furthermore, we organize different initiatives in order to promote a responsible use of water, as our World Water Day campaign and the digital platform: <i>Fan del Agua</i>.</p>
	<p>Build resilient infrastructure, promote sustainable industrialization and foster innovation.</p>	<p>Innovation is a permanent force in Grupo Rotoplas, causing the development of new solutions, process improvement and approaching of new business models. We intend it to be collaborative, creating partnerships to provide water solutions, by an approach that connects “needs with appropriate water solutions”.</p> <p>We support the creation of an innovation ecosystem around water, such as our participation in the AIC Research Center in Chile, for the development of pioneering technologies.</p> <p>In addition, needs expressed by users are considered for our designs, in order to provide appropriate solutions.</p> <p>On the other hand, our solutions contribute to water security before extreme events caused by climate change, contributing to the resilience of communities and industries.</p>

SDG	Description of SDG	Contribution
	<p>Ensure a healthy life and to promote well-being for all at all ages.</p>	<p>Our Government projects, finance, and implementation of pilot programs and the contribution to NGOs initiatives, improve the conditions in terms of water supply and sanitation. By gaining access to such basic needs, impacts like the reduction of gastrointestinal infectious diseases and the greater availability of time as there is no need of carrying water, are achieved. Furthermore, there is lower labor and school absenteeism and women are empowered to develop outside their home.</p>
	<p>Ensure inclusive and quality education for all and promote lifelong learning.</p>	<p>These impacts rely on different variables, which in addition to the availability of water and sanitation, electrification, commodities and telecommunications, among others, result from the operations of companies from different industries, as well as Governments and NGOs contributions.</p>
	<p>Achieve gender equality and empower all women and girls.</p>	



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)

Grupo Rotoplas believes in the significance of its operations, products and services, through the creation of value for our different stakeholders, accounting for our initiatives as a result of our transparency approach.

Under this perspective, we present our second Annual Integrated Report including the Company's financial and non-financial performance during the year 2016 in the countries in which we operate¹⁸, which has been prepared in accordance with the Exhaustive Compliance approach to the GRI Standards. This is the latest version of the international reference methodology, developed by Global Reporting Initiative (GRI) for the communication of social, environmental, and economic performance together with the corporate governance practices.

We continue working on our information management processes, focusing on continuous improvement to strengthen a solid relationship with our stakeholders, in order that the GRI Standards contents we report will be submitted to external verification in the future. It is worth to note that this report does not include information restatements with respect to the included in the precedent report, i.e. the 2015 data.

This report focuses on the topics identified as material issues from the Company's strategic overview and from the stakeholders' overview which is also included in our sustainability model¹⁹. According to the identification process of impacts and risks, the limits of material issues were defined, considering our different subsidiaries (internal limits), as well as the entities of our value chain (external limits).

The list of material issues and limits approved by the Sustainability Committee is provided below.

¹⁸ The subsidiaries of Grupo Rotoplas can be found in the financial statements. This report includes, for the first time, the results of Talsar and Sytesa, companies that were incorporated as subsidiaries in 2016.

¹⁹ More information about the process followed for the determination of material issues is in the subchapter of Sustainability Model (value creation chapter).

LIMITS (Coverage)

Material Issue (GRI Standard 102-47)	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 on the 2016 fiscal year.

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

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

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

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

Other Countries²⁰ division, which includes our operations in the rest of Latin America, grew its sales 56.2%, thanks to increased demand for individual solutions, as well as the addition of sales from Talsar in Argentina from May, and the U.S.A. market penetration strategy. This segment contributed the 27.7% of total revenue in 2016, while it represented 16.7% in 2015.

²⁰ It includes Grupo Rotopla's operations in Argentina, Belize, Chile, Costa Rica, El Salvador, United States, Guatemala, Honduras, Nicaragua and Peru,

In the 2014 to 2016 period, growth greater than 11% of organic revenue was achieved, excluding sales to the Government channel and acquisitions; this shows the stability and profitability of the business core of the Company in the retail channel and sale of integrated solutions with maintenance for the private-commercial sector.

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

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

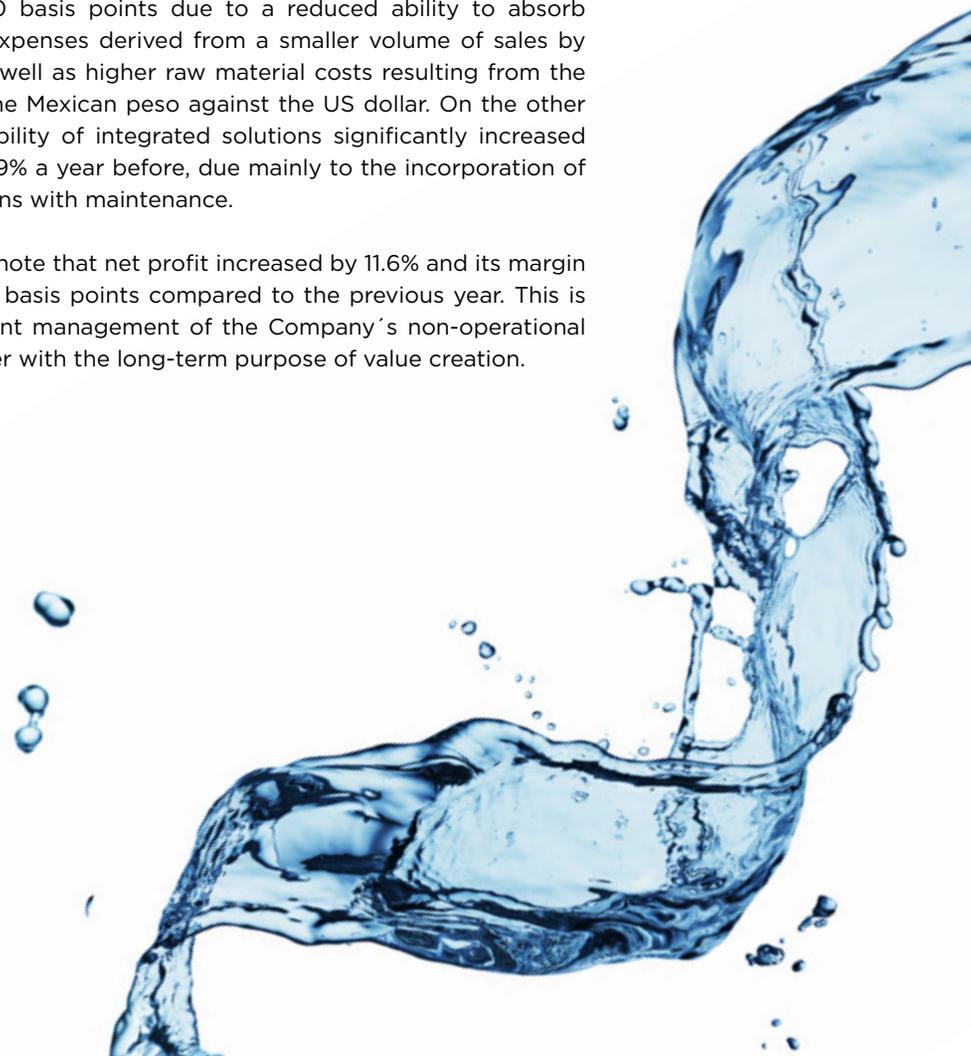
Gross profit margin increased by 180 basis points, due to better prices throughout the year, as well as a sales mix with higher-margin solutions.

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

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

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

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



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Material issues	GRI Standard	Content	Page/link	Omission	UN Global Compact Principles	
Access to water and sanitation	GRI 103: Management approach 2016	103-1	72			
		103-2	17			
		103-3	17			
	GRI 203: Indirect economic impacts	203-1	30			
		203-2	17, 43			
Employees' attraction and retention	GRI 103: Management approach 2016	103-1	72			
		103-2	42			
		103-3	42			
	GRI 401: Employment 2016	401-1	42			Principle 6
		401-2	42			
		401-3	-	Not apply, because the company does not have significant impacts in gender equality		Principle 6
Quality	GRI 103: Management approach 2016	103-1	72			
		103-2	33			
		103-3	33			
	GRI 416: Costumer health and safety 2016	416-1	33			
		416-2	54			
Water awareness	GRI 103: Management approach 2016	103-1	72			
		103-2	36			
		103-3	36			
Employees' development	GRI 103: Management approach 2016	103-1	72			
		103-2	47			
		103-3	47			
	GRI 404: Training and education 2016	404-1	47			Principle 6
		404-2	47			
		404-3	47			Principle 6
	GRI 405: Diversity and equal opportunity 2016	405-1	42, 50			Principle 6
		405-2	-	Not apply, because the company does not have significant impacts in gender equality		Principle 6

Material issues	GRI Standard	Content	Page/link	Omission	UN Global Compact Principles
Economic performance	GRI 103: Management approach 2016	103-1	72		
		103-2	12		
		103-3	12		
	GRI 201: Economic performance 2016	201-1	14, 30		
		201-2	17		Principle 7
		201-3	42		
		201-4	14		
Operational efficiency	GRI 103: Management approach 2016	103-1	72		
		103-2	33, 38		
		103-3	33, 38		
	GRI 204: Procurement practices 2016	204-1	33		
	GRI 301: Materials 2016	301-1	-	Classified due to Company's internal policies.	Principle 7 y 8
		301-2	33		Principle 8
		301-3	-	Not apply, because the durability of the company's products, their useful life extends over such long periods of time that the use at the en of the latter does not generate a significant impact.	Principle 8
	GRI 302: Energy 2016	302-1	38		Principle 7 y 8
		302-2	-	Not apply, because the Company's products do not require energy consumptions for their use, or it is not significant.	Principle 8
		302-3	38		Principle 8
		302-4	38		Principle 8 y 9
		302-5	-	Not apply, because the Company's products do not require energy consumptions for their use, or it is not significant.	Principle 8 y 9

Material issues	GRI Standard	Content	Page/link	Omission	UN Global Compact Principles
Operational efficiency	GRI 303: Water 2016	303-1	38		Principle 7 y 8
		303-2	-	Not apply, the significance of the impact on the water requirement for the company's operations is in the quantity, not in the source of origin.	
		303-3	38		Principle 8
	GRI 305: Emissions 2016	305-1	38		Principle 7 y 8
		305-2	38		
		305-3	-	Not available, we will work in the value chain to have the information in the next report.	
		305-4	38		Principle 7
		305-5	38		Principle 8 y 9
		305-6	-	Not available, we will work in the value chain to have the information in the next report.	
		305-7	-	Not available, we will work in the value chain to have the information in the next report.	Principle 7 y 8
	GRI 306: Effluents and waste 2016	306-1	-	Not apply, the Company's manufacturing processes do not generate significant spills to the water.	Principle 8
		306-2	38		Principle 8
		306-3	-	Not apply, manufacturing processes and materials handled, do not lead to significant risks and/or impacts associated with spills.	Principle 8
		306-4	-	Not available, we will work in the value chain to have the information in the next report.	Principle 8
		306-5	-	Not apply, manufacturing processes and materials handled, do not lead to significant risks and/or impacts associated with spills.	Principle 8

Material issues	GRI Standard	Content	Page/link	Omission	UN Global Compact Principles
Strategy, business model and trademark	GRI 103: Management approach 2016	103-1	72		
		103-2	20, 33		
		103-3	20, 33		
	GRI 206: Anti-competitive behavior 2016	206-1	54		
	GRI 307: Environmental compliance 2016	307-1	54		
	GRI 415: Public policy 2016	415-1	52		Principle 10
	GRI 419: Socioeconomic compliance 2016	419-1	54		
Risk management	GRI 103: Management approach 2016	103-1	72		Principle 4
		103-2	54		Principle 5
		103-3	54		
		201-2	17		Principle 7
		307-1	54		Principle 8
		205-1	52		Principle 10
		205-2	52		Principle 10
		205-3	52		Principle 10
		403-2	42		
		406-1	52		Principle 6
412-2	52		Principle 1 y 2		
Innovation	GRI 103: Management approach 2016	103-1	72		
		103-2	30		
		103-3	30		
Relationship with clients	GRI 103: Management approach 2016	103-1	72		
		103-2	20, 33		
		103-3	20, 33		
	GRI 417: Marketing and labeling 2016	417-1	33		
		417-2	54		
		417-3	54		

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

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