

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.