

**Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**  
Consolidated Financial Statements  
December 31, 2019 and 2018

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Contents

December 31, 2019 and 2018

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## **Independent Auditors' Report**

To the Stockholders and Board of Directors of Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

### **Opinion**

We have audited the consolidated financial statements of Grupo Rotoplas, S. A. B. de C. V. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of income and comprehensive income, of changes in equity and of cash flows for the year then ended, and the explanatory notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditors' responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Company in accordance with the Ethics Standards of Mexican Institute of Public Accountants together with other requirements applicable to our audit of the consolidated financial statements in Mexico, and we have fulfilled our other ethical responsibilities in accordance with those requirements and standards. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the matter
<p><u>Lands and buildings valuation</u></p> <p>As described in Note 15.1 to the consolidated financial statements, the Company recognizes its lands and buildings at fair value, based on the valuations prepared by independent experts.</p> <p>We have focused in these items, mainly for the significance of the net book value of the lands and buildings as of December 31, 2019 (\$425,720 and \$407,701, respectively) and since the determination of the fair value requires the application of the Company Management’s judgment.</p> <p>In particular, we focused our audit efforts in the methodology used by the expert and the market prices of comparable goods.</p>	<p>We have performed the following procedures on a sampling basis:</p> <ol style="list-style-type: none"> <li>1. We compared the methodology used by Company’s Management to determine the fair value of these assets, with the commonly used and accepted for these type of assets in the market.</li> <li>2. We compare market prices of comparable lands and buildings with recognized observable data sources in the industry.</li> <li>3. We compared that the disclosures made by Company’s Management in the notes of the consolidated financial statements are consistent with the obtained information.</li> </ol>
<p><u>Intangible assets valuation including goodwill</u></p> <p>As mentioned in Note 17 to the consolidated financial statements, the Company evaluates on a yearly-basis the recoverable value of its Cash Generating Units (“CGU”) to determine whether there is an indicator of impairment in its intangible assets and/or goodwill.</p> <p>We have focused our audit in this area due to the importance of the balance of the intangible assets and goodwill (\$3,242 million in December 31, 2019) and since the determination of the recoverable value of the CGU requires the application of the Company Management’s judgment to estimate the projected cash flows of the businesses.</p> <p>In particular, we focused our audit efforts in: the model and the most significant assumptions in determining the recoverable value, such as: revenue growth rates, weight average cost of capital (WACC), and future growth rate</p>	<ol style="list-style-type: none"> <li>1. We evaluated the projected future cash flows, considering if Management followed the procedures established to elaborate them, if they were reviewed and approved on a timely basis and whether these are consistent with those approved plans by the Board of Directors and with the historical financial trends of the Company.</li> <li>2. We compared the current year results to the budgeted figures in prior year for the current year, to consider if any of the assumptions included in such projections could be considered optimistic.</li> <li>3. With the support of from our valuation experts, we also: <ul style="list-style-type: none"> <li>• Compared the model used by the Company, with those models</li> </ul> </li> </ol>

<p>considered in the determination of the terminal value.</p>	<p>generally accepted in the industry for similar assets.</p> <ul style="list-style-type: none"> <li>• We compared the revenue growth rates, and future growth rate, considered in the determination of the terminal value, with those publicly available in independent market sources and by the industry; and the WACC with the cost of capital of the entity and comparable entities, as well as with other market conditions and the country industry specifics.</li> <li>• We considered and evaluated the sensitivity analysis prepared by the Company for each CGU. For all the CGUs, we calculated the grade in which the main assumptions would have to be modified to be in the presence of a potential impairment; and we discussed with Management the probabilities of such modifications.</li> </ul> <p>4. Finally, we evaluated the consistency of the disclosed information in the notes with the information provided by the Company.</p>
<p><u>Discontinued operation for the sale of fixed assets in the United States</u></p> <p>As mentioned in Note 30, on July 8, 2019 it was announced that, as part of the operation simplification strategy and concentration on the electronic commerce platform in the United States of America, the Group decided to sell the manufacturing assets that comprehended the three roto-molding facilities in California, Texas and Georgia.</p> <p>We have focused in this transaction during our audit since, mainly, it is a new significant transaction and since management applied professional judgments to conclude on whether it</p>	<p>We have evaluated the classification of the transaction as a discontinued operation made by Management, through the following procedures:</p> <ol style="list-style-type: none"> <li>1 We read the purchase-sell agreement to identify the assets subject to such discontinued operation,</li> <li>2 We performed interviews with the Management to discuss the characteristics of the transaction and identify whether it was an asset disposal or a discontinued operation, and we obtained and</li> </ol>

<p>should be classified as an asset disposal or a discontinued operation.</p> <p>In particular, we concentrated our audit efforts in the analysis performed by Management to identify if the sold assets represented a component of the entity, an independent business unit or a significant geographical segment.</p>	<p>evaluated the analysis performed by Management.</p> <p>3 We tied the financial information contained in the analysis performed by Management to the historical information contained in the internal financial statements of the United States geographical segment and the related consolidated audited work papers from prior years, which were tied to the issued financial statements.</p> <p>4 With the support of our IFRS specialists, we evaluated and considered the characteristics of the fixed assets subject to disposal.</p>
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### Other information

Management is responsible for the other information. The other information comprises the Annual Report presented to the Comisión Nacional Bancaria y de Valores (“CNBV”), but does not include the consolidated financial statements and our auditors’ report thereon, which is expected to be made available to us after the date of this auditors’ report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

However, in connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the other information not yet received, we will issue a declaration on the Annual Report as required by the CNBV and if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with Governance and, if required, describe the issue in our report.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Company's Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Company's financial reporting process.

## **Auditors' responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events

or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers, S. C.

L.C.  
Audit Partner

César

Alfonso

Rosete

Vela

Mexico City, April 24, 2020



# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Consolidated Statements of Financial Position

### December 31, 2019 and 2018

Thousands of Mexican pesos

		December 31,	
<u>Assets</u>	<u>Notes</u>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	8	\$ 1,847,816	\$ 1,050,347
Accounts receivable, net and other accounts receivable	9	1,709,231	1,763,666
Related parties	10	6,926	9,261
Income tax receivable		71,021	140,304
Other recoverable taxes	11	349,582	367,960
Inventories	12	894,458	1,057,461
Prepaid expenses	13	116,756	230,422
Restricted cash	32	-	125,602
Financial asset at fair value through profit or loss	14	37,745	-
Derivative financial instruments	18	7,351	4,296
<b>Total current assets</b>		<b>5,040,886</b>	<b>4,749,319</b>
<b>NON-CURRENT ASSETS:</b>			
Related parties	10	124,554	113,444
Financial asset at fair value through profit or loss	14	83,278	23,687
Property, plant and equipment - Net	15	2,480,461	2,653,112
Investment in associates	16	12,087	131,427
Intangibles	17	3,241,990	3,436,073
Financial right-of-use of a leased asset - Net	23	61,717	84,745
Deferred income tax asset	26	300,168	495,515
Guarantee deposits	6	22,912	23,705
Restricted cash	32	62,234	108,302
Derivative financial instruments	18	-	31,120
<b>Total assets</b>		<b>\$11,430,287</b>	<b>\$11,850,449</b>
<b>Liabilities and equity</b>			
<b>SHORT-TERM LIABILITIES:</b>			
Short-term portion of the long-term debt	19	\$ 606,492	\$ 7,232
Suppliers	20	348,697	399,536
Other accounts payable	21	914,424	914,557
Provisions	22	9,971	7,366
Income taxes payable		98,730	129,132
Other taxes payable		132,980	107,536
Derivative financial instruments	18	15,900	-
Short-term of financial liability for the right-of-use of an asset	23	29,059	29,204
Employees' statutory profit sharing payable		64,373	21,787
<b>Total short-term liabilities</b>		<b>2,220,626</b>	<b>1,616,350</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt	19	2,328,654	2,916,188
Employees benefits	24	32,405	16,182
Other accounts payable	21	122,887	129,287
Referred value units	24	14,008	16,757
Deferred income tax liability	26	264,648	327,534
Long-term of financial liability for the right-of-use of an asset	23	36,002	64,331
<b>Total liabilities</b>		<b>5,019,230</b>	<b>5,086,629</b>
<b>EQUITY:</b>			
Capital stock	25	4,100,192	4,281,292
Stock premium at subscription		33,759	33,759
Retained earnings		2,568,405	2,514,137
Legal reserve		37,370	37,370
Currency translation effect in subsidiaries		(778,990)	(510,803)
Revaluation surplus		338,380	293,799
Capital participation attributable to:			
Controlling interest		6,299,116	6,649,554
Non-controlling interest		111,941	114,226
<b>Total equity</b>		<b>6,411,057</b>	<b>6,763,820</b>
<b>Total liabilities and equity</b>		<b>\$11,430,287</b>	<b>\$11,850,449</b>

The accompanying notes are an integral part of these consolidated financial statements.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Consolidated Statements of Income

Year ended on December 31, 2019 and 2018

*Thousands Mexican pesos*

		Year ended on December 31,	
	Notes	2019	2018
Net sales	7	\$8,086,466	\$7,776,893
Cost of sales	27	<u>4,691,818</u>	<u>4,673,653</u>
Gross profit		3,394,648	3,103,240
Operating expenses	28	<u>2,327,342</u>	<u>2,177,664</u>
Operating profit		<u>1,067,306</u>	<u>925,576</u>
Finance income	29	93,570	107,235
Finance costs	29	<u>(651,058)</u>	<u>(358,131)</u>
Net finance (cost) income		<u>(557,488)</u>	<u>(250,896)</u>
Share of net profit of associates	16	<u>735</u>	<u>(329)</u>
Profit before income taxes		510,553	674,351
Income taxes	26	<u>250,383</u>	<u>278,781</u>
Profit from continuing operations		<u>\$ 260,170</u>	<u>\$ 395,570</u>
Discontinued operations - Loss from discontinued operations	30	<u>(\$ 208,051)</u>	<u>(\$ 21,682)</u>
Net consolidated profit		<u>\$ 52,119</u>	<u>\$ 373,888</u>
Profit attributable to:			
Controlling interest		\$ 54,268	\$ 370,530
Non-controlling interest		<u>(2,149)</u>	<u>3,358</u>
		<u>\$ 52,119</u>	<u>\$ 373,888</u>
Basic and diluted net profit per share from continuing operations	2.25 and 25	<u>\$ 0.56</u>	<u>\$ 0.84</u>
Basic and diluted net profit per share*	2.25 and 25	<u>\$ 0.12</u>	<u>\$ 0.79</u>

\* The basic and diluted net profit per share are expressed in Mexican pesos.

The accompanying notes are an integral part of these consolidated financial statements.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Consolidated Statements of Comprehensive Income

Year ended on December 31, 2019 and 2018

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*Thousands of Mexican pesos*

		Year ended on December 31,	
	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Consolidated net profit		\$ 52,119	\$ 373,888
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Revaluation surplus of land and buildings - net of income taxes		44,581	-
Items that may be reclassified to profit or loss subsequently:			
Currency translation effect in subsidiaries*	2.4	<u>(268,363)</u>	<u>(604,960)</u>
Consolidated comprehensive loss for the year		<u>(\$ 171,663)</u>	<u>(\$ 231,072)</u>
Consolidated comprehensive loss for the year attributable to:			
Controlling interest		(\$ 169,338)	(\$ 230,575)
Non-controlling interest		<u>(2,325)</u>	<u>(497)</u>
		<u>(\$ 171,663)</u>	<u>(\$ 231,072)</u>

\* These items were not subject to payment of income taxes.

The accompanying notes are an integral part of these consolidated financial statements.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Consolidated Statements of Changes in Equity

### December 31, 2019 and 2018

Thousands of Mexican pesos

	Notes	Ordinary stock	Stock premium at subscription	Retained earnings	Legal reserve	Currency translation effect in subsidiaries	Revaluation surplus	Total equity of controlling interest	Non-controlling interest	Total equity
Balances at January 1, 2018 after adoption of standards		\$ 4,654,476	\$ 33,759	\$ 2,188,312	\$ 30,473	\$ 16,737	\$ 329,556	\$ 7,253,313	\$ 114,763	\$ 7,368,076
Change in accounting policy reclassification		-	-	(73,565)	-	73,565	-	-	-	-
Comprehensive income for the period:										
Other comprehensive income		-	-	35,757	-	(601,105)	(35,757)	(601,105)	(3,855)	(604,960)
Net profit for the year		-	-	370,530	-	-	-	370,530	3,358	373,888
Total comprehensive income		-	-	406,287	-	(601,105)	(35,757)	(230,575)	(497)	(231,072)
Transactions with stockholders recognized directly in equity:										
Acquisition of treasury stock	25	(765,496)	-	-	-	-	-	(765,496)	-	(765,496)
Sale of treasury stock	25	566,596	-	-	-	-	-	566,596	-	566,596
Equity reimbursement	25	(174,284)	-	-	-	-	-	(174,284)	-	(174,284)
Legal reserve allocation	25	-	-	(6,897)	6,897	-	-	-	-	-
Non-controlling interest recognized from business combinations										
Total transactions with stockholders recognized directly in equity:		(373,184)	-	(6,897)	6,897	-	-	(373,184)	-	(373,184)
Balances as at December 31, 2018		4,281,292	33,759	2,514,137	37,370	(10,803)	293,799	6,649,554	\$ 114,266	\$ 6,763,820
Comprehensive income for the period:										
Other comprehensive income		-	-	-	-	(268,187)	44,581	(223,606)	(176)	(223,782)
Net profit for the year		-	-	54,268	-	-	-	54,268	(2,149)	52,119
Total comprehensive income		-	-	54,268	-	(268,187)	44,581	(169,338)	(2,325)	(171,663)
Transactions with stockholders recognized directly in equity:										
Acquisition of treasury stock		(425,972)	-	-	-	-	-	(425,972)	-	(425,972)
Sale of treasury stock		418,592	-	-	-	-	-	418,592	-	418,592
Equity reimbursement		(173,720)	-	-	-	-	-	(173,720)	-	(173,720)
Legal reserve allocation		-	-	-	-	-	-	-	-	-
Total transactions with stockholders recognized directly in equity:		(181,100)	-	-	-	-	-	(181,100)	-	(181,100)
Balances as at December 31, 2019		\$ 4,100,192	\$ 33,759	\$ 2,568,405	\$ 37,370	(\$ 778,990)	\$ 338,380	\$ 6,299,116	\$ 111,941	\$ 6,411,057

The accompanying notes are an integral part of these consolidated financial statements.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Consolidated Statements of Cash Flows

### December 31, 2019 and 2018

Thousands of Mexican pesos

	Notes	Year ended on December 31,	
		2019	2018
<b>Operating activities</b>			
Profit before income taxes from continuing operations		\$ 510,553	\$ 674,351
Profit (loss) before income taxes from discontinued profit		23,259	(82,310)
Adjustments for items not involving cash flows:			
Depreciation and amortization included in expenses and costs from continuing operation	15 y 17	339,321	339,772
Depreciation and amortization included in expenses and costs from discontinued operation		31,372	35,602
Impairment		158,260	-
Loss on sale of property, plant and equipment from continuing operation		11,994	5,140
Profit on sale of property, plant and equipment from discontinued operation		(448,993)	-
Profit on sale of inventories from discontinuing operation		(30,036)	-
Share of net profit of associates	16	(735)	329
Restatement effect loss		114,793	63,834
Derivative financial instruments	29	22,120	9,155
Allowance for doubtful accounts	9	4,846	4,865
Interest income from continuing operations	29	(55,707)	(58,545)
Interest income from discontinued operations		(382)	(900)
Interest expense from continuing operations	19.3 and 29	343,471	282,720
Interest expense from discontinued operations		1,753	3,990
Employee benefits net period cost	24	10,746	5,437
Referred value units	24	(2,749)	(5,705)
Changes in assets and liabilities:			
Accounts receivable		(109,457)	(191,570)
Recoverable income tax		25,423	(60,892)
Other recoverable taxes		(66,790)	15,622
Inventories		38,395	(93,015)
Prepaid expenses		82,757	(32,034)
Guarantee deposits		(27)	12,306
Financial asset at fair value through profit or loss		75,491	-
Suppliers		(12,518)	9,183
Other accounts payable		154,907	276,540
Other taxes payable		32,970	(20,032)
Employees' statutory profit sharing		43,061	(2,572)
Referred value units		-	(760)
Employees benefits	24	-	(160)
Cash flows from operating activities		1,298,098	1,190,351
Income taxes paid		(285,816)	(326,713)
Net cash flows from operating activities		1,012,282	863,638
<b>Investing activities</b>			
Acquisitions of property, plant and equipment	15	(299,419)	(419,484)
Proceeds from sale of property, plant and equipment from continuing operation		1,105	2,045
Proceeds from sale of property, plant and equipment of the United States		686,681	-
Acquisition of financial asset at fair value through profit or loss		-	(13,958)
Acquisition of intangible assets	17	(29,899)	(136,571)
Business acquisitions net of acquired cash and cash equivalents	32	46,068	(884,312)
Restricted cash	32	-	(108,302)
Related parties		(79,481)	(18,809)
Interest received from continuing operation		55,707	59,445
Interest received from discontinued operation		382	900
Net cash flows from investing activities		381,144	(1,519,946)
<b>Financing activities</b>			
Dividends paid to stockholders	25	-	247
Equity reimbursement	25	(173,720)	(174,284)
Acquisition of treasury stock	25	(425,972)	(765,496)
Sale of treasury stock	25	418,592	566,596
Proceeds from bond debt	19	-	942,821
Loans obtained	19.3	93,000	-
Payment of bank loans	19.3	(95,522)	(287)
Lease payments		(49,776)	(51,248)
Interests paid from continuing operations		(326,284)	(250,196)
Interests paid from discontinued operation	19.3	(1,753)	(3,990)
Net cash flows from financing activities		(561,435)	264,163
Increase (decrease) in cash and cash equivalents		831,991	(392,145)
Cash and cash equivalents at the beginning of the year		1,050,347	1,679,947
Effects of exchange rate changes on cash and cash equivalents		(34,522)	(237,455)
Cash and cash equivalents at the end of the year	8	\$ 1,847,816	\$ 1,050,347

The accompanying notes are an integral part of these consolidated financial statements.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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*Thousands of Mexican pesos, unless otherwise specified*

### **Note 1 - Company's information:**

Grupo Rotoplas, S. A. B. de C. V. ("Grupo Rotoplas") and subsidiaries (the "Company" or the "Group") started its operations in Mexico City in 1978 with a duration of 99 years; a group of stockholders ultimately controls the Company. The Company's main activity is the manufacturing, purchasing, selling and installation of plastic containers and plastic accessories, that provide water storage, conduction and water improvement solutions, and in providing individual and comprehensive water solutions to its clients. The Company has defined January 1 to December 31 as its normal operating period.

The Group operates nine production plants in Mexico City, Guadalajara, Lerma, Monterrey, León, Mérida, Veracruz, Tuxtla Gutiérrez and Los Mochis, as well as a distribution center in the city of Hermosillo. Furthermore, the Group also operates production plants in Guatemala, Peru, Argentina, and Brazil, and distribution centers in the United States of America ("USA"), where, only product of third parties is commercialized, El Salvador, Belize, Honduras, Nicaragua and Costa Rica, which enables it to have an extensive market in North America, Central America and South America.

The Company's address and main place of business is:

Pedregal 24, piso 19  
Col. Molino del Rey  
11040 Mexico City

### **Relevant transactions**

a. Investment in participation of other entities:

- i. On July 2, 2018 the Company completed the acquisition of IPS S.A.I.C. y F. (IPS), which is a leading Argentinian company in water conduction. Whose acquisition represents 100% of the stockholders' equity in IPS in Argentina, for a net amount of MXN\$1,092 million, financed fully with Company's own funds. IPS is a leading Argentinian company that focused on the manufacturing, distribution and commercialization of water flow solutions with over 4,100 active clients. From this date on, the Company possess control over IPS operation, fulfilling its individual solutions portfolio in Argentina, with trademarks and leading technologies to enhance its region growth.

b. Others

- i. On July 19, 2019 the cash sale transaction of the manufacturing assets held in the United States of America concluded successfully, this comprises the sale of the three manufacturing facilities in California, Texas and Georgia to focus in the growth of the E-Commerce platform. Through the strategical alliance and a definite agreement of the purchase of the assets, with the tank manufacturing leader Tank Holdings Corp., which comprises among other synergies, the continuity of the commercialization of its products, Rotoplas will be able to focus on developing and accelerated growing of the leading electronic platform in water solutions in the United States of America. The income proceedings from the sale reached \$40 million United States dollars, such transaction was disclosed as discontinued operations.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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- ii. On June 13, 2019, the Company announced to the investors that, as a result of the Administrative simplification process of the Mexican operations, the subsidiaries Servicios Rotoplas, S.A. de C. V., Suministros Rotoplas, S.A. de C.V., Rotoplas Recursos Humanos, S. A. de C. V. y Rotoplas LABS S. A. P. I. de C. V., were merged into Rotoplas, S. A. de C. V. on July 1, 2019.
- iii. On February 5, 2019, as part of the management simplification process for the Latin America operations, the subsidiary Talsar, S. A. was merged into Rotoplas Argentina, S. A., taking effect in April, 2019.
- iv. On April 26, 2019 at the General Ordinary and Extraordinary Stockholders' Meeting a Capital reimbursement was approved, for an amount of MXN\$0.38 per stock in circulation. The capital reimbursement in cash was paid in one exhibition on May 7, 2019.
- v. On October 11, 2018, the Company announced the issuance of the second tranche of the Sustainable Bond, by an amount of \$1,000 million Mexican pesos, which over demand reached a 3.8 times. The issuance was made with a fixed rate of "MBONO 27 + 179 base points and has an yearly coupon rate of 8.65%, with interest payment each 182 days and maturity in 2027. The objective of this bond issuance was to obtain funds to finance the sustainability initiatives that improve the access to water and sanitation. The reference benchmark for this issuance is aligned with the Green Bond and Sociable Principles, as well as with the directions of the Sustainable Bonds, and it was rated by Sustainalytics as the third independent. The offering was performed under the Trade Certificates program ("CEBURES") for a total amount up to \$3,000 million pesos and has been granted with the credit rates of AA (mex) and mxAA- by Fitch and Standard and Poor's, respectively. With this Sustainable Bond, Rotoplas enhances its long financing structure and aligns with the sustainable strategy of the Company, consisting of a transparent corporate government and water solutions with positive environmental impacts and social. On June 28, 2017 the Company announced the issuance of the first sustainable bonds in Latin America by \$2,000 million Mexican pesos. (Refer to Note 19). The cash generated from this issuance were used for the payment of debt, the investment in assets and the financing of working capital.
- vi. On April 16, 2018, the Company announced a change in the way of reporting its operating performance in the geographical segments, thereon, commencing in the first quarter of 2018 on, the geographical segmentation of the results report will be as follows: the results of our operations in Mexico and Argentina will be reported on an separate basis, whereas the rest of our operations will be reported on a consolidated bases as Other Countries. The modification responds to the relevance of Argentina's growth in the results of Grupo Rotoplas, as well as the decrease that Brazil has represented in the past years. Additionally, with this change, Rotoplas will provide further visibility to the financing community of the relevant segments of the Company.
- vii. On April 27, 2018 at the General Ordinary and Extraordinary Stockholders' Meeting a Capital reimbursement was approved, for an amount of MXN\$0.37 per stock in circulation. The corresponding payment was made in one exhibition on May 7, 2018 through S.D. Indeval Institución para el Depósito de Valores, S. A de C. V.

### Note 2 - Summary of significant accounting policies:

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

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The most significant accounting policies applied in the preparation of these consolidated financial statements are set out below, which have been applied consistently to the years presented, unless otherwise stated.

### **2.1 Basis of preparation**

The consolidated financial statements at December 31, 2019 and 2018 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Interpretations issued by the IFRS Interpretations Committee (IFRIC). As such, the historical cost convention has been used for the valuation of captions, except for derivative financial instruments, which have been determined at their fair value, lands and buildings, financial asset at fair value through profit or loss and the operations in Argentina, which is an hyperinflationary economy in accordance with IAS 29 “Hyperinflationary economies”, expressed in terms of the current measure unit at the inform closure date.

IFRS require certain critical accounting estimates to be made when preparing the consolidated financial statements. They also require Management to exercise its judgment in determining the accounting policies to be applied by the Group. The areas involving a higher degree of judgment or complexity and where assumptions and estimates are significant to the consolidated financial statements are described in Note 4.

#### **2.1.1 Changes in accounting policies and disclosures**

##### **2.1.1.1 New standards adopted by the Company.**

The Group has applied the following standards and modifications for the first time for the period of the annual report that begins on January 1, 2019:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group also elected to adopt the following amendments early: 6

- Definition of Material – Amendments to IAS 1 and IAS 8.

### **2.2 Consolidation**

#### **2.2.1 Subsidiaries**

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date control ceases.



# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

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The Company applies the acquisition method to account the business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interest issued by the Company. The consideration transferred includes the fair value of any asset of liability resulting from a contingent consideration arrangement. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The costs related to the acquisition are recognized as expense when they are incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date.

Transactions, balances and unrealized gains or losses between Group companies are eliminated. When necessary, the accounting policies applied by the subsidiaries are modified to ensure their consistency with those adopted by the Group.

The accompanying consolidated financial statements include those of the Company and the following subsidiaries:

<u>Company</u>	Participation with vote rights in 2019 and 2018 (%)	<u>Activities</u>
Mexican subsidiaries:		
Rotoplas S. A. de C. V. (Rotoplas) <sup>1</sup>	99.99	Manufacturing and sale of plastic tanks for water storage.
Fideicomiso AAA Grupo Rotoplas (Fideicomiso AAA) <sup>2</sup>	100	Granting of financial support.
Rotoplas Comercializadora, S. A. de C. V. (Comercializadora)	99.99	Sub holding entity of shares.
Rotoplas de Latinoamérica, S. A. de C. V. (Latino) <sup>3</sup>	99.99	Sub holding entity of shares.
Rotoplas Bienes Raíces, S. A. de C. V. (Bienes Raíces) <sup>1</sup>	42.63	Real estate services.
Soluciones y Tratamiento Ecológico, S. A. P. I. de C. V. (Sytesa)	80.00	Residual water treatment
Subsidiary in Canada		
Sanzfield Technologies Inc. <sup>4 and 5</sup>	43.94	Center specialized in the development of water treatment and recycling systems
Subsidiary in the USA:		
Molding Acquisition, Corp. (MAC) <sup>6</sup>	100	Manufacturing and sale of plastic tanks for water storage

<sup>1</sup> Rotoplas is in turn the holder of 56.96% of the shares of Bienes Raices.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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<sup>2</sup> Fideicomiso AAA started on March 15, 2007 by the Company in its capacity of thruster in order to promote the development of companies by operating a preferential financial support system aimed at suppliers and distributors. (Refer to Note 31).

<sup>3</sup> Latino is the holding entity of the stocks of the following tier two companies for consolidated financial statement purposes:

<u>Company</u>	Participation with vote rights in 2019 and 2018 (%)	<u>Activity</u>
Dalka do Brasil, Ltda. (Brazil)	99.99	Manufacturing and sale of plastic tanks for water storage.
Dalka, S. A. C. (Peru)	99.99	Manufacturing and sale of plastic tanks for water storage.
Rotoplas Argentina, S. A. (Argentina)	98.87	Manufacturing and sale of plastic tanks for water storage.
I.P.S. (Argentina) <sup>9</sup>	97.99	Manufacturing and sale of plastic tubes.
Tinacos y Tanques de Centroamérica, S. A. and subsidiaries (Guatemala), (Central America) <sup>8</sup>	99.99	Manufacturing and sale of plastic tanks for water storage.

<sup>4</sup> The percentage of participation of Sytesa and Sanzfield relates to the period when the Company acquired control over these.

<sup>5</sup> The economic participation percentage represents 43.94%, however, the Company claims control by holding the 52.70% of the voting rights at the Board of Directors.

<sup>6</sup> MAC is the holding entity from October 20, 2017 on, of the shares of the following tier two company, for consolidated financial statement purposes:

<u>Company</u>	Participation with vote rights in 2019 and 2018 (%)	<u>Activity</u>
Subsidiary in the USA: Acuantia, Inc. <sup>7</sup>	99.14	Online selling platform

<sup>7</sup> Acuantia, Inc.; formerly Nautical, as a result of the Administrative simplification process, the subsidiaries PM, and Plastic Water Tank, were merged into Nautical Inc. from October, 2018 on.

<sup>8</sup> Central America is the holding entity of the shares of the following tier three companies for consolidated financial statement purposes:

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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<u>Company</u>	Participation with vote rights in 2019 and 2018 (%)	<u>Activity</u>
Exportadora y Comercializadora del Caribe, S. A. (Guatemala)	90	Exportation, importation and distribution of water storage plastic tanks.
Servicios Apolo, S. A. (Guatemala)	90	Rendering of administrative services.
Tinacos y Tanques de Honduras, S. A. de C. V.	99.60	Manufacturing and sale of water storage plastic tanks.
Tanques y Plásticos, S. A. (Costa Rica)	100	Manufacturing and sale of water storage plastic tanks.
Tinacos y Tanques de Centroamérica, S. A de C. V. (El Salvador)	99.50	Manufacturing and sale of water storage plastic tanks.
Tinacos y Tanques de Nicaragua, S. A.	99.50	Manufacturing and sale of water storage plastic tanks.

<sup>9</sup> IPS was acquired in 2018.

### 2.2.2 Changes in the interest of subsidiaries without loss of control

Transactions carried out with the non-controlling interest that do not result in loss of control are accounted for as equity transactions, that is, as transactions with the owners in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity. At December 31, 2019 and 2018, no changes in the participation of subsidiaries existed without loss of control.

### 2.2.3 Changes in the interest participation

When the Company ceases to have control or significant influence in an entity, retained interest in the entity is measured at its fair value, recognizing the effect in the profit and loss. Fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, accordingly. In addition, any amounts previously recognized in OCI in respect to that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in OCI are reclassified to profit or loss in some cases. As of December 31 2019 and December 31, 2018, no disposal of subsidiaries occurred.

### 2.2.4 Associates

Associates are all entities over which the Group has significant influence but not control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognized at their cost and the carrying value increases or decreases to recognize the participation of the investment in the profit or loss of the invested entity after the date of acquisition. The investment of the Group in associates includes identified goodwill at the moment of the acquisition, net of any accrued impairment loss. (Refer to Note 16).

If the ownership interest in an associate is reduced but significant influence is retained, only a proportion of the amounts previously recognized in OCI are reclassified to profit or loss where appropriate. At December 31, 2019 and December 31, 2018, no reduction on the participation of any associate occurred.

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

## **Notes to the Audited Consolidated Financial Statements**

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The Company's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in OCI is recognized in OCI, at December 31, 2019, and 2018, there were no participation in OCIs of the associates. These post-acquisition movements are accrued and are adjusted to the carrying amount of the investment. When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Company assesses at the end of each reporting period whether there is objective evidence that an investment in associate is impaired. In such cases, the amount of impairment is determined to affect the recoverable value of the associate over its book value and the related loss is recognized in "Share of net profit of associates" in the statement of income. As of December 31, 2019 an impairment amount of \$116,668 was recognized and on December 31, 2018, no impairment existed in the associates.

Profit and losses resulting from upstream and downstream transactions between the group and its associate are recognized in the Company's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Company, in case it was necessary.

Dilution gains and losses arising in investments in associates are recognized in the income statement.

### **2.3 Segment reporting**

Financial information by operating segments is presented in a manner consistent with the internal reporting provided to the General Management of the Company. The General Management of the Company is responsible for allocating resources and assessing performance of the operating segments. (Refer to Note 7).

### **2.4. Foreign currency translation**

#### **2.4.1 Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates, the "functional currency". The functional currency by entity is presented in section 2.4.3 below. The consolidated financial statements are presented in Mexican pesos (\$), which is the Group's functional and presentation currency.

#### **2.4.2 Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in OCI as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses are presented in the income statement on a net basis within "finance income or costs".

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

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Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are recognized as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities are recognized in OCI.

### 2.4.3 Group companies

The results and financial position of the Group's entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- a. Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- b. Income and expenses for each income statement are translated at average yearly exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- c. All resulting exchange differences are recognized as part of the OCI.

In consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognized in OCI. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate. Exchange differences arising are recognized in OCI.

The main exchange rates used in the different translation processes are as follows:

		<u>Functional currency equivalent in Mexican pesos</u>			
		<u>Closing exchange rate at December 31,</u>		<u>Average exchange rate at December 31,</u>	
<u>Country</u>	<u>Local currency</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Brazil	Brazilian real	4.68	5.07	4.66	5.18
Argentina	Argentinian peso	0.32	0.52	0.32	0.53
Central America	Quetzal	2.45	2.54	2.49	2.60
Peru	Sol	5.69	5.83	5.70	5.98
USA	Dollar	18.87	19.66	19.15	20.13

The Argentinian companies have been qualified in a hyperinflationary economy, since the accumulated inflation of the past 3 years in Argentina was above 100%, refer to note 2.26 for the accounting policy on how the presentation of such companies is disclosed.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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### 2.5 Property, plant and equipment

Land and buildings comprise mainly the manufacturing and distribution plants and the offices. Land and buildings are shown at fair value based on valuations performed by independent external experts, less subsequent building depreciation. Valuations are performed with sufficient regularity (at least each five years) to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. If the accumulated inflation rate reaches more than 20%, the Company will perform valuations each two years.

The remaining property, plant and equipment are expressed at its historical cost less the accumulated depreciation. The historical cost includes all those directly attributable expenses at the moment of the element acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for, as a separate asset is derecognized when replaced. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are recognized to OCI and shown as revaluation surplus in equity. Decreases that reverse previous increases of the same asset are first recognized in OCI to the extent of the remaining surplus attributable to the asset; all other decreases are charged to the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	<u>Years</u>
Buildings	20
Machinery and equipment	10
Furniture, fixtures and computer equipment	3
Transportation equipment	4
Molds	10
Leasehold improvements	10-12
Treatment plants	15
Solar panels	30

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

When revalued assets are disposed, the amounts included in OCI are transferred to retained earnings.

Gains and losses on disposals of property, plant and equipment are determined by comparing the fair value of the proceeds with the carrying amount of the disposed asset, and are recognized within operating expenses and costs of sales of the income statement, depending on the function of assets.

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The revaluation surplus included as equity related to lands and buildings could be transferred to retained earnings at their disposal. Transfers between revaluation surplus and retained earnings are not recognized through profit and loss.

### **2.5.1 Leasehold improvements**

Improvements and modifications to leased property and commercial space in which the Company acts as lessee are recognized at their historical cost less accumulated depreciation. Depreciation of leasehold improvements is measured by the straight-line method based on the initial term of the lease agreement.

## **2.6 Intangible assets**

### **2.6.1 Goodwill**

Goodwill arises on the acquisition of subsidiaries and represents the excess of consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. If the total of the transferred consideration, the non-controlling interest recognized and the previously held participation measured at fair value is lower than the fair value of the net assets of the acquired subsidiary, in case of bargain purchase, the difference is recognized directly in profit and loss. (Refer to Notes 17 and 32).

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each Cash-Generating Unit ("CGU") or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. Each unit or group of units in which goodwill has been allocated are identified at the lowest level at which goodwill is monitored for internal management purposes. Goodwill is then monitored at a segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value in use and fair value less the cost of disposal. Any impairment, if any, is recognized immediately as an expense and is not subsequently reserved.

### **2.6.2 Trademarks and licenses**

Separately acquired trademarks and licenses are shown at historical cost. Trademarks and licenses acquired in a business combination are recognized at fair value at the acquisition date. Licenses have a definite useful life, and are subsequently carried at cost less accumulated amortization and impairment losses. Amortization is calculated by the straight-line method based on estimated useful lives of three to five years. Acquired computer software licenses are capitalized based on the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives of three to five years. (Refer to Note 17).

Trademarks have an indefinite useful life since it is expected that it will contribute to the net cash flows on an undefined period term, they are recognized at their historical cost less impairment. At December 31, 2019 and 2018, there are no accrued losses for impairment on trademarks.

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

## **Notes to the Audited Consolidated Financial Statements**

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### **2.6.3 Computer software**

Costs associated with maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognized as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software include employee costs and an appropriate portion of relevant overheads.

Other development costs that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as expenses are not recognized as assets in subsequent periods.

Computer software development programs assets are recognized at their costs less their accrued amortization. Amortization is determined over their useful life on a straight-line basis, which does not exceed three years. (Refer to Note 17).

### **2.6.4 Client relationships**

There is a client relationship when there have been significant, uninterrupted, number of years and it is expected that they will continue to have further operations in the foreseeable future and will contribute to the generation of assumed future revenue; client relationships acquired through a business combination are recognized at their fair value at acquisition date. The amortization is determined using the straight-line method, based in a estimated useful lives of 30 years and are recognized as an expense in subsequent periods.

### **2.6.5 Non-compete agreement**

The Company has signed a non-compete agreement with the former owners of IPS and relates to the legal capacity of Grupo Rotoplas to limit the involvement of these former owners of IPS as competitors. Such contract emerges from the business combination and it is recognized at fair value at acquisition date. Amortization is determined using the straight-line method, based in an estimated useful-life of 10 years, related to the period term of such contract and it is recognized as expense in subsequent periods.



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### 2.7 Impairment of non-financial assets

Intangible assets with indefinite useful lives, e.g. goodwill or trademarks, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels in which they generate cash flows (CGUs). Prior impairments of non-financial assets other than goodwill are reviewed for possible reversal at each reporting date. As of December 31, 2019 an impairment loss of \$158,260 was recognized and as of December 31, 2018 there were no accumulated losses for impairment in non-financial assets.

### 2.8 Financial assets

#### 2.8.1 Classification

The group classifies its financial assets in the following measurement categories:

- Those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- Those to be measured at amortized cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value (FV), gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through OCI.

The Group reclassifies debt investments when, and only when, its business model for managing those assets changes.

#### 2.8.1.2 Interest income

Interest income is recognized using the effective interest method. When a loan or account receivable is impaired, its carrying value is adjusted to its recoverable value, which is determined discounting the estimated future cash flow at the instrument's original effective interest rate. Interest income on impaired loan and account receivables is recognized using the original effective interest rate.

For financial assets purchased or originated differently from such financial assets with credit impairment, the revenue from interests are recognized using the effective interest method to the gross book value of the financial asset, except for those financial assets where their credit has been subsequently impaired. For financial assets where their credit has been subsequently impaired, the interest income is recognized applying the effective interest rate at amortized cost of such financial asset. If, in future periods, the credit risk of the financial instrument with impairment improves, in such way the financial asset has no longer credit risk, the interest revenue is recognized applying the effective interest rate over the gross value of the financial asset.

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

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### **2.8.2 Recognition and measurement**

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Company measures a financial asset at its fair value plus, transaction costs, except when they are financial assets at fair value through profit and loss, which are recognized initially recognized at fair value and the transaction costs are recognized as expense in the profit and loss. There are three measurement categories into which the Company classifies its debt instruments:

**Amortized cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

**FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

**FVTPL:** Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognized in profit or loss and presented net within other gains/(losses) in the period in which it arises.

### **2.9 Offsetting of financial instruments**

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of breach, insolvency or bankruptcy of the Company or the counterparty. At December 31, 2019 and 2018, no offsetting of financial instruments was recognized.

### **2.10 Impairment of financial assets**

#### **2.10.1 Assets carried at amortized cost**

The Company evaluated, prospectively, the estimated credit losses associated with the debt instruments at amortized cost over the life of the instrument, considering the results of the accounts receivable behavior evaluation. The increases to this provision are recorded in the estimated credit losses provision in the statement of income.

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### **2.11 Derivative financial instruments and hedging activities**

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognizing the resulting gain or loss in profit and loss or OCI depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Financial instruments that fail to comply with hedging accounting are recognized at their fair value through profit or loss.

### **2.12 Inventories**

Inventories are stated at the lower of cost and net realizable value, controlled through the standard cost method, which is adjusted at the end of each month to recognize their values through the weighted average cost method. The cost of finished products and of work in progress includes raw materials, direct labor costs and related overheads based on the Group's regular operating capacity. Net realizable value is the estimated selling price in the ordinary course of the business, less applicable variable selling expenses. (Refer to Note 12)

### **2.13 Prepaid expenses**

Prepaid expenses comprise expenses incurred by the Company where the risks and rewards inherent to the goods to be acquired and services to be received have not been transferred yet. Prepaid expenses are recorded at cost and are shown in the statement of financial position as current assets or if they are expected to be transferred in more than one year as non-current assets. Once the goods and/or services are received, related to prepaid expenses, they must be recognized as an asset or an expense in the statement of income in the period, respectively. (Refer to Note 13).

#### **2.13.1 Guarantee deposits**

Guarantee deposits relate to disbursements made to secure commitments assumed under certain agreements (mainly related to lease property). Guarantee deposits, which recoverability will take place in a period of over 12 months, are recognized at their amortized cost using the effective interest method. Guarantee deposits to be recovered over a period of less than 12 months are not discounted. (Refer to Note 6).

### **2.14 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly-liquid investments with maturities of three months or less and with low risks of changes in their values. At December 31, 2019 and 2018, short-term highly-liquid investments with maturities of three months or less are invested in bank debt securities and government bonds. (Refer to Note 8).

#### **2.14.1 Restricted cash**

The cash and cash equivalents, which restrictions originate that the definition of cash and cash equivalents is not met as aforementioned, is presented in a separate line in the consolidated statement of financial situation and are excluded from cash and cash equivalents in the statement of consolidated cash flows.

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### **2.15 Equity**

#### **2.15.1 Capital stock**

Ordinary shares are classified as capital stock in equity and are expressed at their historical cost. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds. Capital stock includes inflation effects recognized until December 31, 1997. (Refer to Note 25).

#### **2.15.2 Stock premium at subscription**

The stock premium at subscription represents the excess between the payment for share subscription and the par value thereof on historical bases.

#### **2.15.3 Retained earnings**

This item relates to accumulated net income of previous years and includes the effects of inflation recognized until December 31, 1997.

#### **2.15.4 Legal reserve**

Under the Corporations Law, 5% of the net profit must be set aside to increase the legal reserve until it is the equivalent of 20% of the historical capital stock. The purpose behind that reserve is to keep a minimum amount of capital to cover unforeseen funding needs.

#### **2.15.5 Comprehensive income**

Comprehensive income is comprised of the net income for the year, plus other capital reserves, which are made up of the effects of currency translation of foreign entities and other items that in accordance with specific provisions must be recorded in equity and do not qualify as capital contributions, equity reductions or distributions.

#### **2.15.6 Treasury stock**

The stockholders' board meetings may at times authorize disbursements of a maximum limit to acquire own shares. When an entity's own shares are repurchased, they become treasury shares. The related paid amount, including the directly attributable costs of the acquisitions (net of tax), are recognized as a decrease in capital stock of the Group until the shares are canceled or reissued. When the shares are reissued, the amount received, including incremental costs directly attributable to the transaction (net of tax), are recognized as part of the Group's capital stock. The profit or loss is not recognized in profit or loss and becomes part of the repurchase fund balance for buying own shares.

### **2.16 Accounts payable**

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Accounts payable are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest method.

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### **2.16.1 Financial liabilities disposal**

The Company disposes the financial liabilities from the statement of financial position when, and only when, the obligations are discharged, cancelled or expired. The difference between the carrying amount of a disposed financial liability to another party and the consideration paid, is recognized in profit or loss.

When the Company trades with the existing lender of a debt finance instrument to other with substantially different conditions, such trade is accounting as the extinction of the original financial liability and a new financial liability is recognized. In similar ways, the Company considers the substantial modification of an existent liability or part of it as the extinction of the original financial liability and the recognition of the new liability. It is assumed that the terms are substantially different if the present value of the discounted cash flows is below the new terms, including any net tariff paid of any received tariff and discounting utilizing the original effective rate is at least 10% different of the actual discounted value of the cash flows remaining of the original liability. If the modification is not substantial, the difference between: (1) the book value of the obligation prior to modification; and (2) the present value of the cash flows after modification, must be recognized as profit or loss due to modification in profit or loss.

### **2.17 Loans**

Loans are initially recognized at their fair value, net of related costs incurred, and are subsequently recognized at their amortized cost. Any differences between the proceeds received (net of related costs incurred) and the redemption value are recognized in the income statement over the period of the loan using the effective interest method. (Refer to Note 19).

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

### **2.18 Loan costs**

General and specific loan costs directly attributable to the acquisition, construction or production of qualified assets, which are assets that necessarily take a substantial period (more than a year) to get ready for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. At December 31, 2019 and 2018, no financing costs had been capitalized.

All other loan costs are recognized in profit or loss in the period in which they are incurred.

### **2.19 Current and deferred income taxes**

The tax expense for the period comprises current and deferred tax. Income Tax (IT) is recognized in the consolidated income statement, except to the extent that it relates to items recognized in OCI or directly in equity. In this case, IT is recognized together with the balance that gave rise to it.

The current IT charge is calculated based on the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate based on amounts expected to be paid to the tax authorities.

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Deferred IT is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, deferred IT is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting nor taxable profit or loss. Deferred IT is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. (Refer to Note 26).

Deferred income tax assets is only recognized on the base that it is probable that the future economic benefits will arise against temporary liability differences.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the group controls the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the near future. Generally, the group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the group the ability to control the reversal of the temporary difference not recognized.

### **2.20 Employee benefits**

#### **2.20.1 Pension plan**

##### Defined benefit plans

A defined benefit plan is the amount of a seniority premium benefit to which an employee is entitled at retirement, which usually depends on one or two factors, such as age, years of service and compensation. In this case, the Company is required to pay the amount established in the plan when it comes due. The Group companies have established a plan in conformity with the requirements set forth in the Federal Labor Law in respect of which the Group companies that have personnel are required to pay their employees, and the latter are entitled to receive, a seniority premium upon termination of employment after 15 years of service.

The liability recognized in the statement of financial position for seniority premium, which is considered a defined benefit, is the present value of the defined benefit obligation at the end of the reporting period less the fair of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit cost method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflows using interest rates for high-quality government bonds that are denominated in the same currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. (Refer to Note 24).

Costs of present services of the defined benefit plan, are recognized in the income statement in the employee benefit expense, unless these are included as part of an asset, reflects the increase of the defined benefit obligation arising of the employee service over a year, modifications of the benefit and liquidation.

Past-service costs are recognized immediately in the statement of income.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

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### 2.20.2 Retirement benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or whenever an employee accepts voluntarily redundancy in exchange for those benefits. The Company recognizes termination benefits at the earlier of the following dates: a) when the Company can no longer withdraw the offer those benefits, and b) when the Company recognizes costs for a restructuring that is in scope of IAS 37 "Provisions, contingent liabilities and contingent assets" and involves the payment of termination benefits. If an offer is made to encourage voluntary termination of the employment relationship by employees, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due on a long-term are discounted to their present value. (Refer to Note 24).

### 2.20.3 Other officer bonuses

As part of a retention plan, the Company gives to its officers, support in order to acquire Company's shares. Depending on certain factors, mainly years of service, eligible employees can opt to accept a loan for a future purchase of shares, which is periodically discounted from their pay and which bears market value interest. (Refer to Note 10c.)

### 2.20.4 Referred value units

The Company operates a compensation plan, where the entity receives services from its employees in exchange of Referred Value Units ("RVU"). The fair value of the related services received are recognized as an expense. The expense amount to be recognized in profit and loss is determined by reference to the value of the options granted.

- Including any market performance conditions (e.g. the entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (e.g. profitability, sales growth targets and remaining an employee of the entity over a specified time period), and
- Including the impact of any non-vesting conditions (e.g. the requirement for employees to save or holdings shares for a specific period).

At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognizes the impact of the revision to original estimate, if any, in profit or loss. (Refer to Note 24).

Additionally, in some circumstances, employees may provide the services before the grant date and, therefore, the fair value at the grant date is estimated with the effects of recognizing an expense during the period between the beginning of the service and the granting date.

Social security contributions payable in connection with an option grant are considered an integral part of the grant itself and the charges are treated as cash-settled transactions.

### 2.20.5 Employees' Statutory Profit-Sharing ("ESPS") and gratifications

The Company recognizes a liability, a bonus expense, and employees' statutory profit sharing based on a calculation that considers the profit attributable to the Company's stockholders after certain adjustments. The Company recognizes a provision when it is contractually bounded or when there is past practice that generates a constructive obligation. (Refer to Note 28).

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### 2.21 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation because of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses. (Refer to Note 22).

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be low.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 2.22 Revenue recognition

Revenue represents the amount of the consideration received or receivable in exchange of sale of goods or rendering of services in the normal course of the Company's operations. Revenue is stated net of rebates and discounts granted to clients.

The Company uses the methodology stipulated in IFRS 15 before revenue can be recognized:

- Identify the contract with a customer.
- Identify all the individual performance obligations within the contract.
- Determine the transaction price.
- Allocate the price to the performance obligations.
- Recognize revenue as the performance obligations are fulfilled.

The Company considers the following concepts as performance obligations:

#### 2.22.1 Revenue from sales of goods (recipients, plastic accessories, thermo-tanks, etc.) (wholesale)

The Company manufactures and sells a broad variety of goods in the wholesale market. Sales of these products are recognized when the Company has delivered the products to the customer, who is entitled to decide the distribution channel and sales price of the products to be sold in the retail market, and when there is no longer an obligation to be met by the Company that could result in the return or rejection of products.

The performance obligation is considered when the products have been delivered to the client in the specified location in the contract and the client has accepted the products according to the agreement or the Company has objective evidence that all the requirements have been fully met for the customer to accept the products.

The performance obligation is fully met when the products have been delivered to the customer in the location specified in the contract, the customer has accepted the products as per the agreement, or the return terms have expired, or the Company has objective evidence that it has complied with all the requirements for the customer to accept the products.



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These goods are generally sold at a discount for volume. Additionally, customers have the right to return faulty products. Sales are recognized based on the prices agreed in the respective agreements, net of an allowance for discounts for volume and returned items. Allowances for discounts for volume and returned items are determined based on experience. It is not considered that financing is being offered to customers as a separate component of a sales transaction, since the credit term is 7 to 60 days, which is consistent with market practices.

An account receivable is recognized when the goods have been delivered, that is the point in time in where the retribution is unconditional, since only commercial payment terms are required prior to the collection is made.

The Group determines its estimates based on experience, taking into account the type of customer, the type of operation and the specific terms of each contract. The Company provides a lifetime term guarantee to its customers and final consumers for buying the "brown water-tanks" (Tinaco Beige), historically there are few events in which the client has exercised its live-term guarantee right for such product and there is no estimate for it.

### **2.22.2 Revenue from sales of products (recipients, plastic accessories, and other accessories) (retail)**

Revenue from the sales of these goods is recognized when the Company has delivered the goods to the client, and when there is no obligation pending to be fully met by the Company that could result in the return or reject of the goods.

Retail sales are usually made in cash or through credit cards. The Company grants to its clients the right of return for a period of 30 days and does not offer loyalty programs.

### **2.22.3 Revenue from installation of water fountains**

The Company provides installation services of school water fountains. The revenue is recognized at the end of the installation and the client is fully satisfied with the installation. At commencement of the contract a 10% prepaid advance is requested, which is considered a contract liability, as of December 31, 2019 such liability was \$5,775, and 29,000 in 2018. As part of the evaluation a single performance obligation was identified.

### **Revenue from the rendering of services related to the maintenance of facilities**

The Company provides maintenance services to the installations made for individual and/or comprehensive solutions. As such, this revenue is recognized in the period in which such services are rendered, for reference to the stage of termination of a specific transaction and is evaluated on the real service provided basis as a percentage of the all services that will be rendered.

### **2.22.4 Revenue from lease of treatment plants**

The Company leases water treatment plants, agreed on a 10 year fixed period. The agreed terms with the client stipulate that the Company will hold possession of the treatment plants at the end of the contract, as well as the risks and benefits of the property, as such these leases have been classified as operating leases. (Refer to Note 15).

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The Group does not provide any auxiliary service to its customers of the investment properties. As such, lease payments are related completely to the rent and are recognized as lease revenue. It was not necessary to separate the considerations received between the components lease components and the non-lease at adoption of IFRS 15.

### 2.22.5 E-Commerce revenue

The Company has developed an electronic platform to sell products in the USA through internet. The revenue is recognized at the moment in which the goods are delivered to the client with the requested characteristics at the defined location at online purchase time.

### 2.23 Leases

The Company leases various properties and cars. Rental contracts are typically made for fixed periods of 2 to 6 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- Fixed payments including in-substance fixed payments,
- Amounts expected to be payable by the lessee under residual value guarantees
- The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the group's incremental borrowing rate.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received and
- Any initial direct costs.

Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise computer equipment and telecommunications.

As mentioned in Note 23, the Group has elected to apply IFRS 16 "Leases" earlier retrospectively on January 1, 2018 on. The asset for right-of-use is measured at the value of the lease liability at adoption date.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on January 1, 2018 was 8.28%.

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#### Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximize operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

The Group does not provide residual value guarantees for the leased equipment. Of the lease contracts outstanding at December 31, 2019 and 2018, there are no covenants restriction to meet.

#### **2.24 Dividend income and distribution**

Dividend income is recognized when the right to receive payment is established.

Dividend distributions to the Company's shareholders are recognized as a liability in the consolidated financial statements in the period in which dividends are approved by the Company's stockholders and the right to receive this payment is established. In order to pay dividends (which are discounted from retained earnings), the Company uses the separate financial statements prepared in accordance with IFRS for statutory purposes.

#### **2.25 Net basic and diluted earnings per share**

Net basic earnings per share is calculated by dividing the profit of the year attributable to the controlling interest by the weighted average number of ordinary shares in circulation during the year.

Net diluted earnings per share is calculated by dividing the profit of the year, by the weighted average number of shares in circulation during 2019 and of 2018, decreasing such average of such potential dilutive shares. At December 31, 2019 and 2018, there are no profit dilutive components. (Refer to Note 25).

#### **2.26 Financial statement restatement**

Over the last few years the inflation in Argentina has increased significantly and the local inflation information has not been reported consistently. The accumulated inflation rate over the last three years, combining different retail price indexes, exceeded 100% in the first semester of 2018. And the inflation rate accumulated over the last three years, combining different wholesale price indexes also exceeded 100%. As such, and considering the performance of the country, including the currency devaluation, Argentina is now considered to be a hyperinflationary economy for the accounting periods after July 1, 2018.

As a result of this, the subsidiaries Rotoplas Argentina, S.A. and IPS, whose functional currency is the Argentinian peso applied IAS 29 "Financial Reporting in Hyperinflationary Economies" as if the economy had always been hyper-inflationary. IAS 29 requires to adjust for the impact on income and expenses recognized from the date the economy became hyperinflationary. It also requires that the non-monetary assets and liabilities to be restated from the date they were initially recognized or from the date the last restatement in case of those recognized at their fair value throughout the reporting period. Monetary items do not need to be restated, because they are already expressed in current purchasing power at the reporting date. Gains or losses of monetary position are recognized in financial income or expense.

The general price index was selected based on the resolution JP 549/118 issued by the "Federación Argentina de Consejos Profesionales de Ciencias (FACPCE)". In this resolution, indexes to be used by the entities with Argentinian peso as their functional currency are stated, for restatement procedures. The detailed table of such indexes will be published monthly by the FACPCE.

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Subsidiaries located in Argentina calculate the financial statement restatement as follows:

- The corresponding amounts of non-monetary items of each statement of financial position, that are measured at the date of the statement of financial situation at their fair value or at net realization value, accordingly, are restated applying to the historical cost the difference of the general price index, from the date of acquisition or else the last fair value measurement, to the date of the financial statement.
- The amounts related to monetary items in the statement of financial position, are not restated.
- The equity items of each statement of financial position are restated as follows:
  - i. At the beginning of the period of IAS 29 application, except for retained earnings, where the Company applies the difference of the general price index, from the date of acquisition or else the last fair value measurement, to the date of restatement. Restated retained earnings are the product of the rest of the balances in the statement of financial position.
  - ii. At the end of the first application and for subsequent periods, all equity elements are restated, applying the general price index, from the beginning of the period, or from the date of contribution, if later.
- Income and expenses are restated applying the difference of the general price index, from the date they were incurred, to the report date.
- Profit or loss resulting from the net monetary position are recognized in the statement of comprehensive income.

In the separate financial statements the effects of the inflation are recognized as if they had always been hyperinflationary, whereas for consolidation purposes the financial statements are presented without restating the comparatives, as such, the opening accumulated effect is presented in retained earnings.

For the purposes of consolidated financial statements, the Company operates in a non-hyperinflationary economy. The income and financial situation of the entities whose functional currency is related to the hyperinflationary economy, are translated into the presentation currency applying the following procedures:

- a. All amounts (i. e., assets, liabilities, equity, expenses and revenue) are translated into the closing exchange rate of the closest reporting date of the statement of financial situation.
- b. Comparative figures will be those that were presented in the preceding year in the statement of financial position of (i.e. the amounts will not be adjusted for any subsequent variations in which they have occurred at the price level or exchange rates).

The accumulated effect of applying IAS 29 resulted in \$73,565, and was recognized in retained earnings on January 1, 2018.

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On March 3, 2020, the IFRS Interpretations Committee ratified its decision of the agenda related to the conversion of a foreign hyperinflationary transaction (IAS 21 and IAS 29) and the Company has elected to disclose the hyperinflation and conversion effects to presentation currency and the effect on foreign entities since the Company considers that the combination of both effects complies with the definition of currency translation in accordance with IAS 21. The amount of \$73,565 recognized in retained earnings on January 1, 2018 was reclassified to the currency translation effect in subsidiaries reserves.

### Note 3 - Financial risk management

#### 3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks, such as market risk (including currency risk, price risks and cash flows, and interest rates at fair value), credit risk and liquidity risk. The purpose behind the Group's risk management plan is to minimize the potential adverse effects arising from the unpredictable nature of markets on the Group's financial performance.

The Group's financial risk management is overseen by the Finance department in accordance with the policies approved by the Board of Directors, which has issued general policies on financial risk management and specific risks.

##### 3.1.1 Market risks

###### i. Foreign currency exchange

The Group operates internationally and it is exposed to US dollar (USD) and euro (€) exchange risks in relation to the functional currencies of each subsidiary. Exchange risk arises from future commercial operations in foreign currency and from certain foreign currency assets and liabilities and by the net investments in foreign transactions.

The Finance department has established a policy requiring Group companies to manage exchange risks in relation to their functional currency. The Group companies must hedge their exposure to foreign currency exchange risks through the Group's Treasury department in charge of the Finance department. In managing exchange risk arising from future commercial transactions and recognized assets and liabilities, the companies of the Group can use different instruments such as forwards agreements negotiated by the Group Treasury. Exchange rate risk arises when future commercial transactions and recognized assets and liabilities are contracted in a currency other than the entity's functional currency.

As part of its risk management policies, the Group's Finance department periodically analyzes its exposure to risk and when the economic conditions of each country in which it operates require it, the Group contracts expected cash flow hedges for the following 12 months, for each relevant currency. Additionally, the Group calculates sham differences in exchange rates and, when necessary, it adjusts the costs of its products. At December 31, 2019, the Group had contracted financial instruments to hedge the exchange rate risks.

The Group has contracted foreign currency financing and peso bank loans. The Group is mainly exposed to the risk of fluctuations in the peso-US dollar and peso-euro exchange rates associated to merchandise that it imports from the USA, Portugal and Italy, mainly. The Company's consolidated operations were exposed to exchange rate risk in thousands of (Dls. 58,246) and (€ 673) as of December 31, 2019 and (USD 54,710) and (€2,131) at December 31, 2018.

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At December 31, 2019 and 2018, in the event of a 10% increase in the peso-USD (and euro) exchange rate, the Company would have incurred in a loss of approximately \$109,926 and \$107,560, respectively for the USD position and (\$1,425) and (\$4,786), respectively, due to its euro position. This 10% represents the sensitivity rate used when the exchange risk is reported internally to the Finance department, and represents management's assessment of possible changes in exchange rates. The sensitivity analysis includes only those monetary items not yet settled denominated in a foreign currency at the period end.

The Group has a number of investments in foreign operations, whose net assets are exposed to exchange rate risk. Currency exchange rate exposure arising from the net assets of the Group's foreign operations is managed mainly through borrowings denominated in the relevant foreign currencies.

The Company and its subsidiaries had monetary assets and liabilities denominated in thousands of USD and €, as follows:

	<u>December 31,</u>			
	<u>2019</u>		<u>2018</u>	
	<u>Dollars</u>	<u>Euros</u>	<u>Dollars</u>	<u>Euros</u>
Assets	USD 90,294	€ -	USD 55,445	€ -
Liabilities	<u>(32,048)</u>	<u>(673)</u>	<u>(110,155)</u>	<u>(2,131)</u>
Net (asset) liability position	<u>(USD 58,246)</u>	<u>(€ 673)</u>	<u>(USD 54,710)</u>	<u>(€ 2,131)</u>

At December 31, 2019 and 2018, the exchange rate was \$18.87 and \$19.66 per USD, respectively, and \$21.18 and \$22.46 per €, respectively.

At April 24, 2020, date of issuance of these financial statements, the exchange rate was \$18.59 per USD and \$20.12 per €.

The exchange rate of the USD at December 31, 2019 and 2018 (to the currency of the subsidiaries established abroad) is as follows:

<u>Country</u>	<u>Currency</u>	<u>Foreign currency equivalent in USD</u>	
		<u>December 31,</u>	
		<u>2019</u>	<u>2018</u>
Argentina	Peso	0.0167	0.0265
Brazil	Real	0.2481	0.2581
Costa Rica	Colón	0.0017	0.0016
Ecuador	USD	1.0000	1.0000
El Salvador	USD	1.0000	1.0000
Guatemala	Quetzal	0.1299	0.1292
Honduras	Lempira	0.0403	0.0411
Nicaragua	Córdoba	0.0296	0.0309
Peru	Nuevo sol	0.3013	0.2967

ii. Price risk

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The Company is exposed to price risk fluctuation in relation to the prices of raw materials needed to manufacture its products. Risk price arises from fluctuations in the prices of resin, which is the main raw material used and which is associated to the oil commodity. The risk arises because the price of an asset may vary due to economic uncertainty.

The Company does not utilize hedge financial instruments or guaranteed purchase agreements with its suppliers. Instead, the best prices for this raw material are analyzed and purchases are made based on the best price identified. The Company prepares simulations to analyze the risk of price fluctuations and, if necessary, adjusts the cost of products.

In the event of a 10% increase or decrease in the prices of resin at December 31, 2019 and 2018, the Company would experience an increase or decrease in the cost of sales of approximately (\$23,285) and \$5,418, respectively, which would be charged through the sales prices. This 10% represents the sensitivity rate used when the price risk is reported internally to the Finance department, and it represents Management's assessment of possible changes in the price of resin.

#### iii. Cash flows and fair value of interest rates

The Company's interest rate risk arises from long-term borrowings. Loans bearing interest at variable rates expose the Company to the risk of fluctuations in the related future cash flows. That risk is partially compensated by cash equivalents also bearing interest at variable rates. Loans bearing interest at fixed rates expose the Company to the risk of market value of interest rates. In 2019 and 2018, the Company's borrowings bearing interest at variable rates were denominated in pesos and reals.

The Company analyzes its exposure to interest rate risk in a dynamic way. Various scenarios are simulated taking into consideration refinancing arrangements, renewal of existing positions, alternative forms of financing and hedge contracts. Based on these scenarios, the Company calculates the impact of a change in interest rates on income for the year. For each simulation, the same interest rate fluctuation is used for all loans, even if they are in a different currency.

The Company manages its risk of changes in cash flows arising from loans contracted at variable rates by contracting swaps with variable-to-fixed interest rates. Those swaps have the effect of changing variable rates on loans to fixed rates. The main reason for using these financial instruments is to know the cash flows that the Company will pay to meet its contractual obligations.

With these interest-rate swaps, the Company agrees with other parties to periodically deliver or receive the existing difference between the amount of interest of variable rates set forth in debt agreements and the amount of interest of fixed rates contracted under derivative financial instruments.

If the interest rates of borrowings contracted in pesos not hedged with financial instruments had increased/decreased by 10%, while the rest of the variables remained constant, after-tax income for 2019 would have increased/decreased by (\$855), mainly due to the difference in the cost of interest on borrowings contracted at variable rates; while income for 2018 would have increased/decreased by \$3,542, mainly as a result of the change in the market value of fixed rate financial assets.

Furthermore, if the interest variable rates would have been five base points above/below and all the other inputs would have remained constant, as of December 31, 2019 and 2018 the year end profits net of taxes, would have increased/decreased in (\$427) and \$1,771, respectively, as a result of the changes in fair value of the derivative financial instruments hired to hedge the change in variable interest rates hired in Mexican pesos.

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At December 31, 2019 and 2018, the interest rates of hired loans are variable in their totality.

At December 31, 2019 and 2018, the financial instruments described in Note 18 hedge bank loans with variable interest rates.

### 3.1.2 Credit risk

Credit risk arises from cash and cash equivalents, contractual cash flows of debt investments carried at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss, favorable derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

#### (i) Risk management

Credit risk is managed on a consolidated basis, except for risk related to accounts receivable balances. Each Company subsidiary is responsible for managing and analyzing each of its new customer's credit risk prior to determining the credit terms and conditions for delivery. Credit risk relates to cash and investments in securities, derivative financial instruments and deposits in banks and financial institutions, as well as to credit granted to wholesale and retail customers, including balances not yet collected. Banks and financial institutions only accept clients that have been issued acceptable credit rates by specialized agencies to meet the respective financial obligations (e.g., minimum "A" rate). Independent ratings are considered for wholesale clients, when available. If there is none, the Company's management estimates the customer's credit quality, taking into account its financial situation, past experience and other factors. Individual credit limits are established based on internal and external ratings, according to the policies established by the Finance department. Credit limits are regularly monitored.

Group's investment in debt instruments are considered low-risk investments. The credit qualifications in the investments are monitored for impairment in the credit.

The group has three types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of inventory.
- debt investments carried at amortized cost, and
- debt investments carried at fair value through OCI.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

#### Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before December 31, 2019 and 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward looking information on



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macroeconomic factors affecting the ability of the customers to settle the receivables. The group has identified the Gross Domestic Product (GDP) and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

On that basis, the loss allowance as at December 31, 2019 and 2018 was determined as follows for trade receivables:

	Current	More than 30 days past due	More than 60 days past due	More than 120 days past due	Under procurement	Total
<b>December 31, 2019</b>						
Expected loss rate	0.10%	0.10%	0.10%	0.10%	100.00%	
Gross carrying amount - trade receivables	\$ 1,047,751	\$ 17,028	\$ 57,180	\$ 232,065	\$ -	\$ 1,354,024
Impairment estimate	(1,048)	(17)	(57)	(232)	(11,032)	(12,386)
Brazil government	-	-	1,582	321,776	-	323,358
<b>Total clients</b>	<b>\$ 1,046,703</b>	<b>\$ 17,011</b>	<b>\$ 58,705</b>	<b>\$ 553,609</b>	<b>(\$ 11,032)</b>	<b>\$ 1,664,996</b>
<b>December 31, 2018</b>						
Expected loss rate	0.07%	0.07%	0.07%	0.07%	100.00%	
Gross carrying amount - trade receivables	\$ 935,288	\$ 28,488	\$ 16,159	\$ 224,291	\$ -	\$ 1,204,226
Impairment estimate	(655)	(20)	(11)	(157)	(14,857)	(15,700)
Brazil government	1,082	-	58,355	350,572	-	410,009
<b>Total clients</b>	<b>\$ 935,715</b>	<b>\$ 28,468</b>	<b>\$ 74,503</b>	<b>\$ 574,706</b>	<b>(\$ 14,587)</b>	<b>\$ 1,598,535</b>

Credit limits were not exceeded in December 31, 2019 and 2018 and Management does not expect the Company to incur losses from breach by those entities.

The quality of credit risk on the financial assets in which expected credit losses are included and which have been evaluated using external credit ratings (if available) or historical loss rates for each category of customers or counterparties, is shown as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<b>Clients (Note 9)</b>		
Counterparties without external credit ratings:		
Group A	\$ 512,012	\$ 68,690
Group B	1,069,394	1,435,034
Group C	<u>83,590</u>	<u>94,811</u>
<b>Total accounts receivable from customers</b>	<b>\$ 1,664,996</b>	<b>\$ 1,598,535</b>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

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### Cash at bank and short-term bank deposits (Note 8)

Counterparties with external credit ratings:		
AAA	\$ 596,612	\$ 242,958
AA	1,179,277	770,903
A	<u>71,927</u>	<u>36,486</u>
Total cash and cash equivalents	<u>\$ 1,847,816</u>	<u>\$ 1,557,163</u>

### Derivative financial instruments (Note 8)

Counterparties with external credit ratings:		
AAA	<u>(\$ 8,549)</u>	<u>\$ 35,416</u>

### Loans to related parties (Note 10)

Counterparties without external credit ratings:		
Group B	<u>\$ 124,554</u>	<u>\$ 113,444</u>

Group A: new clients /related parties (less than six months of operations).

Group B: clients/existing related parties (more than six months of operations) with no past breaches.

Group C: clients/existing related parties (more than six months of operations) with some past breaches. In those cases, past due balances were fully collected.

No financial assets have been renegotiated. There are no past due balances receivable from related parties.

A summary of the assumptions underpinning the Company's expected credit loss model is as follows		
Category	Category definition	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime.
Underperforming	Clients for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if the principal repayments are 60 days past due	Expected losses are measured at its expected lifetime.
Non-performing	Interest and/or principal repayments are 60 days past due.	Expected losses are measured at its expected lifetime.
Write-off	Interest and/or principal repayments are 180 days past due and there is no reasonable expectation of recovery.	Asset is written off

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Long-term account receivables from related parties are considered low-risk credits, since there have not been any default history, and the Group has control over the cash flows and supports all of its related parties.

Accounts receivable are disposed when there is no reasonable assurance of their recoverability. The indicators that provide no reasonable assurance of their recoverability include, among others, the fact that the debtor does not suggest a payment scheme with the Group and the lack of ability to make a payment under the contractual terms for more than 180 past due.

### 3.1.3 Liquidity risk

Cash flow forecasting is performed at the operating subsidiary level of the Company and subsequently the Finance department consolidates that information. The Company's Finance department monitors cash flow forecasts and the Company's liquidity requirements, ensuring that cash and investments in trading securities are sufficient to meet operating needs. These forecasts consider financing plans through loans, compliance with contractual obligations, compliance with financial ratios based on the current financial situation and, if applicable, external and legal regulatory requirements.

The Company constantly monitors, and makes decisions not to violate, the limits and covenants established in indebtedness contract. Projections consider Company financing plans and compliance with covenants, up to June 30, 2019, due to the obligations at that date.

At December 31, 2019 and 2018 the Company did not have unused credit lines.

The table below analyzes the Group's financial liabilities, presented for the period between the date of the consolidated statement of financial position and the date of its expiration. Amounts shown in the table correspond to non-discounted cash flows, including contractual interests.

	Less than 3 months	Between 3 months and 1 year	More than 1 year	Total
<u>December 31, 2019</u>				
Debt	\$ 8,935	\$ 809,907	\$ 3,764,393	\$ 4,583,235
Suppliers	348,697	-	-	348,697
Sundry payables	500,298	-	-	500,298
Accrued expenses and other accounts payable	537,013	-	122,887	659,900
Lease liability	-	29,059	38,202	67,261
Total	<u>\$ 1,394,943</u>	<u>\$ 838,966</u>	<u>\$ 3,925,482</u>	<u>\$ 6,159,391</u>
	Less than 3 months	Between 3 months and 1 year	More than 1 year	Total
<u>December 31, 2018</u>				
Debt	\$ 12,152	\$ 250,413	\$ 4,577,185	\$ 4,839,750
Suppliers	399,536	-	-	399,536
Sundry payables	432,572	-	-	432,572
Accrued expenses and other accounts payable	611,272	-	129,287	740,559
Lease liability	-	29,204	64,331	93,535
Total	<u>\$ 1,455,532</u>	<u>\$ 279,617</u>	<u>\$ 4,770,803</u>	<u>\$ 6,505,952</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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### 3.2 Capital management

The Company's objectives in managing capital risk are: to safeguard its capacity to continue in business as a going concern, provide returns for the stockholders and benefits for other stakeholders and maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group can vary the amount of dividends payable to the stockholders, conduct a capital stock reduction, issue new stocks or sell assets and reduce its debt. The Company has the practice of reinvesting its profits as a capitalization instrument.

Like other entities in the industry, the Company monitors its capital structure based on the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debts (including short-term and long-term debt as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position, plus net debt.

In general, the Group monitors the gearing ratio with a view to avoid exceeding the 50% threshold. The gearing ratios for the reporting periods were as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Total Debts (Note 19)	\$ 2,935,146	\$2,923,420
Less: cash and cash equivalents (Note 8)	<u>(1,847,816)</u>	<u>(1,050,347)</u>
Excess of cash over debt	1,087,330	1,873,073
Total equity - Net	<u>6,317,427</u>	<u>6,649,554</u>
Total capital - Net	<u>\$ 7,404,757</u>	<u>\$ 8,522,627</u>
Gearing ratio	<u>14.68%</u>	<u>21.98%</u>

### 3.3 Fair value estimate

The table below shows the financial instruments recorded at fair value classified as per the valuation method used in each case. The different levels are determined as follows:

Level 1: quoted price (not adjusted) of an identical asset or liability in an observable market

Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e., derived from prices).

Level 3: inputs for an asset or liability that are not based on observable market data (i.e., unobservable inputs).

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The following table discloses Group's financial assets and liabilities that are measured through fair value. Refer to Note 15.1 to observe the disclosures related to land and buildings that are measured at fair value.

<u>December 31, 2019</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial asset at fair value through profit or loss	<u>\$ -</u>	<u>\$ 45,532</u>	<u>\$75,491</u>	<u>\$ 121,023</u>
Derivative financial instruments - Assets (Note 18)	<u>\$ -</u>	<u>\$ 7,351</u>	<u>\$ -</u>	<u>\$ 7,351</u>
Financial assets at fair value - Liability (Note 18)	<u>\$ -</u>	<u>\$ 15,900</u>	<u>\$ -</u>	<u>\$ 15,900</u>
Other accounts payable - contingent consideration	<u>\$ -</u>	<u>\$ -</u>	<u>\$62,234</u>	<u>\$ 62,234</u>
<u>December 31, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial asset at fair value through profit or loss	<u>\$ -</u>	<u>\$ 23,687</u>	<u>\$ -</u>	<u>\$ 23,687</u>
Derivative financial instruments - Asset (Note 18)	<u>\$ -</u>	<u>\$ 35,416</u>	<u>\$ -</u>	<u>\$ 35,416</u>
Other accounts payable - contingent consideration	<u>\$ -</u>	<u>\$ -</u>	<u>\$108,302</u>	<u>\$108,302</u>

During the years ended on December 31, 2019 and 2018 no transfers between the fair value levels occurred.

The fair value of financial instruments traded in active markets is based on quoted market prices at the statement of financial position date. A market is regarded as active if quoted prices are readily and regularly available from a stock exchange, negotiators, brokers, industrial groups, price services or a regulating agency and those prices represent real and recurring transactions in the market on an arm's length basis. The quoted market price used for the financial assets held by the Group is the current bid price. These instruments are included in Level 1. The instruments included in level 1 comprise mainly tradable securities or securities available for sale.

The fair value of financial instruments not traded in active markets, e.g., over-the-counter derivatives, is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on Group's specific estimations. If all relevant inputs required to fair value of a financial instrument are observable, the instrument is included in Level 2.

If one or more relevant inputs are not based on observable market information, the instrument is included in Level 3.

The fair value for interest rate swaps is determined based on the fair value of the estimated cash flows based on observable performance outcomes.

### 3.4 Offsetting of financial assets and liabilities

At December 31, 2019 and 2018, the Company did not offset financial assets and liabilities.

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## **Notes to the Audited Consolidated Financial Statements**

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### **Note 4 - Critical accounting estimates and judgments:**

Estimations and judgments used in preparing the financial statements are constantly evaluated and are based on historical experience and other factors, including expectations of future events that are considered reasonable under the circumstances.

#### **4.1 The Company has used the following judgments in the preparation of the consolidated financial statements:**

##### **4.1.1 Accounts receivable with Brazilian government clients**

As mentioned in Note 9, the Company stopped receiving payments of the total outstanding balances in the agreed periods, as such, Management has performed an analysis of the contracts with the government agencies, and in adherence with the country's legislation, there are enacted laws that could enforce the payment of the government of such debt, due to this fact, the Company has considered reasonable not to increase the impairment estimate for such account receivables.

##### **4.1.2 Participation in Advance Innovation Center, LLC (AIC)**

The Company celebrated an agreement to obtain interests in AIC, where a percentage of participation of 15.44% was obtained in such entity. Management has defined that significant influence has been achieved in this entity, due to the fact that four members out of seven, of the Board of Directors are under Company's Management, as such it is not considered that control has been obtained in the Company, since the main shareholder of AIC has the ability to remove discretionary the board members of the Board of Directors.

##### **4.1.3 Discontinued operation from the sale of MAC's assets**

As mentioned on Note 30, the Company sold its assets of a subsidiary in the United States and signed an agreement of non-competence that limits from that date the commercialization of all of the products with the brand of Rotoplas in the US and Canada for a 10 years term, because of this the Company has considered such event as a discontinued operation.

4.2 The Company utilizes estimates and projections over future events to recognize and measure certain financial statement lines. The accounting estimates recognized outcome may vary from the actual outcome or real events. The estimates and projections that have a significant risk of resulting in material adjustments over the assets and liabilities recognized during the following period are as follows:

##### **4.2.1 Revaluation surplus**

The conditions of the non-observable inputs are determined under the best estimate of the Company based on the expert's assumptions hired for this purpose over the non-observable inputs, considering external and internal facts. The Company analyzes on a recurring basis the valuation of land and buildings to determine if there are factors that would suggest the need to reevaluate such assets. (Refer to Note 15.1).

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## **Notes to the Audited Consolidated Financial Statements**

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### **4.2.2 AIC additional purchase option**

As mentioned in Note 16, the Company signed a Unit Purchase Agreement in which an additional purchase of \$204,459 (USD10,360,000) of AIC's participation is stated. In this aspect, Management has analyzed the determination of the fair value of this option and since the comparable input data is not observable and, therefore, unreliably measured. The additional purchase option to acquire the 51% of the shares expired on May 2, 2018.

### **4.2.3 Impairment of intangible assets with indefinite useful life including goodwill**

The Company tests annually whether intangibles assets with indefinite useful life including goodwill have suffered any impairment; in accordance with the criteria set forth in Note 2.7. The recoverable amount of CGU has been determined based on their value-in use calculations. The determination of the value-in use requires the use of certain estimates. (Refer to Note 17).

Based on tests performed by the Company, an impairment adjustment was determined as of December 31, 2019 for an amount of \$41,592 related to Sanzfield's goodwill and as of December 31, 2018.

At December 31, 2019 and 2018, the Company performed impairment tests on the other intangible assets and did not identify impairment over them.

### **4.2.4 Income taxes**

The Company is subject to income taxes in numerous jurisdictions. Significant judgments are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain.

The Company recognizes liabilities for matters observed during tax audits if it considers that, they would likely result in the determination of tax in addition to the amount originally incurred. Where the outcome of these matters is different from the estimated liability, these differences are recognized in income taxes payable and/or deferred for the period.

The Company recognizes a deferred tax asset for accumulated tax losses based on the projections and estimations for realization of the respective tax benefit through future tax profits and considering the existing market conditions at the year closing.

As mentioned in Note 9 the Company held a commercial relationship with the Brazilian government, however it was over generating significant tax losses for the Company.

As mentioned in Note 26, the tax losses in Brazil have no expiration date. In this aspect, the Company is using significant judgments in their recuperation forecasts, for example, a long term growth-rate of 6% is being considered; and it is considered that no adverse situations, such as those giving rise to such losses will occur, hence a future recuperation of 19 years for these losses is considered.

According to the USA tax legislation the tax losses expire in 20 years. MAC does not have an aggressive tax strategy nor uncertain tax positions in adhering to the USA laws. As mentioned in Note 30, during 2019 the Company decided to sell of its assets, this gave rise to a taxable base which was amortized against the tax losses.

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The Company will monitor the recoverability of such losses and the corresponding estimate on an on-going basis.

If the tax result of those processes differs 5% from recognized estimates, the Company should increase or reduce the income tax liability by \$7,658 and \$10,115, and reduce or increase the deferred tax asset by \$1,776 and \$8,399, for 2019 and 2018, respectively.

### 4.2.5 Probability assumption of RVU recognition

The Company utilizes a probability assumption for the determination of the RVU value, which considers whether cash flows exists to consider the payment of the RVU in accordance to the contract plan, this input impacts directly the calculation of the RVU fair value. If at December 31, 2019 and 2018, the Company would not include an assumption the fair value would have increased by \$14,008 and \$14,984, respectively.

The Company utilizes diverse hypothesis and assumptions in the determination of the RVU fair value, such as, the probability of existence of free cash flow for the payment of the RVU in accordance to the contract plan, and the probability of increase or decrease in the future value of the RVU, these assumptions impact directly the calculation of the RVU fair value. If at December 31, 2019 and 2018 the Company would not have included the probability of existence of free cash flows a 50% increase of \$14,008 and 14,984 would have been recognized.

### Note 5 - Financial instruments categories:

Financial assets according to the consolidated statement of financial position:

December 31, 2019

	Amortized cost	At fair value through profit and loss	Total
Cash and cash equivalents	\$ 1,847,816	\$ -	\$ 1,847,816
Restricted cash	62,234	-	62,234
Accounts receivable and other accounts receivable	1,664,996	-	1,664,996
Sundry debtors and employees	18,738	-	18,738
Related parties	131,480	-	131,480
Derivative financial instruments		7,351	7,351
Financial asset at fair value through profit and loss	-	121,023	121,023
	<u>\$ 3,725,264</u>	<u>\$128,374</u>	<u>\$ 3,853,638</u>



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### December 31, 2018

	Amortized cost	At fair value with changes through profit and loss	Total
Cash and cash equivalents	\$ 1,050,347	\$ -	\$ 1,050,347
Restricted cash	233,904	-	233,904
Accounts receivable and other accounts receivable	1,598,535	-	1,598,535
Sundry debtors and employees	105,751	-	105,751
Related parties	122,705	-	122,705
Guarantee deposits	23,705	-	23,705
Financial asset at fair value through profit and loss	-	23,687	23,687
Derivative financial instruments	-	35,416	35,416
	<u>\$ 3,111,242</u>	<u>\$ 59,103</u>	<u>\$ 3,170,345</u>

Financial liabilities according to the consolidated statement of financial position:

### December 31, 2019

	Amortized cost	At fair value through profit and loss	Total
Debt	\$ 2,935,146	\$ -	\$2,935,146
Suppliers	348,697	-	348,697
Other accounts payable	975,077	-	975,077
Financial liability at fair value	-	62,234	62,234
Derivative financial instruments	15,900	-	15,900
	<u>\$ 4,274,820</u>	<u>\$ 62,234</u>	<u>\$4,337,054</u>

### December 31, 2018

	Amortized cost	At fair value through profit and loss	Total
Debt	\$ 2,923,420	\$ -	\$2,923,420
Suppliers	399,536	-	399,536
Other accounts payable	935,542	-	935,542
Financial liability at fair value	-	108,302	108,302
	<u>\$ 4,258,498</u>	<u>\$ 108,302</u>	<u>\$4,366,800</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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### Note 6 - Guarantee deposits:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Guarantee for electric power services	\$ 8,109	\$ 7,966
Guarantee for leasing of real estate	7,440	10,094
Guarantee for sundry services	<u>7,363</u>	<u>5,645</u>
	<u>\$22,912</u>	<u>\$23,705</u>

### Note 7 - Segment reporting:

General Management is the maximum authority for making Company's operation decisions. Therefore, General Management has determined the operating segments to be reported based on internal reports previously reviewed to make strategic business decisions.

An operating segment is defined as a component of an entity on which there is separate financial information that is evaluated on a regular basis. Revenue of the different Company segments streams mainly from the sale of products.

Water solutions:

"Individual solutions" segment

Individual solutions are products that by themselves satisfy the needs of customers on a permanent basis. These products are commercialized through the Company's distributor network, without the need for additional services such as installation or maintenance services.

"Comprehensive solutions" segment

Comprehensive solutions are systems made up by different Individual Solutions that interact with each other to meet needs that are more complex. In general, those systems include added-value services such as installations or maintenance to ensure that they function properly.

Segments where business combinations are included:

As mentioned in Note 1 of these consolidated financial statements, the Company acquired diverse businesses that on a standalone basis do not qualify as an individual operating segment disclosed separately. However, in accordance with the type of solutions they offer to their clients, Management has classified them within the individual and comprehensive operating segments, as follows:

Individual solutions:

- Rotoplas Argentina
- E-Commerce

Comprehensive solutions:

- Sytesa

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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Income and results per operating segment:

The Company evaluates the performance of each operating segment based on Earnings Before Interests, Taxes, Depreciation and Amortization and donations (EBITDA), considering such indicator to be an appropriate measure to evaluate the yield of each Group-operating segment, as well as the capacity to fund capital investments and working capital requirements. Nevertheless, EBITDA is not a financial performance measure under IFRS and it should not be considered an alternative to net profit to measure operating performance, or cash flows to measure liquidity.

The Company has defined EBITDA as the profit (loss) before income taxes after adding or subtracting, as the case may be: 1) depreciation, amortization and impairment of non-current assets; 2) the net financing result (includes interest costs and income, and exchange gains or losses), 3) share of net profit of associates, and 4) donations.

Geographic markets:

The Company also controls its assets and liabilities per geographic market, classified as Mexico, Argentina, Brazil and Others (Peru, USA, Canada, Guatemala, Honduras, Nicaragua, Costa Rica, and El Salvador).

An analysis of income and results per segment of the Company to be reported is shown below. The other income statement items are not assigned, as they are managed on a corporate level. The information disclosed in each segment is shown net of eliminations related to transactions conducted between Group companies. This form of presentation is the same as that used by Management in its periodic review processes of the Company's performance.

	Year ended on December 31,					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	<u>Individual solutions</u>		<u>Comprehensive solutions</u>		<u>Consolidated</u>	
Sales to external customers	<u>\$ 7,462,455</u>	<u>\$ 6,992,237</u>	<u>\$ 624,011</u>	<u>\$ 784,656</u>	<u>\$ 8,086,466</u>	<u>\$ 7,776,893</u>
Profit (loss) before taxes	<u>\$ 572,476</u>	<u>\$ 759,153</u>	<u>(\$ 61,923)</u>	<u>(\$ 84,802)</u>	<u>\$ 510,553</u>	<u>\$ 674,351</u>
EBITDA	<u>\$ 1,364,558</u>	<u>\$ 1,259,209</u>	<u>\$ 48,267</u>	<u>\$ 43,894</u>	<u>\$ 1,412,825</u>	<u>\$ 1,303,103</u>

Revenue of approximately \$734,897 are derived from five external customers (\$811,107 in 2018). This revenue is attributable to the Mexico and Brazil segments.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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Profit before tax per period is as follows:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
EBITDA	\$ 1,412,825	\$ 1,303,103
Depreciation and amortization	(339,321)	(339,771)
Donations	(6,198)	(4,469)
Extraordinary expenses	-	(33,288)
Net financing costs	(557,488)	(250,895)
Share of net profit of associates	<u>735</u>	<u>(329)</u>
Income before taxes	<u>\$ 510,553</u>	<u>\$ 674,351</u>

Geographic information:

Sales per geographic market where these are located:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
Net sales:		
México	\$ 4,510,974	\$ 4,562,816
Argentina	1,694,023	1,390,517
Other	<u>1,881,469</u>	<u>1,823,560</u>
Total	<u>\$8,086,466</u>	<u>\$ 7,776,893</u>

Property, plant and equipment where located per geographic market:

	December 31,	
	<u>2019</u>	<u>2018</u>
México	\$ 1,960,021	\$ 1,891,503
Argentina	254,791	206,210
Other	<u>245,726</u>	<u>555,399</u>
	<u>\$ 2,460,538</u>	<u>\$ 2,653,112</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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Company's total information

The detail of the revenue by category is shown as follows:

	Year ended on, December 31,	
	2019	2018
Products sales	\$ 7,693,857	\$7,425,132
Revenue from services and maintenance	329,559	282,419
Revenue from operating leases	<u>63,050</u>	<u>69,342</u>
Total	<u>\$ 8,086,466</u>	<u>\$ 7,776,893</u>

### Note 8 - Cash and cash equivalents:

	December 31,	
	2019	2018
Cash	\$ 314	\$ 312
Bank deposits	952,009	622,125
Highly-liquid investments with maturities of three months or less	<u>895,493</u>	<u>427,910</u>
Total cash and cash equivalents	<u>\$ 1,847,816</u>	<u>\$ 1,050,347</u>

### Note 9 - Accounts receivable and other accounts receivable:

	December 31,	
	2019	2018
Clients	\$ 1,677,382	\$ 1,614,235
Less: impairment estimate	<u>(12,386)</u>	<u>(15,700)</u>
	<u>1,664,996</u>	<u>1,598,535</u>
Sundry debtors	15,812	101,433
Employees	2,926	4,318
VAT not yet credited	<u>25,497</u>	<u>59,380</u>
	<u>44,235</u>	<u>165,131</u>
	<u>\$ 1,079,231</u>	<u>\$ 1,763,666</u>

The fair value of accounts receivable at December 31, 2019 and 2018 is similar to their book value.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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Accounts receivable include balances receivable from the following customers:

	<u>December 31,</u>	
	<u>2018</u>	<u>2017</u>
Brazilian government clients*	\$ 323,358	\$ 410,009
Home Depot México, S. de R. L de C. V.	47,343	41,982
Desarrollo Comercial Polo S. A. P. I.	245,582	136,558
Cencosud, S. A.	6,636	6,021
Grupo Boxito, S. A. de C. V.	18,077	20,030
Citycon, S. A. de C.V.	100,519	-
Sodimac Perú, S. A.	609	5,780
Simón Sistemas Hidráulicos, S. A. de C. V.	12,568	18,860
Tuberías de Oriente, S. A. de C. V.	10,680	8,031
Others	<u>899,624</u>	<u>951,072</u>
	<u>\$ 1,664,996</u>	<u>\$ 1,598,535</u>

\* Brazilian government clients.

In adherence to the “Programa Federal Agua para Todos” (APT), Dalka do Brasil was engaged by different Brazilian government agencies to supply and install rainwater caption systems in several counties of the semiarid region. These accounts receivable with government agencies are guaranteed by the “Programa de Aceleración de crecimiento” (PAC), at the federal government protection, who has recognized the amount owed by such agencies. In the beginning of 2015, the federal government started to withhold the transfer of funds to those agencies; as such, Dalka do Brasil stopped receiving payments in the agreed terms part of the receivable balances until the reactivation of operations in 2018.

As such, during 2019, the Company recognized inflation adjustments as part of the account receivable of R\$842 (\$3,941); this adjustment is made based on the legal bases of this country and in accordance with the specific terms of each contract, which cover the loss of acquisitive power in the price on each of the outstanding invoices, a total amount of R.9,806 (\$45,912) was collected, related to overdue balances and at issuance date of this financial statements the amount collected for these accounts receivable was R.2,813 (\$13,169). The accounts receivable balance, with government agencies at December 31, 2019 and 2018 in thousand Reales was R.69,061 (\$323,358) and R.80,823 (\$410,009), respectively.

The accounts receivable with the Brazilian government agencies are considered as low credit risk, at balance sheet date these have not been impaired since there are legal resources to demand immediate payment. The ageing of the balances with such government agencies at December 31, 2019 and 2018 is shown as follows:

	<u>December 31,</u>	
Range	<u>2019</u>	<u>2018</u>
Current	\$ -	\$ 1,082
From 30 to 120 days	1,582	58,355
More than 120 days	<u>321,776</u>	<u>350,572</u>
	<u>\$ 323,358</u>	<u>\$ 410,009</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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As such, the impairment estimate from expected credit losses is determined for the life of the account receivable.

As previously mentioned, under IFRS 9, there is an assumption that the financial asset with more than 90 days of lack of payment is considered to be overdue or in default. Nevertheless, based on the historical analysis of the Company, it refutes the default of more than 90 days considering that the default is of more than 120 days. Based on this qualitative analysis of the receivable collection behavior, it was identified that an important part of the overdue receivable is paid with a backwardness of 90 days considering a default of more than 120 days. Based on this qualitative analysis of the receivable collection behavior, a significant portion of the accounts receivable was identified and is paid on a minor period and that such receivables have maturities of more than 120 days respectively a marginal recoverability is recorded.

The Company, has sufficient historical information to perform a data analysis that allows to select a model based on a loss rate. In this aspect, the Company decided to adopt the model based on a Loss Rate Approach (LRA or loss rate), which uses an approach that evaluates a measure based on past losses, in particular it analyses the historical information of the accounts receivable and calculates a percentage of the balance with the clients that have an overdue of more than 120 days in respect of the total balance of the accounts receivable.

Impairment estimate as December 31, 2019 and 2018 is broken down as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Tinacos y Tanques de Centroamérica, S. A. (Guatemala)	\$ 1,658	\$ 1,010
Rotoplas Argentina, S. A. I. P. S.	2,687	239
Dalka do Brasil, Ltda.	1,493	2,424
Dalka, S. A. C. (Peru)	1,866	1,950
Molding Acquisition, Corp (USA)	2,425	2,185
Rotoplas, S. A. de C. V. (Mexico)	293	2,240
Soluciones y Tratamiento Ecológico, S. A. P. I. de C.V.	1,930	3,825
	<u>34</u>	<u>1,827</u>
	<u>\$ 12,386</u>	<u>\$ 15,700</u>

Movements in the impairment estimate of the accounts receivable are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Book value at January 1	\$ 15,700	\$ 6,701
Impairment for the year	4,846	4,865
Recuperation (cancellations) of doubtful accounts - Net	<u>(8,160)</u>	<u>4,134</u>
Net book value	<u>\$ 12,386</u>	<u>\$ 15,700</u>

Charges and reversals to the client impairment estimate have been included under operating expenses in the statement of income. When there is no further expectation of recovery of an account from a customer, the balance is canceled together with the respective impairment provision. The other account receivables are not impaired.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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At December 31, 2019 and 2018, accounts receivable from customers of \$12,386 and \$15,700, respectively, were impaired and have been fully reserved.

Net book value of account receivables and other account receivables net of impairment estimate of the Company are denominated in the following currencies:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Mexican peso	\$ 914,024	\$ 732,797
Argentinian peso	A 584,544	A\$ 424,099
USD	Dls. 3,052	Dls. 3,699
Real	R. 86,376	R. 92,303
Sol	S/ 13,529	S/ 14,009
Other in Quetzal (Central America)	Q. 11,346	Q. 8,652

The maximum exposure to credit risk at year-end is the book value of customers and other accounts receivable. The group received no guarantees in relation to customers or other accounts receivable.

### Note 10 - Related parties:

- a. The following operations were carried out with related parties at market value:

	<u>Year ended on</u> <u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Sell of goods and render of services to associates:</u>		
Dalkasa, S. A. (Ecuador)	\$16,134	\$ 17,709
AIC Rotoplas, S. P. A. (Chile)	-	95
	<u>\$16,134</u>	<u>\$ 17,804</u>

- b. Year-end balances resulting from sells/purchases of goods and services.

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Accounts receivable for sell of goods, rendering</u> <u>of services to associates and loans</u>		
Dalkasa, S. A.	\$ 5,982	\$ 7,242
AIC Rotoplas, S. P. A.	-	1,036
Advanced Innovation Center, LLC.	944	983
	<u>\$ 6,926</u>	<u>\$ 9,261</u>

Accounts receivables from related parties arise from sell transactions and are due after a term of 60 days from the transaction date, at December 31, 2019 and 2018 the Company had no account receivables past due from related parties. These account receivables had no guarantees engaged and nor interest calculated. At December 31, 2019 and 2018, no impairment estimate has been recognized for these account receivables.



## Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

### Notes to the Audited Consolidated Financial Statements

December 31, 2018 and 2017

#### c. Loans granted to officers

At December 31, 2019 and 2018, loans granted to key officers are subject to fixed and variable interest rates, shown below:

Officer	1			2		3		4		5	6	7	
	January 29, 2013	August 28, 2011	March 13 2017	January 1, 2013	March 13, 2017	January 1, 2013	January 21, 2013	February 21, 2012	December 1, 2013	August 15, 2017	March 17, 2017	February 28, 2019	Total
Engagement date													
Interest rate	5.75%	UDI	5.75%	5.75%	5.75%	5.75%	5.75%	UDI	UDI	5.75%	5.75%	UDI	
<u>December 31, 2019</u>													
Opening balances	\$18,357	\$1,087	\$9,434	\$15,126	\$ 7,273	\$12,336	\$ 4,811	\$4,077	\$40,235	\$ 205	\$ 503	\$ -	\$113,444
Loans granted	-	-	-	-	3,800	-	-	-	6,115	-	-	6,000	15,915
Collections	-	-	-	-	-	-	-	(4,110)	(2,005)	-	-	-	(6,115)
Interests	1,074	24	227	885	301	703	(4,811)	33	2,724	-	5	145	1,310
Total	<u>\$19,431</u>	<u>\$1,111</u>	<u>\$9,661</u>	<u>\$16,011</u>	<u>\$11,374</u>	<u>\$13,039</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$47,069</u>	<u>\$ 205</u>	<u>\$ 508</u>	<u>\$6,145</u>	<u>\$124,554</u>
Officer	1			2		3		4		5	6	7	
	January 29, 2013	August 28, 2011	March 13 2017	January 1, 2013	March 13, 2017	January 1, 2013	January 21, 2013	February 21, 2012	December 1, 2013	August 15, 2017	March 17, 2017	February 28, 2019	Total
Engagement date													
Interest rate	5.75%	UDI	5.75%	5.75%	5.75%	5.75%	5.75%	UDI	UDI	5.75%	5.75%	UDI	
<u>December 31, 2018</u>													
Opening balances	\$ 17,634	\$1,036	\$8,917	\$ 14,591	\$6,845	\$11,913	\$ 3,864	\$ 3,887	\$ 32,534	\$ 205	\$ 479	-	\$ 101,905
Loan	-	-	-	-	-	-	-	-	6,124	-	-	-	6,124
Collections	-	-	-	-	-	-	-	-	-	-	-	-	-
Interests	723	51	517	535	428	423	947	190	1,577	-	24	-	5,415
Total	<u>\$ 18,357</u>	<u>\$1,087</u>	<u>\$9,434</u>	<u>\$ 15,126</u>	<u>\$7,273</u>	<u>\$12,336</u>	<u>\$ 4,811</u>	<u>\$ 4,077</u>	<u>\$ 40,235</u>	<u>\$ 205</u>	<u>\$ 503</u>	<u>-</u>	<u>\$ 113,444</u>

The fair value of officers' loans as at December 31, 2019 and 2018 was \$148,017 and \$158,425, respectively. Loans are due until June 1, 2024.

As at December 31, 2019 and 2018, no impairment estimates were necessary over the values of these loans.

As at December 31, 2019 and 2018, the effective interest rates of such loans were between 4-8% in both years.

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

## Notes to the Audited Consolidated Financial Statements

December 31, 2018 and 2017

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- d. Compensations paid to directors and other Management members were as follows:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
Salaries and other short-term benefits	<u>\$ 155,611</u>	<u>\$142,862</u>

The Board of Directors based on their performance and on market trends determine the compensation to directors and key executives.

- e. Other related parties

During 2019 and 2018, the Company carried out operations with Corporativo Grupo Bursatil Mexicano (GBM), which in turn holds the shares of GBM International, Inc. and GBM México.

Corporativo GBM and subsidiaries have a commercial relationship with the Company, and during the reporting periods have provided financial advisory services, investment banking services and other bank services.

Carlos Rojas Mota Velasco, main Company stockholder and President of the Board of Directors, has a familiar relationship with the main stockholder of Corporativo GBM and therefore Corporativo GBM and its subsidiaries are considered related parties.

- i. As at December 31, 2019 and 2018, the Company had no balances receivable from or payable to Corporativo GBM.
- ii. The Company conducted the following operations with Corporativo GBM:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
Commissions paid	<u>\$ 920</u>	<u>\$ 1,072</u>
Interest collected	<u>\$ 29,854</u>	<u>\$41,935</u>

### **Note 11 - Other recoverable taxes:**

	December 31,	
	<u>2019</u>	<u>2018</u>
Recoverable VAT	\$ 78,462	\$ 36,879
Excise tax on industrialized products <sup>1</sup>	220,634	249,333
Income tax prepayments	3,037	27,110
Other taxes <sup>2</sup>	<u>47,449</u>	<u>54,638</u>
	<u>\$ 349,582</u>	<u>\$367,960</u>

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

## Notes to the Audited Consolidated Financial Statements

December 31, 2018 and 2017

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<sup>1</sup> Relates to a federal Brazilian tax paid on the purchase of an industrialized product, which can be deducted from the amount earned from the sale of that product to third parties.

<sup>2</sup> Relates to different minor local taxes incurred by the different entities located in Latin America, the most relevant being Brazil and Peru.

### **Note 12 - Inventories:**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Raw materials	\$ 351,462	\$ 395,191
Packaging materials	14,250	16,671
Work in progress	49,156	35,987
Finished goods	<u>422,587</u>	<u>521,069</u>
	837,455	968,918
Plus:		
Merchandise in transit	49,618	65,570
Restatement effect <sup>1</sup>	<u>7,385</u>	<u>22,973</u>
	<u>\$ 894,458</u>	<u>\$ 1,057,461</u>

<sup>1</sup> Relates to the restatement effect of the Argentinian entities.

### **Note 13 - Prepaid expenses:**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Insurance paid in advance	\$ 9,112	\$ 8,189
Advances of drinking fountains and storm water collection systems	-	127,838
Services paid in advance	31,268	6,990
Advance expenses for maintenance	40,140	40,355
Advertising paid in advance	20,425	-
Other expenses paid in advance	15,811	41,849
Restatement effect <sup>1</sup>	<u>-</u>	<u>5,201</u>
	<u>\$ 116,756</u>	<u>\$ 230,422</u>

<sup>1</sup> Relates to the restatement effect of the Argentinian subsidiaries.

### **Note 14 - Financial asset at fair value through profit or loss:**

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
<u>Current:</u>		
Tanks Holding <sup>1</sup>	\$ 37,745	\$ -

# **Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**

## Notes to the Audited Consolidated Financial Statements

December 31, 2018 and 2017

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### Non-Current:

Tanks Holding <sup>1</sup>	\$ 37,745	\$ -
B37 Ventures, LLC. <sup>2</sup>	<u>45,532</u>	<u>23,687</u>
Total non-current	<u>\$ 83,277</u>	<u>\$ 23,687</u>

Changes in fair value of financial assets at fair value through profit or loss are recognized net in the income statement line of "Finance income and costs".

- <sup>1</sup> As mentioned in note 30 and due to the transaction of the sale of fixed assets United States, as part of the value of the total transferred consideration, there is a contingent consideration for an amount equivalent to USD\$4 million (equivalent to \$75,491), such amount is withheld by the vendor as a guarantee of complying with the terms and guarantees of the contract. The first payment will be realized on July 19, 2020 for the amount of USD\$2 million (equivalent to \$37,745) and the second payment will be realized on July 19, 2021 for the remaining consideration.
- <sup>2</sup> During the period ended on December 31, 2016 the Company placed an investment in the fund B37 Ventures, LLC., with the purpose of investing in debt or capital investments at discretion of the fund administrators. These investments are subject to valuation through market references and values that might not be available, such fund investment might not be subject to high liquidity ratios and depends on the performance of the entities in which the fund is investing. At December 31, 2019 and 2018, these investments were not impaired.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2018 and 2017

### Note 15 - Property, plant and equipment:

Year ended on		Constructions	Buildings and	Machinery	Furniture, fixtures	Transportation		Leasehold	Treatment	Solar	
December 31, 2019	Land	in progress	Plants	and tools	and computer equipment	equipment	Molds	improvements	Plants	Panels	Total
Opening balances	\$ 399,808	\$ 402,734	\$ 437,134	\$ 432,182	\$ 58,130	\$ 10,286	\$ 170,355	\$ 115,938	\$ 509,195	\$ 117,350	\$ 2,653,112
Translation and restatement effects	(11,480)	(2,765)	(29,690)	25,388	1,265	7,463	(731)	(215)			(10,765)
Revaluation surplus	37,392		26,295								63,687
Transfers		(218,383)	4,732	7,550	2,843	96	39,575	422	126,046	61,209	24,090
Acquisitions		255,490	1,061	15,625	8,487	6,317	7,616	4,823			299,419
Disposals		(54,526)	(9,330)	(190,684)	(19,907)	(1,436)	(107,362)	(86,944)	(66,551)		(536,740)
Disposals depreciation			7,575	61,713	18,848	1,346	54,180	9,978	59,799		213,439
Depreciation of the year			(30,025)	(43,957)	(23,837)	(4,415)	(44,301)	(12,988)	(58,012)	(5,112)	(222,647)
Depreciation of the year for restatement effect	-	-	(51)	(900)	(511)	(248)	(772)	(652)	-	-	(3,134)
Closing balance	<u>\$ 425,720</u>	<u>\$ 382,550</u>	<u>\$ 407,701</u>	<u>\$ 306,917</u>	<u>\$ 45,318</u>	<u>\$ 19,409</u>	<u>\$ 118,560</u>	<u>\$ 30,362</u>	<u>\$ 570,477</u>	<u>\$ 173,447</u>	<u>\$ 2,480,461</u>
Balances as of December 31, 2019:											
Cost	\$ 425,720	382,550	731,225	757,111	155,989	44,899	412,325	62,103	873,903	180,548	4,026,373
Accumulated depreciation	-	-	(323,524)	(450,194)	(110,671)	(25,490)	(293,765)	(31,741)	(303,426)	(7,101)	(1,545,912)
Closing balance	<u>\$ 425,720</u>	<u>\$ 382,550</u>	<u>\$ 407,701</u>	<u>\$ 306,917</u>	<u>\$ 45,318</u>	<u>\$ 19,409</u>	<u>\$ 118,560</u>	<u>\$ 30,362</u>	<u>\$ 570,477</u>	<u>\$ 173,447</u>	<u>\$ 2,480,461</u>
Year ended		Constructions	Buildings	Machinery	Furniture, fixtures	Transportation		Leasehold	Treatment	Solar	
December 31, 2018	Land	in progress		and tools	and computer equipment	equipment	Molds	improvements	Plants	Panels	Total
Opening balances	\$ 407,278	\$ 282,287	\$ 442,620	\$ 492,965	\$ 41,607	\$ 8,486	\$ 163,278	\$ 113,090	\$ 567,169	\$ -	\$ 2,518,780
Translation and restatement effects	(7,470)	(20,643)	(4,925)	(19,862)	(2,143)	(870)	(312)	(1,129)	-	-	(56,730)
Adjustment to the value of the acquired assets (Note 32)	-	-	2,160	17,706	7,972	3,599	16,006	11,887	-	-	59,330
Transfers	-	(120,573)	16,594	32,918	30,231	2,078	28,021	5,039	(4,668)	-	(10,360)
Acquisitions	-	262,635	13,349	16,303	2,451	463	2,582	1,035	1,327	119,339	419,484
Disposals	-	(972)	(20,671)	(3,145)	(2,017)	(996)	(1,790)	-	-	-	(29,591)
Disposals depreciation	-	-	16,358	1,976	1,662	996	1,414	-	-	-	22,406
Depreciation of the year	-	-	(27,571)	(105,730)	(21,165)	(2,979)	(38,635)	(13,857)	(54,633)	(1,989)	(266,559)
Depreciation of the year For restatement effect	-	-	(780)	(949)	(468)	(491)	(833)	(127)	-	-	(3,648)
Closing balance	<u>\$ 399,808</u>	<u>\$ 402,734</u>	<u>\$ 437,134</u>	<u>\$ 432,182</u>	<u>\$ 58,130</u>	<u>\$ 10,286</u>	<u>\$ 170,355</u>	<u>\$ 115,938</u>	<u>\$ 509,195</u>	<u>\$ 117,350</u>	<u>\$ 2,653,112</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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As of December 31, 2019 and 2018, the depreciation charge is included in the cost of sales for \$170,514 and \$263,257, in operating expenses of \$55,267 and \$33,950, respectively

If land and buildings had been measured using the historic cost valuation method instead of by the revaluation method, the balances recorded would have been as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cost of land	<u>\$219,853</u>	<u>\$ 238,558</u>
Cost of buildings	557,715	585,394
Accumulated depreciation of buildings	<u>(331,994)</u>	<u>(274,850)</u>
	<u>225,721</u>	<u>310,544</u>
Net book value	<u>\$445,574</u>	<u>\$ 549,102</u>

At December 31, 2019 and 2018, the Company leases to its clients (mainly Nueva Wal-Mart de México, S. de R. L. de C. V.) machinery and equipment under non-cancellable operating lease contracts with a net book value of \$570,478 and \$509,194. The periods of the leases are up to 10 years, the assets will remain property of the Company at the end of these terms. This operation is the outcome of the business acquisition of Sytesa.

At December 31, 2019 and 2018, the Company has not capitalized financing costs.

At December 31, 2019 and 2018, the Company does not operate contracts under financial lease.

### **Note 15.1 - Fair value of lands and buildings:**

In 2016, independent experts carried out appraisals of lands and buildings. The increase of revaluation was recognized net of deferred taxes in revaluation surplus.

Assets are classified under different levels depending on their features, as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e., derived from prices).

Level 3: Inputs for the assets or liabilities that are not based on observable market data (unobservable data).

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

### December 31, 2019 and 2018

Information on fair value measurements carried out in 2016 using non-observable data classified as level 2, is shown as follows:

Description	Fair value at January 1, 2016	Valuation techniques	Non- observable data	Range of non-observable data weighted average prices *		
				Higher	Used	Lower
Mexico City						
Land	\$ 84,581	Price comparison	Price per m <sup>2</sup>	8,950	8,950	-
Buildings	<u>14,188</u>	Price comparison	Price per m <sup>2</sup>	3,123	3,123	-
Total Mexico City	<u>98,769</u>					
Guadalupe, Nuevo Leon						
Land	79,786	Price comparison	Price per m <sup>2</sup>	1,060	1,060	-
Buildings	<u>66,509</u>	Price comparison	Price per m <sup>2</sup>	8,071	8,071	-
Total Guadalupe, Nuevo Leon	<u>146,295</u>					
Tlajomulco de Zúñiga, Jalisco						
Land	25,390	Price comparison	Price per m <sup>2</sup>	314	314	-
Buildings	<u>23,291</u>	Price comparison	Price per m <sup>2</sup>	4,717	4,717	-
Total Tlajomulco de Zúñiga, Jalisco	<u>48,681</u>					
Leon, Guanajuato						
Land	16,448	Price comparison	Price per m <sup>2</sup>	210	210	-
Buildings	<u>128,080</u>	Price comparison	Price per m <sup>2</sup>	6,517	6,517	-
Total Leon, Guanajuato	<u>144,528</u>					
Los Mochis, Sinaloa						
Land	3,875	Price comparison	Price per m <sup>2</sup>	290	290	-
Buildings	<u>14,042</u>	Price comparison	Price per m <sup>2</sup>	5,590	5,590	-
Total Los Mochis, Sinaloa	<u>17,917</u>					
Lerma, Estado de México						
Land	18,788	Price comparison	Price per m <sup>2</sup>	1,450	1,450	-
Buildings	<u>48,038</u>	Price comparison	Price per m <sup>2</sup>	5,703	5,703	-
Total Lerma, Estado de México	<u>66,826</u>					
Mérida, Yucatán						
Land	39,501	Price comparison	Price per m <sup>2</sup>	1,330	1,330	-
Buildings	<u>18,867</u>	Price comparison	Price per m <sup>2</sup>	4,709	4,709	-
Total Mérida, Yucatán	<u>58,368</u>					
Tejería, Veracruz						
Land	29,185	Price comparison	Price per m <sup>2</sup>	880	880	-
Buildings	<u>33,078</u>	Price comparison	Price per m <sup>2</sup>	5,916	5,916	-
Total Tejería, Veracruz	<u>62,263</u>					
Total Mexico	<u>643,647</u>					
Pilar, Buenos Aires	35,921	Price comparison	Price per m <sup>2</sup>	7,372	7,372	-
Vicente López, Buenos Aires	<u>47,768</u>	Price comparison	Price per m <sup>2</sup>	5,980	5,980	-
Total Argentina	<u>83,689</u>					
Villanueva, Guatemala	<u>24,485</u>	Price comparison	Price per m <sup>2</sup>	6,977	6,977	-
Total Guatemala	<u>24,485</u>					
Extrema, Brazil	<u>90,692</u>	Price comparison	Price per m <sup>2</sup>	7,751	7,751	-
Total Brazil	<u>90,692</u>					
	<u>\$ 842,513</u>					

\* The values utilized are expressed in Mexican pesos.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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During the years ended on December 31, 2019 and 2018 there were no transfers between the different levels of fair value.

Fair values net of movements for the periods are as follows:

	December 31,					
	<u>Land</u>		<u>Buildings</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Mexico	\$297,554	\$ 297,553	\$289,538	\$ 306,694	\$587,092	\$ 604,247
Argentina	54,489	35,854	49,491	69,073	103,980	104,927
Guatemala	13,598	14,094	10,608	12,930	24,206	27,024
Brazil	<u>60,079</u>	<u>52,307</u>	<u>58,064</u>	<u>48,437</u>	<u>118,143</u>	<u>100,744</u>
	<u>\$425,720</u>	<u>\$ 399,808</u>	<u>\$407,701</u>	<u>\$ 437,134</u>	<u>\$833,421</u>	<u>\$ 836,942</u>

Changes in fair value measurement using significant observable inputs (level 2):

	December 31,	
	<u>2019</u>	<u>2018</u>
<u>Lands and buildings:</u>		
Opening balances	\$ 836,942	\$ 849,898
Translation effect	(50,898)	(59,335)
Additions	5,793	29,943
Disposals	(1,755)	(20,671)
Business acquisitions	-	2,160
Restatement surplus	63,687	-
Restatement effect	5,822	46,940
Depreciation	<u>(26,170)</u>	<u>(11,993)</u>
Closing balance	<u>\$ 833,421</u>	<u>\$ 836,942</u>

Valuation techniques used to determine level 2 fair values:

The level 2 fair value of land and buildings has been derived using the sales comparison approach. The sale prices of land and buildings in the comparable proximities are adjusted to the different key characteristics, for example size of the property. The key input under this approach is the price per square meter

Group valuation process

The Group's Finance and Administration department performs the valuations of land and buildings required for financial reporting purposes. This department reports directly to the senior directors of the Finance department. The results of valuation and annual processes performed serve to confirm that the conditions set forth in the accounting policy for revaluation of assets takes place every five years is still in force.



# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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Valuations of land and buildings performed by external parties take place every five years if the conditions shown in non-observable data or of assets are affected by external and internal elements. Based on discussions between Management and the external appraisers, it has been determined that non-observable data used as the basis for valuations, such as age, dimensions and borders, conditions of land and buildings, locations and local economic factors, are comparable to the prices of the respective locations of assets.

The ratio of non-observable data when measuring the fair value is as follows: the higher the price per square meter, the higher the fair value.

### **Note 16 - Investment in associates:**

The investment in associates of the Company and that are accounted for under the equity method is shown below. The associates that are disclosed below have a share capital consisting only of ordinary shares.

#### Nature of the investment in associates:

##### Dalkasa, S. A. (Dalkasa)

Dalkasa, a private entity incorporated and operating in Quito, Ecuador, is mainly engaged in manufacturing and selling plastic water containers for water storage. At December 31, 2019 and 2018, the interest in the associate was 49.88%.

The Company holds no joint control over Dalkasa because it does not meet the requirements to do so. Instead, in accordance with IFRS, it holds significant influence in Dalkasa because it has participation in the Board of Directors; it participates in policy processes and in significant transactions, and in the supply of technical information.

##### AIC

AIC is a private entity established and in operation in the USA, which in turn is the holding entity of the share parts of AIC - Rotoplas in Chile, it holds and owns the patent related to the technology "Plasma Water Sanitation System" (PWSS) which is an innovative system of water treatment capable of eliminating viruses and living bacteria, through the transformation of continuous contaminated water flow into plasma. As of December 31, 2019 and 2018 the percentage of participation in the associate was 15.44%.

Management has defined that significant influence in this entity has been reached, due to the involvement of four Company's members in the board of directors out of seven in this AIC, however no full control has been achieved since the main shareholder has the ability to nominate at will any member of the board of directors.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

Information of Dalkasa and AIC is shown below:

a. Summarized statements of financial position

	<u>Dalkasa</u>		<u>AIC</u>		<u>Total</u>	
	December 31,					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS:</b>						
Cash and cash equivalents	\$ 3,200	\$ 2,179	\$ 16,405	\$ 16,890	\$ 19,605	\$ 19,069
Accounts receivable and other accounts receivables	17,893	20,007	12,682	13,057	30,575	33,064
Related parties	-	-	124,400	128,077	124,400	128,077
Other recoverable taxes	-	-	257	264	257	264
Inventories	7,717	8,564	832	857	8,549	9,421
Prepaid expenses	11	5	11,794	12,143	11,805	12,147
<b>Total current assets</b>	<b>28,821</b>	<b>30,755</b>	<b>166,370</b>	<b>171,288</b>	<b>195,191</b>	<b>202,042</b>
Related parties	-	-	17,945	18,475	17,945	18,475
Property, plant and equipment	3,059	4,154	20,496	21,102	23,555	25,256
Intangible assets	-	-	624,517	642,974	624,517	642,974
<b>Total assets</b>	<b>\$ 31,880</b>	<b>\$ 34,909</b>	<b>\$ 829,328</b>	<b>\$ 853,839</b>	<b>\$ 861,208</b>	<b>\$ 888,747</b>
Partes relacionadas	-	-	17,945	18,475	17,945	18,475
Propiedad, planta y equipo	3,059	4,154	20,496	21,102	23,555	25,256
Intangibles	-	-	624,517	642,974	624,517	642,974
<b>Total de activo</b>	<b>\$ 31,880</b>	<b>\$ 34,909</b>	<b>\$ 829,328</b>	<b>\$ 853,839</b>	<b>\$ 861,208</b>	<b>\$ 888,747</b>

	<u>Dalkasa</u>		<u>AIC</u>		<u>Total</u>	
	December 31,					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
<b>Liabilities and equity</b>						
<b>CURRENT LIABILITIES:</b>						
Suppliers	\$ 786	\$ 527	\$ 8,712	\$ 9,074	\$ 9,498	\$ 9,601
Other accounts payable	2,119	7,586	39,041	38,122	41,160	45,708
Related parties	-	-	32,162	33,497	32,162	33,497
Provisions	1,002	1,192	-	-	1,002	1,192
Income taxes payable	1,227	1,053	-	-	1,227	1,053
Other taxes payable	373	157	709	738	1,082	895
<b>Total liabilities</b>	<b>5,507</b>	<b>10,515</b>	<b>80,624</b>	<b>81,431</b>	<b>86,131</b>	<b>91,946</b>
<b>Total net assets</b>	<b>\$ 26,373</b>	<b>\$ 24,394</b>	<b>\$ 748,704</b>	<b>\$ 772,408</b>	<b>\$ 775,077</b>	<b>\$ 796,801</b>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

b. Summarized statements of comprehensive income

	<u>Dalkasa</u>		<u>AIC</u>		<u>Total</u>	
	Year ended on December 31,					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 74,616	\$ 41,292	\$ 24,008	\$ 25,078	\$ 98,624	\$ 66,370
Cost of sales	<u>(50,670)</u>	<u>(27,516)</u>	<u>(3,534)</u>	<u>(3,692)</u>	<u>(54,204)</u>	<u>(31,208)</u>
Gross profit	23,946	13,776	20,474	21,386	44,420	35,162
Operating expenses	(18,089)	(11,458)	(27,525)	(28,422)	(45,614)	(39,880)
Other expenses - Net	(1,001)	(269)	-	-	(1,001)	(269)
Finance costs - Net	(50)	(71)	(186)	(195)	(237)	(265)
Income taxes	(1,190)	(495)	(68)	(71)	(1,258)	(566)
Non-controlling interest	-	-	384	402	384	402
Net profit (loss) for the year	<u>\$ 3,616</u>	<u>\$ 1,483</u>	<u>(\$ 6,921)</u>	<u>(\$ 6,900)</u>	<u>(\$ 3,305)</u>	<u>(\$ 5,417)</u>

At December 31, 2019 and 2018 Dalkasa and AIC are private companies and there is no observable market available for their shares.

The abovementioned information shows the quantities presented in the adjusted financial statements of the associates by the differences in the accounting policies between the Company and the associate.

Investment contingencies and commitments:

At December 31, 2019 and 2018, the Company had no contingencies related with the investment in associates.

At December 31, 2019 and 2018, the Company has no restrictions over cash and cash equivalents in the investment in associates.

c. Reconciliation of summarized financial information at carrying value regarding equity in associates is as follows:

<u>Summarized financial information</u>	<u>Dalkasa</u>		<u>AIC</u>		<u>Total</u>	
	December 31,					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net assets as of January 1,	\$ 24,394	\$ 23,946	\$ 772,408	\$ 791,834	\$ 796,802	\$ 815,780
Goodwill impairment	-	-	(116,668)	-	(116,668)	-
Profit (loss) for the year	3,616	1,483	(6,921)	(6,900)	(3,305)	(5,417)
Investment	-	-	-	-	-	-
Currency translation effect	<u>(1,637)</u>	<u>(1,035)</u>	<u>(16,781)</u>	<u>(12,526)</u>	<u>(18,418)</u>	<u>(13,561)</u>
Net assets at period end,	<u>\$ 26,373</u>	<u>\$ 24,394</u>	<u>\$632,038</u>	<u>\$ 772,408</u>	<u>\$ 658,411</u>	<u>\$ 796,802</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

Participación de Grupo Rotoplas:

<u>Summarized financial information</u>	<u>Dalkasa</u>		<u>AIC</u>		<u>Total</u>	
	<u>December 31,</u>					
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net assets as of January 1,	\$ 26,373	\$ 24,394	\$ 748,705	\$ 772,408	\$ 775,078	\$ 796,802
Percentage of participation	49.88%	49.88%	15.44%	15.44%		
Investment in associates of Grupo Rotoplas, S.A.B. de C.V.	13,156	12,168	115,600	119,260	128,756	131,428
Goodwill impairment *	-	-	(116,668)	-	(116,668)	-
Activos netos al cierre	<u>\$ 13,155</u>	<u>\$ 12,168</u>	<u>(\$ 1,068)</u>	<u>\$ 119,260</u>	<u>\$ 12,087</u>	<u>\$ 131,428</u>

\* During 2019 the major shareholder decided to shut down the associate since it did not generate the profitability and in accordance with its projections there was no observable future economical returns, as such Management decided to impair the investment in such associate.

As of December 31, 2019 Management recognized an impairment to AIC's investment for \$116,668.

d. Share of net profit of associates based on the equity method is as follows:

<u>Dalkasa</u>	<u>Year ended on December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net profit of the associate	\$ 3,616	\$ 1,483
Investment in associate	<u>49.88%</u>	<u>49.88%</u>
	<u>1,804</u>	<u>739</u>
 <u>AIC</u>		
Net loss of the associate	(6,921)	(6,900)
Investment in associate	<u>15.44%</u>	<u>15.44%</u>
	<u>(1,069)</u>	<u>(1,068)</u>
Share of net profit in associates	<u>\$ 735</u>	<u>(\$ 329)</u>

**Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**  
**Notes to the Audited Consolidated Financial Statements**  
**December 31, 2019 and 2018**

**Note 17 - Intangibles:**

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Client relationship</u>	<u>Non-compete agreement</u>	<u>Software and SAP licenses</u>	<u>Total</u>
Balance at January 1, 2019:	\$2,500,911	\$ 394,304	\$ 303,264	\$ 2,940	\$ 234,655	\$ 3,436,074
Translation and restatement effect	(52,091)	(12,755)	(14,416)	(115)	102	(79,275)
Impairment	(41,592)	-	-	-	-	(41,592)
Acquisitions	-	-	-	-	29,899	29,899
Disposals	(32,974)	-	-	-	(4,668)	(37,642)
Amortization of the period	-	-	(11,805)	(318)	(53,351)	(65,474)
Balance at December 31, 2019	<u>\$2,374,254</u>	<u>\$ 381,549</u>	<u>\$ 277,043</u>	<u>\$ 2,507</u>	<u>\$ 206,637</u>	<u>\$ 3,241,990</u>
Net book value:						
Cost	\$2,374,254	\$ 381,549	\$ 288,849	\$ 2,825	\$ 261,479	\$ 3,308,956
Accumulated amortization	-	-	(11,806)	(318)	(54,842)	(66,966)
Balance at December 31, 2019	<u>\$ 2,374,254</u>	<u>\$ 381,549</u>	<u>\$ 277,043</u>	<u>\$ 2,507</u>	<u>\$ 206,637</u>	<u>\$ 3,241,990</u>

  

	<u>Goodwill</u>	<u>Trademarks</u>	<u>Client relationship</u>	<u>Non-compete agreement</u>	<u>Software and SAP licenses</u>	<u>Total</u>
Balance at January 1, 2018:	\$ 2,117,340	\$ 232,478	\$ -	\$ -	\$ 150,919	\$ 2,500,737
Translation and restatement effect	(94,555)	(26,689)	(50,898)	(240)	(833)	(173,215)
Business acquisitions (Note 32)	478,126	188,514	354,162	3,180	-	1,023,982
Acquisitions	-	-	-	-	136,571	136,571
Disposals	-	-	-	-	(6,377)	(6,377)
Amortization of the period	-	-	-	-	(45,625)	(45,625)
Balance at December 31, 2018	<u>\$ 2,500,911</u>	<u>\$ 394,303</u>	<u>\$ 303,264</u>	<u>\$ 2,940</u>	<u>\$ 234,655</u>	<u>\$ 3,436,073</u>
Net book value:						
Cost	\$ 2,500,911	\$ 394,303	\$ 303,264	\$ 2,940	\$ 476,630	\$ 3,678,048
Accumulated amortization	-	-	-	-	(241,975)	(241,975)
Balance at December 31, 2018	<u>\$ 2,500,911</u>	<u>\$ 394,303</u>	<u>\$ 303,264</u>	<u>\$ 2,940</u>	<u>\$ 234,655</u>	<u>\$ 3,436,073</u>

At December 31, 2019 and 2018, the charge for amortization is included in operating expenses by \$65,474 and \$45,625, respectively. (Refer to Note 27).

A summary of the trademarks allocation to each CGU is shown as follows:

<u>CGU</u>	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Rotoplas Argentina	\$ 210,696	\$ 205,789
IPS	<u>170,853</u>	<u>188,515</u>
	<u>\$ 381,549</u>	<u>\$ 394,304</u>

As mentioned in Note 1, the Company acquired different businesses which is the main reason of the increase in the value of intangible assets. Refer to Note 32.

Intangible assets with indefinite useful life including goodwill are assigned to the CGU and are monitored at the Group operating segment level.

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

Allocation of goodwill by CGU is shown as follows:

<u>CGU</u>	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Sanzfield <sup>(1)</sup>	\$ -	\$ 41,592
Rotoplas Argentina <sup>(2)</sup>	277,511	288,758
IPS	391,900	442,095
E-commerce <sup>(1)</sup>	568,732	592,355
Sytessa <sup>(1)</sup>	<u>1,136,111</u>	<u>1,136,111</u>
	<u>\$2,374,254</u>	<u>\$2,500,911</u>

(1) At the date of the business acquisition, Management performed an impairment analysis over these CGUs, and identified that the expected future cash flows of these CGUs are not materially higher than the recognized value of such intangibles. As such, as of December 31, 2019 Management recognized an impairment adjustment for the value of this CGU.

(2) The recoverable value of the Argentina CGU has been determined based on their value in use, which is determined through projections of cash flows before taxes, based on financial budgets approved by Management, covering a five-year period. Cash flows subsequent to that period are extrapolated using the following estimated growth rates, which do not exceed the average long-term growth rate for the business in which each CGU operates.

The aforementioned long-lived assets including goodwill were tested for impairment purposes, no impairment loss was deemed necessary to be recognized as of December 31, 2019, except for what it is explained on point <sup>(1)</sup> above, since the expected cash flows are significantly higher than the value in use.

During 2019 the Company recognized the following amounts in profit and loss:

- I. Sanzfield CGU was declared in suspension during 2019 since it did not comply its main objective and stopped generating the sufficient cash flows to operate, an impairment lost was recognized for an amount of \$41,592. The CGU considered only the goodwill value, no other long life assets are linked to it.
- II. As mentioned in Note 32.1, the Company analyzed the performance guarantees related to the acquisition of IPS, which did not comply in accordance with the contract and an adjustment was recognized to goodwill for an amount of \$46,068. As of December 31, 2109 the Company has margins, income and own cash flows.

Key assumptions used to calculate value in use are as follows:

	<u>Argentina</u>		<u>Sytessa</u>		<u>IPS</u>		<u>E-Commerce</u>	
	<u>December 31,</u>							
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Gross margin	<u>29.20</u>	<u>29.90</u>	<u>7.4</u>	<u>21.20</u>	<u>41.50</u>	<u>49.37</u>	<u>19.5</u>	<u>22.20</u>
Long-term growth rate	<u>23.92</u>	<u>24.84</u>	<u>19.28</u>	<u>29.12</u>	<u>45.85</u>	<u>34.05</u>	<u>21.96</u>	<u>28.27</u>
Discount rate	<u>49.50</u>	<u>23.46</u>	<u>6.54</u>	<u>27.50</u>	<u>40.32</u>	<u>49.37</u>	<u>4.83</u>	<u>6.30</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

### December 31, 2019 and 2018

Management has determined the assigned values to each of the key assumptions.

Assumption	Approach used in determining the values
Gross margin	Has been budgeted in accordance with the past performance and the market development expectations.
Long term growth rate	This is the weight average growth rate used to extrapolate the cash flows beyond the budgeted period. The rates are consistent with the projections included in the industry reports.
Discount rate	Reflects the specific risks related to the relevant segments and the countries in which the Company operate.

At December 31, 2019 and 2018, the value in use of the CGU is significantly higher than the carrying values of goodwill and the sensitivity to changes in the inputs used is remote.

#### Note 18 - Derivative financial instruments:

Derivatives held for trading are classified as current assets or liabilities. The fair value of derivative designated as hedge is classified as non-current asset or liability, if the remaining settlement date of the hedged item is higher than 12 months and as current asset or liability, if the remaining settlement date is less than 12 months.

Contracted interest rates and position instruments at each year-end were as follows:

Notional amount	Hiring	Date of		Instrument	Interest rate Debt	Fair value at December 31,	
		Maturity				2019	2018
<b>Swap</b>							
\$600,000,000 <sup>1</sup>	June 2017	June 2020		TIE 28 days	5.05%	\$ 7,351	\$ 31,120
<b>Forward full delivery<sup>2</sup></b>							
\$600,000,000 <sup>1</sup>	June 2017	June 2020		TIE 28 days	5.05%	\$ 7,350,629	\$ 31,120,026
1,500	December 2018	April 2019		Exchange rate	19.9993		88
2,100	December 2018	March 2019		Exchange rate	19.9993		269
2,800	December 2018	March 2019		Exchange rate	19.9993		422
1,100	December 2018	February 2019		Exchange rate	19.9850		304
2,100	December 2018	February 2019		Exchange rate	19.9850		583
1,800	December 2018	January 2019		Exchange rate	19.9850		509
800	December 2018	February 2019		Exchange rate	19.9850		220
2,100	December 2018	January 2019		Exchange rate	19.9850		594
900	December 2018	February 2019		Exchange rate	19.9850		249
2,100	December 2018	April 2019		Exchange rate	19.9993		75
1,200	December 2018	January 2019		Exchange rate	19.9850		335
3,100	December 2018	April 2019		Exchange rate	19.9993		40
1,500	December 2018	March 2019		Exchange rate	19.9993		123
600	December 2018	January 2019		Exchange rate	19.9850		168
800	December 2018	April 2019		Exchange rate	19.9993		(8)
3,100	December 2018	March 2019		Exchange rate	19.9993		324
440	October 2019	December 2020		Exchange rate	19.7500	42	
440	October 2019	December 2020		Exchange rate	19.7500	35	
440	October 2019	December 2020		Exchange rate	19.7500	27	
880	October 2019	December 2020		Exchange rate	19.7500	40	
720	October 2019	November 2020		Exchange rate	19.7500	8	
600	October 2019	December 2020		Exchange rate	19.7500	17	
880	October 2019	November 2020		Exchange rate	19.7500	(19)	
760	October 2019	November 2020		Exchange rate	19.7500	(32)	
720	October 2019	November 2020		Exchange rate	19.7500	(5)	

**Grupo Rotoplas, S. A. B. de C. V. and subsidiaries**  
**Notes to the Audited Consolidated Financial Statements**  
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Notional amount	Date of		Instrument	Interest rate	Fair value at	
	Hiring	Maturity			Debt	December 31, 2019
1,000	October 2019	October 2020	Exchange rate	19.7500	(59)	
1,040	October 2019	October 2020	Exchange rate	19.7500	(98)	
600	October 2019	October 2020	Exchange rate	19.7500	(46)	
680	October 2019	September 2020	Exchange rate	19.7500	(100)	
520	October 2019	September 2020	Exchange rate	19.7500	(67)	
520	October 2019	September 2020	Exchange rate	19.7500	(84)	
760	October 2019	October 2020	Exchange rate	19.7500	(85)	
640	October 2019	September 2020	Exchange rate	19.7500	(117)	
400	October 2019	August 2020	Exchange rate	19.7500	(87)	
800	October 2019	September 2020	Exchange rate	19.7500	(160)	
960	October 2019	August 2020	Exchange rate	19.7500	(245)	
760	October 2019	August 2020	Exchange rate	19.7500	(180)	
800	October 2019	July 2020	Exchange rate	19.7500	(232)	
1,400	October 2019	August 2020	Exchange rate	19.7500	(382)	
440	October 2019	July 2020	Exchange rate	19.7500	(143)	
760	October 2019	July 2020	Exchange rate	19.7500	(233)	
1,120	October 2019	July 2020	Exchange rate	19.7500	(382)	
1,080	October 2019	June 2020	Exchange rate	19.7500	(411)	
680	October 2019	July 2020	Exchange rate	19.7500	(244)	
760	October 2019	June 2020	Exchange rate	19.7500	(305)	
760	October 2019	June 2020	Exchange rate	19.7500	(321)	
1,040	October 2019	May 2020	Exchange rate	19.7500	(482)	
1,480	October 2019	June 2020	Exchange rate	19.7500	(657)	
1,280	October 2019	May 2020	Exchange rate	19.7500	(619)	
680	October 2019	May 2020	Exchange rate	19.7500	(342)	
680	October 2019	May 2020	Exchange rate	19.7500	(356)	
240	October 2019	April 2020	Exchange rate	19.7500	(130)	
1,040	October 2019	April 2020	Exchange rate	19.7500	(585)	
680	October 2019	April 2020	Exchange rate	19.7500	(396)	
520	October 2019	April 2020	Exchange rate	19.7500	(313)	
520	October 2019	April 2020	Exchange rate	19.7500	(324)	
1,080	October 2019	March 2020	Exchange rate	19.7500	(694)	
760	October 2019	March 2020	Exchange rate	19.7500	(504)	
1,000	October 2019	March 2020	Exchange rate	19.7500	(683)	
760	October 2019	March 2020	Exchange rate	19.7500	(535)	
1,000	October 2019	February 2020	Exchange rate	19.7500	(724)	
1,240	October 2019	February 2020	Exchange rate	19.7500	(924)	
680	October 2019	February 2020	Exchange rate	19.7500	(535)	
880	October 2019	February 2020	Exchange rate	19.7500	(674)	
840	October 2019	January 2020	Exchange rate	19.7500	(679)	
480	October 2019	January 2020	Exchange rate	19.7500	(409)	
720	October 2019	January 2020	Exchange rate	19.7500	(598)	
1,000	October 2019	January 2020	Exchange rate	19.7500	(869)	
					(\$ 15,900)	\$ 4,295

<sup>1</sup> Such protection has the target to establish a maximum interest rate, this instrument has been acquired to manage the interest rate agreed resulting from the issuance of Company's bond certificates, from June 2018 on. (Refer to Note 19).

<sup>2</sup> For changes in the cash flows due to fluctuations of the exchanges rates the hedge is performed by hiring forward liquidation financial instruments "Full Delivery" or compensating "Non Delivery Forward" with a known price at an exact date. These derivative financial instrument have the economic effect of agreeing the exchange of currency at a future determined date, Forwards hired positions are hired with HSBC Mexico, and the reason is to cover a part of the fluctuation risk exposure. The effectiveness of each of the different hedges is linked to the exchange rate in the end of the liquidation date.

When the reference rate is higher than the level of the agreed Equilibrated Interbankary Interest Rate ("TIIE") the Company has the right, but not the obligation, of making that interest rate effective. Whilst the reference rate is below the level of the agreed rate, the one that will be used is the reference rate.



# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

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The notional amounts related to derivative financial instruments reflect the reference volume contracted; however, they do not reflect the amounts at risk as concerns future flows. Amounts at risk are usually limited to the unrealized profit or loss on market valuation of those instruments, which may vary depending on the changes in the market value of the underlying goods, their volatility and the credit rating of the counterparts.

The valuation technique used in the determination of the fair value of the swaps include standard valuation models in the industry, forecasting future cash flows discounted to a present value, using observable market information, including yield curves for interest rates. In such case, the valuations are adjusted by different factors, such as credit differentiators. Such adjustments are based generally from available market inputs. These swaps are classified in level 2.

### Note 19 - Debt:

#### 19.1 Bank loans:

The book value of bank loans is as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Long-term bank loans:		
HSBC Bank Argentina S.A. <sup>2</sup>	\$ -	\$ 1,039
	\$ -	\$ 1,039
Short-term bank loans:		
HSBC Bank Argentina, S. A. <sup>2</sup>	\$ 694	\$ 1,257
	<u>694</u>	<u>1,257</u>
Total	<u>\$ 694</u>	<u>\$ 2,296</u>

<sup>1</sup> These amounts (net) are broken down as follows:

As of December 31, 2018 the aforementioned loans have been paid.

<sup>2</sup> On November 13, 2018, IPS S.A.I.C. y F signed a simple loan agreement with HSBC Bank Argentina, S. A. for A\$4,350,000 (four million, three hundred fifty thousand Argentinian pesos), the payable principal is subject to a variable interest rate considering the TASA ACTIVA, less a funding payment, in accordance to the following: Tasa Activa, would be the less of: a) "BLADAR" Bancos Privados published by the BCRA in the period where the interests are related to, plus a fixed margin of 4.5 percent annual points, or b) determined at an effective rate of 19%. Such contract has a two years maturity from the signing period and accrues interest on a monthly basis.

The aforementioned agreements establish obligations of to do and not to do, such as contracting further debt at an additional cost (under certain circumstances); restrictions on capital investments, and maintaining certain financial indicators, which have been complied with at December 31, 2019 and 2018.

#### 19.2 Bond certificates:

The Company holds the following outstanding bond certificates issues payable at mature date:

December 31,

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

<u>Description</u>	<u>2019</u>	<u>2018</u>
Issued on June 28, 2018, with a maturity date on June, 2027 with an fixed interest rate of 8.65% (17-2x)	<u>\$ 1,400,000</u>	<u>\$ 1,400,000</u>
Issued on June 28, 2018, with a maturity date on June, 2020 with a variable interest rate of 28 days TIIE + 0.68% (17-x)	<u>\$ 600,000</u>	<u>\$ 600,000</u>
Issued on October 11, 2018, with a maturity date on June 2027 with an fixed interest rate of 8.65% (17-2x)	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
	<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

The book value of the bonds is as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Long-term portion of the bonds:		
Series 17-x	\$ -	\$ 595,275
Series 17-2x	<u>2,328,654</u>	<u>2,319,874</u>
	<u>2,328,654</u>	<u>2,915,149</u>
Short-term portion of the bonds:		
Series 17-x	601,184	3,092
Series 17-2x	<u>4,614</u>	<u>2,883</u>
	<u>605,798</u>	<u>5,975</u>
Total	<u>\$ 2,934,452</u>	<u>\$ 2,921,124</u>

On June 28, 2018, the Company issued a sustainable bond through the Mexican Stock Market (“Bolsa Mexicana de Valores”), for an amount of \$2,000,000. The issue of these bonds was performed in two tranches; the first tranche identified with the board ticker “Agua 17-x” for \$600,000, at a variable interest rate of adding 68 base points to TIIE 28 days rate, and the second tranche identified with the board ticker “Agua 17-2x” for \$1,400,000, at a fixed interest rate of 8.65%, with interest payments each 182 days and a 10 years maturity; the third tranche is a complement of the sustainable bond issued under ticker “Agua 17-2x with the same conditions of maturity and rate. Such bonds are payable in one exhibition at their respective maturity dates. The related expenses of the bond certificates are net in the book values and were of for \$52,978 and \$63,947 at December 31, 2019 and 2018, respectively.

The effective interest rates are shown as follows:

	<u>December 31,</u>	
	<u>2019</u> (%)	<u>2018</u> (%)
Series 17 x-2	8.75	9.19
Serie 17 x	9.16	9.27

The fair value of bank loans is as follows:

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

<u>Fair value</u>	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Bank loans:		
HSBC Bank Argentina. S. A.	\$ 694	\$ 2,296
Series 17 x-2	2,607,600	2,403,065
Series 17 x	<u>647,707</u>	<u>602,540</u>
	<u>\$3,256,001</u>	<u>\$ 3,007,901</u>

The fair values of the loans based on discounted cash flow were determined using the discount rate (%) for each debt as follows:

<u>Fair value</u>	<u>December 31,</u>	
	<u>2019</u> (%)	<u>2018</u> (%)
Serie 17 x-2	8.65	8.65
Serie 17 x	8.24	8.59

The aforementioned fair values is similar to their book values, since the discount impact is not significant and fall within level 2 of fair value classifications.

The book values of the Company's loans are expressed in the following currencies:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Argentinian pesos*	<u>A\$. 2,203</u>	<u>A\$. 4,405</u>
* Equivalent of Argentinian pesos in Mexican pesos loan (Nota 19.1)	<u>694</u>	<u>2,296</u>
Loans in Mexican pesos	<u>2,934,452</u>	<u>2,921,124</u>
Total in Mexican pesos	<u>\$ 2,935,146</u>	<u>\$ 2,923,420</u>

### 19.3 Net debt reconciliation:

December 31, 2019

	<u>Opening balance</u>	<u>Proceeds</u>	<u>Finance costs</u>	<u>Payment of debts</u>	<u>Interest paid</u>	<u>Closing balance</u>
HSBC Bank Argentina, S. A.	\$ 2,296	\$ -	\$ -	(\$ 1,602)	\$ -	\$ 694
Santander	-	93,000	1,346	(93,000)	-	(1,346)
Bond certificate serie 17-x	598,367	-	57,800	-	-	(54,983)
Bond certificate serie 17-2x	2,322,757	-	220,417	-	-	(209,906)
Lease	93,535	-	6,844	-	(28,474)	(6,844)
Other	-	-	57,064	-	-	(54,958)
	<u>\$ 3,016,955</u>	<u>\$ 93,000</u>	<u>\$ 343,471</u>	<u>(\$ 94,602)</u>	<u>(\$ 28,474)</u>	<u>(\$ 328,037)</u>
						<u>\$3,000,207</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

### December 31, 2019 and 2018

December 31, 2018

	Opening balance	Proceeds	Finance costs	Payment of debts	Interest paid		Closing balance
Santander	\$ -	\$ -	\$ 6,090	\$ -	\$ -	(\$ 6,090)	\$ -
HSBC Bank Argentina, S. A.	-	2,296	-	-	-	-	2,296
BNDES	334	-	3	(334)	-	(3)	-
Bond certificate serie 17-x	594,739	3,027	55,731	-	-	(52,103)	601,394
Bond certificate serie 17-2x	1,380,720	939,690	168,523	-	-	(166,176)	2,322,757
Lease	144,287	-	10,078	(60,830)	-	93,535	-
Other	-	-	46,085	-	-	(29,814)	-
	<u>\$ 2,120,080</u>	<u>\$ 945,013</u>	<u>\$ 286,510</u>	<u>(\$ 61,164)</u>	<u>\$ -</u>	<u>(\$ 254,186)</u>	<u>\$3,019,982</u>

#### Note 20 - Suppliers:

	December 31,	
	2019	2018
Indelpro, S. A. de C. V.	\$ 56,647	\$ 32,061
Equistar Chemicals, LP	52,664	49,898
Dow Internacional Mexicana, S. A. de C. V.	37,409	21,989
Nova Chemicals Inc.	26,607	13,790
Xingfa International Co. Ltda.	11,043	13,667
Marangon Danilo & Co., S. de R. L.	10,440	29,988
Administración Nacional de Aduanas	4,657	-
Vinmar Overseas LTD	3,321	7,225
Procesos de Alta Tecnología, S. A. de C. V.	3,250	5,949
Pemex	3,157	34,772
Polyone de México Distributions	2,591	15,668
Norwesco INC	1,927	7,833
Arco Colores, S. A. de C. V.	1,460	3,067
Gasa México Consultoría y Servicios	115	9,654
Dismolper, S. A. de C. V.	97	1,035
Pentair Flow Technologies	19	-
M. Holland Latinoamérica	-	19,394
Others	<u>133,293</u>	<u>133,546</u>
	<u>\$ 348,697</u>	<u>\$ 399,536</u>

#### Note 21 - Other accounts payable:

	December 31,	
	2019	2018
Sundry creditors	\$ 500,298	\$ 432,572
Accrued expenses and other accounts payable*1	<u>537,013</u>	<u>611,272</u>
	1,037,311	1,043,844
Less long-term portion	<u>122,887</u>	<u>129,287</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

Total short-term	<u>\$ 914,424</u>	<u>\$ 914,557</u>
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\* Accrued expenses refer to rendered received services

<sup>1</sup> As of December 31, 2019 and 2018, \$62,234 and \$108,302 are included and are related to the deferred consideration in the business acquisition of IPS.

### Note 22 - Provisions:

<u>For the period of 2019</u>	<u>Legal suits</u>	<u>Total</u>
At January 1, 2019	\$ 7,366	\$ 7,366
Effect of currency translation	(859)	(859)
Charge to the profit and loss	9,841	9,841
Cancellations	(1,963)	(1,963)
Payments	<u>(4,414)</u>	<u>(4,414)</u>
At December 31, 2019	<u>\$ 9,971</u>	<u>\$ 9,971</u>
	<u>Legal suits</u>	<u>Total</u>
<u>For the period of 2018</u>		
At January 1, 2018	\$ 21,057	\$ 21,057
Effect of currency translation	(3,103)	(3,103)
Charge to the profit and loss	6,133	6,133
Cancellations	(1,138)	(1,138)
Payments	<u>(15,583)</u>	<u>(15,583)</u>
At December 31, 2018	<u>\$ 7,366</u>	<u>\$ 7,366</u>

Provisions mainly include liabilities for labor suits filed against the company and other commercial suits that have been assessed under Management's best estimation and are expected to be covered in the short-term.

### Note 23 - Lease:

The lease assets (rights of use) and lease liability (initially measured at present value of the minimum future payments) were recognized on the balance sheet.

a. As of December 31, 2019, the right of use of the asset and accumulated depreciation of the leases is shown below:

<u>Year ended on December 31, 2019:</u>	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Opening balance	\$ 76,193	\$ 8,552	\$ 84,745
New contracts	25,038	-	25,038
Depreciation of the year	<u>(47,517)</u>	<u>(549)</u>	<u>(48,066)</u>
Closing balances	<u>\$ 53,714</u>	<u>\$ 8,003</u>	<u>\$ 61,717</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

December 31, 2019 and 2018

<u>Year ended on December 31, 2019:</u>	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost	\$ 155,449	\$ 13,876	\$ 169,325
Accumulated depreciation	<u>(101,735)</u>	<u>(5,873)</u>	<u>(107,608)</u>
Closing balances	<u>\$ 53,714</u>	<u>\$ 8,003</u>	<u>\$ 61,717</u>
<u>Year ended on December 31, 2018:</u>	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Initial recognition of the right-of-use lease asset	\$ 112,883	\$ 12,966	\$ 125,849
New contracts	17,528	910	18,438
Depreciation of the year	<u>(54,218)</u>	<u>(5,324)</u>	<u>(59,542)</u>
Closing balances	<u>\$ 76,193</u>	<u>\$ 8,552</u>	<u>\$ 84,745</u>
<u>Year ended on December 31, 2018:</u>	<u>Buildings</u>	<u>Transportation equipment</u>	<u>Total</u>
Cost	\$ 130,411	\$ 13,876	\$ 144,287
Accumulated depreciation	<u>(54,218)</u>	<u>(5,324)</u>	<u>(59,542)</u>
Closing balances	<u>\$ 76,193</u>	<u>\$ 8,552</u>	<u>\$ 84,745</u>

b. Minimum future lease payments as of December 31, 2019 is as follows:

<u>Region</u>	<u>Monthly rent</u>	<u>Up to 1 year</u>	<u>Between 1 and 5 years</u>	<u>Period of the contract</u>
Peru	\$ 505	\$ 6,060	\$ 12,120	December 2022
Mexico	3,224	17,475	1,530	April, May and December 2020
Honduras	25	300	900	October 2023
Nicaragua	15	181	544	September 2020 y August 2023
Costa Rica	100	1,200	2,401	June 2022
Salvador	26	310	621	December 2022
USA	<u>590</u>	<u>7,076</u>	<u>28,134</u>	April, May 2020 y 2023
	<u>\$ 4,485</u>	<u>\$ 32,602</u>	<u>\$ 46,250</u>	

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

## Notes to the Audited Consolidated Financial Statements

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c. The discounted future payments of the leases as of December 31, 2019, are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
2019	\$ -	\$ 29,204
2020	32,900	33,705
2021	15,039	13,912
2022-2024	<u>17,122</u>	<u>16,714</u>
	65,061	93,535
Short-term liability	<u>29,204</u>	<u>29,204</u>
Long-term liability	<u>\$ 36,002</u>	<u>\$ 64,331</u>

d. The interest expense related to the finance lease, for the year ended on December 31, 2019 and 2018 was \$6,844 and \$10,078, respectively and the charge to profit and loss for depreciation concept of leased assets was \$48,066 and \$59,543, respectively.

e. Short-term leases or leases where the subjacent asset are considered low-value, the lessee will recognize the lease associated payments to the leases as an expense in straight-line during the life of the lease or else another systematic base. As of December 31, 2019 and 2018 the Company recognized an amount in profit and loss of \$27,470 and \$13,398, respectively.

f. The activities from the Group as lessor are not significant and, as such, the Group does not expect to have a significant impact in the financial statements.

### Note 24 - Employee benefits:

The value of obligations for benefits acquired at December 31, 2019 and 2018 totaled \$32,405 and \$16,186, respectively.

The amount shown as a liability in the consolidated statement of financial position is comprised as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Obligations for acquired benefits	\$15,629	\$ 5,042
Senior premium	<u>16,776</u>	<u>11,140</u>
Current situation	<u>\$32,405</u>	<u>\$16,182</u>
Present value of non-funded obligations	<u>\$32,405</u>	<u>\$16,182</u>
Liability in the statement of financial position	<u>\$32,405</u>	<u>\$16,182</u>

DBO movements were as follows:

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	<u>Seniority premium</u>	
	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Balance at January 1,	\$ 16,182	\$10,905
Net cost for the period (NCP)	10,746	6,937
Payments with reserve charge	-	(160)
Actuarial (gains) losses	<u>5,477</u>	<u>(1,500)</u>
Balance at December 31,	<u>\$ 32,405</u>	<u>\$16,182</u>

The NCP is as follows:

	<u>Seniority premium</u>	
	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cost of service for the period	\$ 9,244	\$ 6,125
Financial costs - Net	<u>1,502</u>	<u>812</u>
	<u>\$10,746</u>	<u>\$ 6,937</u>

The economic hypotheses in nominal and real terms used were as follows:

	<u>December 31,</u>	
<u>Mexico</u>	<u>2019</u>	<u>2018</u>
	(%)	(%)
Discount rate	8.0	9.0
Salary increase rate	5.8	5.8
Minimum wage increase rate	5	4
Expected long-term inflation rate	4	4

The sensitivity of the ODB due to changes in the weighted average of the main assumptions is as follows:

	<u>Impact on the OBD</u>		
<u>December 31, 2019</u>	<u>Change in</u> <u>inputs</u> <u>(%)</u>	<u>Increase in</u> <u>inputs</u> <u>(%)</u>	<u>Decrease in</u> <u>inputs</u> <u>(%)</u>
Discount rate	1.0	Decrease of 7.77	Increase of 8.23
Salary increase rates	1.0	Increase of 8.40	Decrease of 8.07



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	<u>Impact on the OBD</u>		
	<u>Change in inputs</u> (%)	<u>Increase in inputs</u> (%)	<u>Decrease in inputs</u> (%)
December 31, 2018			
Discount rate	1.0	Decrease of 9.30	Increase of 9.22
Salary increase rates	1.0	Increase of 9.91	Decrease of 9.50

The foregoing sensitivity analyses are based on a change in one assumption with all other assumptions remaining constant. In practice, this is unlikely and changes in other assumptions can be correlated. In calculating the sensitivity of the obligation for defined benefits, we applied the same method as that used for significant actuarial assumptions (current value of obligations for defined benefits calculated by the projected unit credit method at the end of the period of reference). This method was also applied to the calculation of the liability for pensions recognized in the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not vary in relation to the preceding period.

### RVU

RVUs are granted to directors and certain employees. The exercise price of the granted RVUs is equal to the market value of the Company's share of the preceding year at settlement date, less the cost price at exercise when they were assigned and are settled in cash. RVUs are subject to the conclusion by the employee of a service period and can be exercised after a year of the grant date, subject to the performance of the Company in the increase of profits per share in the period. RVUs have a contractual term of ten years. As of December 31, 2019 and 2018, available RVUs were 2,343 and 2,990, respectively, as of December 31, 2019 and 2018 the released RVUs were \$2,343 and \$2,811 and their fair value was \$14,008 and \$16,757, respectively.

The movement in the number of effective RVUs and their respective weighted average value is as follows:

	<u>2019</u>		<u>2018</u>	
	<u>Weight average value</u>	<u>RVUs number</u>	<u>Weight average value</u>	<u>RVUs number</u>
January 1,	\$ 6.82	2,990,021	\$ 14.91	3,030,989
Granted				-
Cancelled				-
Exercised		<u>(647,156)</u>		<u>(40,968)</u>
December 31,	16.30	<u>2,342,865</u>	6.82	<u>2,990,021</u>

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Effective RVUs at year-end have the following maturity dates and exercisable share prices:

<u>Granted</u>	<u>Maturity date</u>	<u>Assignment value</u>	<u>Outstanding RVUs</u>	
	<u>June 30</u>		<u>2019</u>	<u>2018</u>
2009-2013	2019	\$ 8.11	473,167	608,600
2011-2015	2021	9.30	390,335	390,335
2012-2016	2022	9.30	395,083	528,417
2013-2017	2023	11.94	457,415	598,097
2014-2018	2024	29.67	385,021	507,176
2015-2019	2025	29.51	<u>241,844</u>	<u>357,396</u>
			<u>2,342,865</u>	<u>2,990,021</u>

Weight average fair value of the granted RVUs during the period, is determined utilizing the binomial model.

#### Note 25 - Equity:

The capital stock is comprised as follows:

<u>Stocks*</u>		<u>Description</u>	<u>December 31,</u>	
<u>2019</u>	<u>2018</u>		<u>2019</u>	<u>2018</u>
15,104	15,104	Represents the minimum fixed portion of equity with no withdrawal rights (Class I)	\$ 34	\$ 39
<u>486,219,830</u>	<u>486,219,830</u>	Represents the variable portion of capital with withdrawal rights (Class II)	<u>4,616,288</u>	<u>4,790,003</u>
486,234,934	486,234,934	Historical capital stock	4,616,288	4,790,042
		Restatement increase up to 1997	<u>71,391</u>	<u>71,391</u>
			4,687,713	4,861,433
<u>(24,292,223)</u>	<u>(23,949,320)</u>	Treasury stock	<u>(587,521)</u>	<u>(580,141)</u>
<u>461,942,711</u>	<u>462,285,614</u>	Capital stock	<u>\$4,100,192</u>	<u>\$ 4,281,292</u>

\* Nominal ordinary stocks, single series, without expression of nominal value as of December 31, 2019 and 2018 fully subscribed and paid.

On May 7, 2019 the Company announces an equity reimbursement payment for an amount of MXN\$0.38 for each equity stock in circulation. The related payment was made in one exhibition through the S.D. INDEVAL, for an amount of \$173,720, with a remaining fixed equity portion of \$34 and a variable equity portion of \$4,616.

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The elements used in determining the basic and diluted earnings per stock are as follows:

	<u>Year ended on</u> <u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Profit attributable to Company's controlling interest	\$ <u>54,268</u>	\$ <u>370,530</u>
Weighted average of common stocks in circulation (in thousands)	<u>467,264</u>	<u>468,613</u>
Basic and diluted earnings per stocks	\$ <u>0.12</u>	\$ <u>0.79</u>

Reconciliation of treasury stocks is shown as follows:

	<u>Number of</u> <u>shares</u>	<u>Total</u>
Balance at January 1, 2018	14,975,660	381,241
Own stocks acquired *	32,344,460	765,496
Own stocks sold *	<u>(23,370,800)</u>	<u>(566,596)</u>
Balance as of December 31, 2018	<u>23,949,320</u>	<u>\$ 580,141</u>
Own stocks acquired *	25,141,382	425,972
Own stocks sold *	<u>(24,798,479)</u>	<u>(418,592)</u>
Balance as of December 31, 2019	<u>24,292,223</u>	<u>\$ 587,521</u>

\* Represent common, nominative stocks unique series, with no par value, class II and the amount has been reduced from Company's capital stock. The stocks are held as treasury stocks and the Company has the right to reissue these stocks in a subsequent date.

In 2019 and 2018, the Company acquired 25,141,382 and 32,344,460 of its own shares at an average price of \$16.94 and \$23.67 per share, the total amount of bought shares during these periods was \$425,972 and \$765,496, respectively, targeting to manage liquidity over exceeds.

The profit for the year is subject to the legal provision requiring that at least 5% of the profit be set aside to increase the legal reserve until it reaches an amount equivalent to one fifth of the paid capital stock.

Dividends are subject to a 10% tax payment on earnings generated from 2014 on, paid to physical residents in Mexico and residents abroad.

Dividends are not subject to income tax if paid from the CUFIN. Dividends in excess of the CUFIN are subject to 42.86% tax if paid in 2018. The tax is payable by the Company and may be credited against income tax of the current period or that of the following two periods. Dividends paid from previously taxed profits are not subject to tax withholding or additional payments. At December 31, 2019 and 2018, the CUFIN balance was \$39,402 and \$38,321, respectively.

At December 31, 2019 and 2018, the balance of the CUCA was \$6,539,936 and \$6,534,237, respectively.

In the event of a capital reduction, any excess of equity over capital contributions, the latter restated in accordance with the provisions of the Income Tax Law (ITL), is accorded the same tax treatment as dividends.

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## Notes to the Audited Consolidated Financial Statements

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In the Income Act of the Federation published on November 18, 2015 in article three of the provisions of temporary validity of the ITL, a tax incentive granted to individuals resident in Mexico who are subject to the additional payment of 10% on dividends or distributed profits. The incentive is applicable, if, such dividends or profits were generated in 2014, 2015, and 2016 and are reinvested in the legal entity that generated such profits, and consists of a tax credit equal to the amount obtained by applying the dividend or utility is distributed, which corresponds to year percentage distribution as follows:

<u>Year of dividend or profit or distribution</u>	<u>Percentage applicable to the amount of the dividend or distributed profit</u> (%)
2018	2%
2019 onwards	5%

### Note 26 - IT:

- i. In 2019, the Company determined a tax profit of \$1,466,313 (2018: \$423,513). In 2019, the Company amortized prior years' combined tax losses of \$406,423 (2018: \$29,423). The tax result differs from the book result mainly due to items that accrue over time and deducted differently for book and tax purposes, to the recognition of the effects of inflation for tax purposes and to items affecting only the book or tax result.
- ii. The charge to income for income taxes is analyzed below:

	<u>Year ended on</u> <u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current IT	\$ 363,329	\$ 341,053
Deferred IT	<u>(112,946)</u>	<u>(62,272)</u>
Total charges to consolidated income	<u>\$ 250,383</u>	<u>\$ 278,781</u>

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The main concepts related to the deferred tax as of December 31, 2019 and 2018 are as follows:

ISR diferido

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Allowance for doubtful accounts	\$ 22,979	\$ 19,247
Inventory	8,677	17,376
Prepaid expenses	(17,349)	-
Property, plant and equipment	(167,002)	(145,076)
Intangible assets and other assets	(92,207)	(136,226)
Client advances	49,398	23,970
Finance lease	932	-
Provisions	38,029	81,204
Labor obligations	9,721	4,855
Unamortized tax losses	<u>182,342</u>	<u>302,631</u>
	<u>\$ 35,520</u>	<u>\$ 167,981</u>

The deferred tax assets and liabilities are presented separately on the balance sheet, since they relate to different taxpayer entities and tax authorities and are as follows:

	<u>31 de diciembre de</u>	
	<u>2019</u>	<u>2018</u>
Deferred tax asset	\$ 300,168	\$ 495,515
Deferred tax liability	<u>264,648</u>	<u>327,534</u>
	<u>\$ 35,520</u>	<u>\$ 167,981</u>

La conciliación entre las tasas causada y efectiva del ISR se muestra a continuación:

Concept	Labor Obligations	Provisions	Property plant and equipment	Unamortized tax losses	Inventories	Prepaid Expenses	Client advances	Allowance for doubtful accounts	Intangible assets	Total
Opening balance as of January 1, 2019	\$ 4,855	\$ 81,204	(\$ 145,076)	\$ 302,631	\$ 17,376	\$ -	\$ 23,970	\$ 19,247	(\$ 136,226)	\$ 167,981
Movement of the year, net	4,866	(43,098)	(2,411)	(120,289)	(8,699)	(17,349)	25,428	3,732	44,874	(112,946)
Effect of currency translation			(409)							(409)
OCI			(19,106)							(19,106)
Closing balance as of December 31, 2019	<u>\$ 9,721</u>	<u>\$ 38,106</u>	<u>(\$ 167,002)</u>	<u>\$ 182,342</u>	<u>\$ 8,677</u>	<u>(\$ 17,349)</u>	<u>\$ 49,398</u>	<u>\$ 22,979</u>	<u>(\$ 91,352)</u>	<u>\$ 35,520</u>

# Grupo Rotoplas, S. A. B. de C. V. and subsidiaries

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The reconciliation between the legal tax rate and the effective IT rate is as follows:

	Year ended on December 31,	
	2019	2018
Profit before income taxes	\$ 510,553	\$ 674,351
Statutory IT rate	<u>30%</u>	<u>30%</u>
IT at statutory rate	153,166	202,305
Plus (less) income tax effect of the following permanent items:		
Inflation annual adjustment	(21,405)	(23,361)
Effect of different tax rates*	187	(3,945)
Non-deductible expenses	6,226	6,521
Discontinued operation	(170,268)	35,935
Tax losses **	250,321	19,101
Other	<u>32,156</u>	<u>42,225</u>
	<u>\$ 250,383</u>	<u>\$ 278,781</u>
Effective IT rate	<u>49%</u>	<u>41%</u>

\* The legal rate used in this reconciliation is in accordance with the ITL, which is the most representative for the reporting entity. The effect on rates is because there are branches at several countries in Central and South America, the principal in Brazil.

Tax rates in effect in the different countries is shown as follows:

<u>Country</u>	<u>(%)</u>
Argentina	30
Brasil	34
Peru	29.5
Guatemala	25
Mexico	30
USA	27*
Nicaragua	30
Costa Rica	30
Honduras	25

\* Enacted from January 1, 2018 on, previously 35%.

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Accrued unamortized income tax losses

At December 31, 2019, the Company has accrued income tax losses for a total of \$1,665,612, which right to be amortized against future profits expires as follows:

Tax loss Year	Grupo Rotoplas	Argentina	MAC	Brazil	Central America	Latinamerica	Comercializadora	Rotoplas Sytesa	Restated amount	Expiry date
2010	\$ -	\$ -	\$ -	\$ 54,030	\$ -	\$ -	\$ -	\$ -	\$ 54,030	Indefinite
2011	-	-	-	18,125	-	-	-	-	18,125	Indefinite
2014	-	3,665	-	-	-	-	-	-	3,665	2019
2014	11,232	-	-	-	-	-	-	-	11,232	2024
2014	-	-	4,690	-	-	-	-	-	4,690	2034
2014	-	-	-	-	1,732	-	-	-	1,732	2017
2015	-	-	-	193,436	-	-	-	-	193,436	Indefinite
2015	-	-	-	-	2,189	-	-	-	2,189	2018
2015	-	5,102	-	-	-	-	-	-	5,102	2020
2015	-	-	69,697	-	-	-	-	-	69,697	2035
2016	-	-	210,972	-	-	-	-	-	210,972	2036
2016	-	-	-	106,209	-	-	-	-	106,209	Indefinite
2017	-	-	-	-	3,481	-	-	-	3,481	2020
2017	-	-	169,854	-	-	-	-	-	169,854	2037
2017	-	-	-	31,519	-	-	-	-	31,519	Indefinite
2018	25,148	-	-	-	-	83,643	-	28,391	137,182	2028
2018	-	9,504	-	-	-	-	-	-	9,504	2023
2018	-	-	43,294	-	-	-	-	-	43,294	2038
2018	-	-	-	58,976	-	-	-	-	58,976	Indefinite
2018	-	-	-	-	2,051	-	-	-	2,051	202
2019	-	-	-	173,575	-	-	-	-	173,575	Indefinite
2019	-	-	-	-	1,168	-	-	-	1,168	2022
2019	293,882	-	-	-	-	-	4,643	55,404	353,929	2029
Total	\$ 330,262	\$ 18,271	\$ 498,507	\$ 635,870	\$ 10,621	\$ 83,643	\$ 4,643	\$ 83,795	\$ 1,665,612	

\* Tax losses in Brazil do not have an expiry date to be amortized; however, its amortization cannot be more than 30% of the taxable income.

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### Note 27 - Analysis of costs by nature:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
Raw material and production materials purchases	\$ 3,210,929	\$ 3,264,469
Installation costs	314,425	202,796
Direct labor	260,247	295,777
Electrical power	86,749	83,916
Energy (gas)	95,486	86,623
Depreciation and amortization	170,514	236,257
Indirect manufacturing expenses	<u>553,468</u>	<u>503,815</u>
Total	<u>\$ 4,691,818</u>	<u>\$ 4,673,653</u>

### Note 28 - Analysis of operating expenses by nature:

	Year ended on December 31,	
	<u>2019</u>	<u>2018</u>
Salaries and remuneration to employees	\$ 830,932	\$ 823,418
Distribution and logistics	450,450	424,834
Advertising	182,459	194,005
Travel expenses	81,027	80,011
Hired services	214,097	143,163
Commissions	49,144	31,481
Leases	27,470	13,398
Repair and maintenance	60,955	53,286
Depreciation and amortization	168,807	139,117
Fuels and lubricants	10,533	22,620
ESPS <sup>1</sup>	26,513	10,899
Impairment	158,260	-
Other	<u>66,695</u>	<u>241,432</u>
Total expenses	<u>\$ 2,327,342</u>	<u>\$ 2,177,664</u>

<sup>1</sup> In 2019 and 2018, the Company was subject to ESPS, which is calculated applying the procedures established in the ITL. In 2019 and 2018, the Company determined a current ESPS in Mexico of \$48,345 and \$1,783, respectively and a current ESPS in Peru of \$15,286, and \$16,268, respectively.

Current ESPS was allocated in accordance with the type of employee in 2019 in cost of sales and operating expenses by \$37,118 and \$26,513 (2018: \$7,152 and \$10,899).



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## Notes to the Audited Consolidated Financial Statements

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### Note 29 - Finance income and costs:

	Year ended on December 31,	
	2019	2018
<u>Finance income</u>		
Interest earned	\$ 55,707	\$ 58,545
Profit from derivative financial instruments	<u>37,863</u>	<u>48,690</u>
	<u>\$ 93,570</u>	<u>\$ 107,235</u>
	December 31,	
	2019	2018
<u>Finance costs</u>		
Interest expense	(\$ 343,471)	(\$ 282,720)
Cost of derivative financial instruments	(110,025)	(18,538)
Loss in net monetary position	(114,793)	(63,834)
Currency exchange loss	<u>(82,769)</u>	<u>6,961</u>
	<u>(651,058)</u>	<u>(358,131)</u>
	<u>(\$ 557,488)</u>	<u>(\$ 250,896)</u>

### Note 30 - Discontinued operation:

On July 19, 2019 the cash transaction that comprises the sale of the manufacturing assets in the United States of America concluded successfully, the assets comprehended the three roto-molding facilities in California, Texas, and Georgia to focus in the growth of E-Commerce platform. Through the strategic alliance and a definite agreement of the purchase of the assets, with the tank manufacturing leader Tank Holdings Corp., which comprises among other synergies, the continuity of the commercialization of its products, Rotoplas will be able to focus on developing and accelerated growing of the leading electronic platform in water solutions in the United States of America. From the date of the transaction Grupo Rotoplas will no longer be able to commercialize its products in the United States or Canada. The proceedings from the sale reached USD\$40 million (equivalent to \$762,352). As part of the total consideration transferred, there is contingent consideration for an amount equivalent to USD\$4 million (equivalent to \$75,491), such amount is withheld by the seller in guarantee of fulfilling the terms and guarantees of the contract. The first release will be made on July 19, 2020 for the amount of USD\$2 million (MXN\$37,745) and the second release will be on July 19, 2021 for the remaining balance of the restricted cash. From July 19, 2019 on, such transaction is reported in the current period as a discontinued operation.

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The results of the discontinued operation included in the statement of income and other comprehensive income are as follows:

	Year ended on December 31,	
	2019	2018
<u>Loss of the year from discontinued operations</u>		
Net sales	\$ 822,373	\$ 82,299
Cost of sales	<u>394,241</u>	<u>88,299</u>
Gross profit (loss)	428,132	(6,000)
Operating expenses	<u>403,503</u>	<u>73,220</u>
Operating (loss) profit	<u>24,629</u>	<u>(79,220)</u>
Net finance cost	<u>(1,371)</u>	<u>(3,090)</u>
Profit (loss) before income taxes	23,258	(82,310)
Income taxes	<u>231,309</u>	<u>(60,628)</u>
Loss of the year from discontinued operations	<u>(\$ 208,051)</u>	<u>\$ (21,682)</u>
<u>Cash flows from discontinued operation</u>		
Net cash flows from operating activities	(\$ 423,027)	(\$ 43,618)
Net cash flows from investing activities	760,814	900
Net cash flows from financing activities	<u>(1,753)</u>	<u>(3,990)</u>
<u>Decrease (increase) in cash and cash equivalents</u>	<u>\$ 336,034</u>	<u>(\$ 46,708)</u>

a) In the table above in 2019 for administrative purposes the amount of sales includes the price sale of the group of assets of the discontinued operation which represents 92%, of such total, also a book value distribution of the group of assets associated with the discontinuing operation and the 82% of the amount of cost of sales relates to such value. Furthermore the 86% of the operating expenses relate to the such amount and lastly the 86% of the tax expense relates to the sale operation. The whole transaction generated a net loss of \$114,310 equivalent to 54% of the net loss that is shown on the statement of income of the discontinued operation.

### Note 31 - Fideicomiso AAA, commitments, and contingencies:

#### Fideicomiso AAA

The Company owns a trust named Fideicomiso AAA established on March 15, 2007 in order to promote the development of the companies via the operation of a system of preferential financial support for suppliers and distributors. The main purpose is to provide financing in the form of an electronic discount of collection rights eligible under the productive chain arrangement, in both local currency and USD.

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### Commitments:

- a. Brazilian government agencies.

As mentioned in Note 9 Dalka do Brasil signed various contracts with several Brazilian government agencies; as of the date of these consolidated financial statements these contracts are not in compliance or have overdue accounts receivable over 90 days, in this regard the Brazilian Law 8666 allows the temporarily suspension of their execution or, if necessary, their cancellation.

The suspended contracts are as follows:

<u>Contract number</u>	<u>State</u>	2019 Executed <u>percentage (%)</u>	2018 Executed <u>percentage (%)</u>
0.044.00/2013	Brasilia	99	99
0.214/2013	Minas Gerais	100	100
0.213.00/2013	Piauí	80	80
057/2014	Piauí	6	6

### Contingencies:

As of December 31, 2019 and 2018, and at the date of issuance of the accompanying consolidated financial statements, there are no contingencies.

### Note 32 - Business acquisitions:

#### 32.1 IPS

On July 2, 2018 the Company completed successfully the remaining closing acts, completing as such the transaction in which it acquires 100% of the stockholders' equity of IPS in Argentina. IPS is a leading Argentinian company that focused on the manufacturing, distribution and commercialization of water flow solutions with over 4,100 active clients. From this date on, the Company possess control over IPS operation, fulfilling its individual solutions portfolio in Argentina, with trademarks and leading technologies to enhance its region growth.

The details of the net acquired assets and the goodwill are as follows:

Purchase consideration:

<u>Concept</u>	<u>Amount</u>
Fair value of the transferred consideration <sup>1</sup>	\$ 1,046,328
Provisional fair value of the acquired identifiable net assets	<u>(601,175)</u>
Goodwill	<u>\$ 445,153</u>

<sup>1</sup> The total transferred consideration includes restricted cash for an amount equivalent to \$5,500 thousand USD (\$108,302), such amount is currently hold by the former owners in guarantee for fulfilling the contingent consideration obligation and/or in case of any adjustment to the "Performance Guarantee Price". First cash unwind will become effective on December 31, 2020 for an amount of

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USD\$4,125 thousand (\$81,929) and/or the remaining after discounting any adjustment to the Performance Guarantee Deposit. The second cash unwind will become effective on December 31, 2024 for an amount of USD\$1,375 thousand (\$27,309) and a liability for the same amount in other accounts payable was recognized. In 2019 the Company received an amount of \$46,068 due to price adjustments for the performance guarantee, based on the agreement section 5.06 of the contract. As of December 31, 2019 the restricted cash is \$62,234.

Additionally a restatement of \$13,093 was made for the value of the litigations that were open at the moment of the negotiations, in accordance to the section 11.01, point (iv) of the offer of the stock purchase-sale.

Related issuance costs were \$1,780 directly attributable to the stock issuance.

The determined fair values of the assets and liabilities as at the date of acquisition are as follows:

Cash and cash equivalents	\$ 99,781
Account receivables and other account receivables	138,744
Recoverable income tax	8,193
Other recoverable taxes	2,560
Inventory	94,039
Prepaid expenses	3,868
Property, plant and equipment - Net	59,330
Customer loyalty	354,162
Non-compete agreement	3,180
Brand	188,515
Deferred tax asset	4,866
Guarantee deposits	70
Short-term bank loan	(3,062)
Suppliers	(18,339)
Sundry creditors	(20,766)
Payable salaries	(10,291)
Advance payments from clients	(3,405)
Income tax payable	(37,121)
Pending collectable VAT	(1)
Other taxes payable	(19,284)
Sundry payables	(50,712)
Deferred tax liability	<u>(193,152)</u>
Fair value of the net identifiable net assets	<u>\$601,165</u>

Goodwill is generated from the established market in Argentina and the high profitability of the acquired business. Goodwill recognized will be non-deductible for tax purposes.

The acquired entity contributed to the sales of the Group by \$495,250 and to the net profit in \$70,115, during the period that comprises July 1 to December 31, 2018. If the acquisition would have occurred on January 1, 2018, the entity would have contributed to the sales and net profit in \$8,639,442 y \$484,434, respectively.

### Note 33 – Subsequent events:

- Anticipated debt amortization and second issuance of the sustainable bond AGUA 17-2X.

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On February 13, 2020, the Company exercised its right to amortize in advance the certificates in circulation for an amount of \$601,160.

On February 19, 2020, the Company issues for a second time of the bond certificates for an amount of \$1,600,000 at a fixed annual rate of 8.65% with maturity date on June 16, 2027.

#### b) Coronavirus Covid-19

After 2019 period end and as a consequence of the pandemic situation caused by the Coronavirus COVID-19 an economic and financial crisis has emerged globally that could bring some impacts in the future activity of the Company.

Company's Management monitors constantly the evolution of the economic situations, to determine the possible action plans to adopt and identify potential impacts over the equity and financial situation, that should have to be recognized in the financial statements of subsequent periods. As of the date of issuance of these financial statements the Company has begun different initiatives at an operating and financial level to support the battle against the COVID 19 outbreak.

Due to the nature of the products and Company's services, focused in providing solutions to improve the quality and guarantee water access, we expect that our business model shows resilient before the actual pandemic affected environment. All the countries in the world are focused in hygiene as the best way to strike the virus outbreak and Rotoplas is willing to support in this regard with innovative and vanguard products related to water.

At an operating level, the manufacturing plants and activities of each region or country are working on a regular basis, except for Peru, whose operations were fully stopped on March 16, in accordance with the national confinement ordered by the government.

At a financial level, favorable hedge positions were closed (interest rate swap related to the Sustainable Bond AGUA 17-X that was prepaid in February with an over hedging in exchange rate of Mexican Pesos versus US Dollar). With the closing of both positions, the cash position increased MXN\$360 million, providing financial flexibility before this hard situation.

#### **Note 34 - Authorization of issuance of consolidated financial statements:**

The undersigning officers thereto, authorized the accompanying consolidated financial statements and notes for issuance on April 24, 2020.

Carlos Rojas Aboumrad  
Executive President

Mario A. Romero Orozco  
Finance and Administrative Vice-president