

**Significant accounting policies and reporting criteria followed in the preparation of financial information:**

To the Annual Shareholders' General Meeting of Grupo Rotoplas, S.A.B. de C.V.

Pursuant to Article 172 item b) of the General Law of Commercial Companies, this report on the significant accounting policies and reporting criteria followed by Grupo Rotoplas, S.A. B. de C.V. ("The Company") and its consolidated group (collectively the "Group"), is hereby presented for the preparation of financial information:

The following is a summary of the most significant accounting policies used in the preparation of these consolidated financial statements, which have been applied consistently in the prior years presented, unless otherwise specified.

**a) Basis of preparation**

These financial statements consolidated as of December 31st, 2021 and 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Interpretations issued by the IFRS Interpretations Committee (IFRSIC). For such purposes, the historical cost method has been applied for the valuation of items, except for derivative instruments that are measured at fair value, such as land and buildings, financial assets at fair value through results of operations in Argentina, which is considered a hyperinflationary economy in accordance with IFRS 29 "Financial Reporting in Hyperinflationary Economies", expressed in terms of the measuring unit prevailing at the closing date of the reporting period.

The IFRSs require that certain critical accounting estimates be made when preparing the consolidated financial statements. They further require Management to evaluate the appropriateness of the accounting policies to be used by the Group. Items involving a higher degree of judgment or complexity and in which assumptions and estimates are relevant to the consolidated financial statements.

**b) Consolidation**

• Subsidiaries

A subsidiary is a business entity that is controlled by the Company. The Company controls an entity when it is exposed to, 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 on which control ceases.

The Company accounts for business combinations using the acquisition method. The consideration transferred in the acquisition is generally measured at fair value of the net assets acquired, the liabilities assumed, and the capital issued. The consideration for an acquisition also includes the fair value of any contingent consideration receivable or payable as part of the arrangement. Identifiable assets acquired and contingent liabilities assumed in a business combination are generally recognized initially at their fair value at the acquisition date. The company recognizes its non-controlling interests either at the acquiree's fair value at the acquisition date or at the proportionate value of the identifiable net assets of the acquired entity.

Acquisition-related costs are expensed as incurred.

If the business combination is carried out in stages, the carrying amount of the acquirer's previous interest in the acquiree at the acquisition date is adjusted to fair value at the acquisition date, thus recognizing any difference in profit or loss.

Any contingent consideration to be paid by the Company is measured at fair value at the acquisition date.

Intra-company transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated. Unrealized losses are likewise eliminated. Amounts reported by subsidiaries are adjusted to comply with the Company's accounting policies when necessary.

All transactions with non-controlling interest that do not result in a loss of control are accounted for as net equity transactions, that is to say, as transactions with the shareholders in their capacity as such. The difference between the fair value of the consideration paid and the interest acquired in the carrying amount of the net assets of subsidiaries is recorded in net equity. Gains or losses obtained from the sale of non-controlling interest are likewise recorded in net equity.

When the Company loses control or significant influence over an entity, any interest retained in such entity is measured at fair value, recognizing the effect in earnings. Subsequently, such fair value is the initial carrying amount for purposes of recognizing the retained interest as an associate, joint venture, or financial asset, as appropriate. Furthermore, amounts previously recognized in OCI in relation to that entity are written off as if the Company had directly disposed of the related assets or liabilities, which implies that amounts previously recognized in OCI are accordingly reclassified in certain cases. This implies that amounts previously recognized in OCI are reclassified into income in certain cases.

- Associates

Associates are those entities in which the Company has significant influence, but not the control. Generally, the Company holds between 20% and 50% of the voting rights in these entities. Investments in associates are accounted for using the equity method and are initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share in the results of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified at the time of acquisition, net of any accumulated impairment losses.

If the interest in an associate is reduced while retaining significant influence, only the relevant proportion of OCI corresponding to the interest sold is reclassified to profit or loss, if required.

The Company's interest of net profits or losses in associates subsequent to acquisition is recognized in the statement of income, and the interest in OCI of associates is recognized as OCI. These post-acquisition movements are cumulative and adjust the carrying amount of the investment. When the Company's interest of an associate's losses exceeds the carrying amount of its investment, including any receivables recorded by the Company with the unsecured associate, the Company does not recognize such excess losses, unless it otherwise has a legal or constructive obligation to make payments on behalf of the associate.

The Company assesses at the end of each year whether there is objective evidence of impairment in the investment in associates. If any such evidence exists, the amount of impairment is calculated based on the recoverable amount of the associate over the carrying amount, and the related loss is recognized in "Equity in net income of associate" in the income statement.

Unrealized gains arising from transactions between the Company and its associated are eliminated against the investment to the extent of the Company's interest in the associate. Unrealized losses are likewise eliminated, but only to the extent that there is no evidence of impairment. The accounting policies applied by the associate have been modified to ensure consistency with the accounting policies adopted by the Company, where necessary

Profit and losses arising from dilution of investments in associates are recognized in the statement of income.

**c) Financial information by segments**

Financial information by operating segment is presented consistently with the information included in the internal reports provided to the Company's Chief Executive Office for the Company's operating decision making. The Company's management is responsible for allocating resources and evaluating the performance of the operating segments.

**d) Foreign Currency Exchange**

- Functional and presentation currency

The items included in the financial statements of each of the entities comprising the Group are measured in the currency of the primary economic environment in which each entity operates, i.e., its "functional currency". The consolidated financial statements are presented in Mexican pesos, which is the Group's presentation currency.

- Transactions and balances

Transactions in foreign currencies are translated into the respective functional currencies of Company at the exchange rate prevailing at the dates of the transactions or at that of valuation date when items are revalued. Gains and losses from exchange rate fluctuations resulting either from the settlement of such transactions or from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognized in profit or loss, except when required to be included in other comprehensive income (OCI), as in the case of transactions that qualify as cash flow hedges and net investment hedges. Gains and losses from exchange rate fluctuations are presented in the income statement on a net basis under the caption "Financial income and expenses".

Non-monetary items measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Translation differences arising from non-monetary financial assets and liabilities recognized at fair value through profit or loss are recognized in profit or loss as part of the gain or loss in fair value. Translation differences arising from non-monetary financial assets are recognized profit or loss.

- Groups' entities

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

- Assets and liabilities recognized in the statement of financial position are translated at the exchange rate at the closing date of the statement of financial position.
- Revenues and expenses recognized in the statement of income are translated at the average exchange rate of each year (except when such average is not a reasonable approximation of the effect of translating the results at the exchange rates in effect at the dates of the transactions, in which case those exchange rates were used).
- Translation differences arising from non-monetary financial assets are recognized profit or loss.

In consolidation, currency 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 adjustments to assets and liabilities, which arise at the date of acquisition of a foreign operation to measure them at fair value, are recognized as assets and liabilities of the foreign entity and translated at the exchange rate at the closing date. Translation differences are recorded in OCI.

**e) Property, plant and equipment**

Land and buildings mainly comprise production and distribution plants and offices. Land and buildings are shown at fair value, based on valuations done by independent external experts, less subsequent depreciation of the buildings. Valuations are regularly performed (at least every five years) to ensure that the fair value of a revalued assets does not differ significantly from the carrying amount. Any accumulated depreciation at the date of revaluation is written off to the gross carrying amount of the asset and the net amount is restated to the revalued value of the asset. All other property, plant and equipment are measured at historical cost minus depreciation. Historical cost includes expenditures directly attributable to the acquisition of the items.

After the initial recognition, incurred subsequent expenditure is capitalized as either part of it or separately, as appropriate, provided future economic benefits for the Company are probable and the cost can be measured reliably. The carrying amount of replaced components is derecognized. Repair and maintenance expenses are charged to the income statement in the period in which they are incurred.

Increases in the carrying amount from land and buildings revaluation are recognized in other comprehensive income (OCI) and shown as revaluation surplus in shareholders' net equity. Decreases offsetting previous increases in the same asset are charged to other comprehensive income (OCI) directly in the net equity. All other decreases are charged to the profit or loss. All other decreases are charged to the profit or loss.

Depreciation of property, plant and equipment is calculated using the straight-line method, which is applied to the cost of the asset without including its residual value and considering its estimated useful lives, which are as follows:

Years
Buildings 20
Machinery and tools 10
Fixtures and fittings, and computer equipment 3
Motor vehicles 4
Moulds 10
Leasehold improvements 10-12
Treatment plants 15
Solar panels 30

Useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

When the carrying amount of an asset exceeds its estimated recoverable amount, an impairment loss is recognized in order to reduce the carrying amount to its recoverable amount.

When revalued assets are sold, the amounts included in other comprehensive income (OCI) are transferred to retained earnings.

The gain or loss on the disposal of property, plant and equipment is determined by comparing the fair value of the consideration received and the carrying amount of the asset transferred and is presented in the statement of income as part of operating expenses and cost of sales according to the function of the fixed asset.

The revaluation surplus included in net equity related to land and buildings may be transferred directly to retained earnings when such are derecognized. Transfers from revaluation surplus to retained earnings are not made through the income statement.

Leasehold improvements

Improvements and adaptations to properties and commercial premises in which the Company acts as lessee are measured at historical cost less depreciation. Depreciation of improvements is calculated by the straight-line method based on the shorter of the commencement date of the lease and the useful life of the improvements.

f) Intangible assets

- Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquired entity and the acquisition-date fair value of any previously held interest in the acquiree over the fair value of the identifiable net assets acquired. In the case of a bargain purchase, if the total of the consideration transferred, the non-controlling interest recognized and the previously held interest measured at fair value is less than the fair value of the net assets of the acquired subsidiary the difference is recognized directly in the statement of income.

For impairment testing purposes, goodwill arising from a business combination is allocated to each of the Cash Generating Units ("CGU") or groups of CGUs that are expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which goodwill has been allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Impairment reviews of goodwill are performed annually or more frequently if events or changes in circumstances indicate a possible impairment. The carrying amount of the CGU to which the goodwill relates is compared to the recoverable amount, which is the higher of value in use and fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

- Trademarks and licenses

Trademarks and licenses acquired separately are recognized 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 measured at cost less accumulated amortization and impairment losses. Amortization is calculated by the straight-line method over their 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.

Having indefinite useful lives, trademarks are expected to indefinitely contribute to net cash flows and are measured at cost less accumulated impairment losses.

- Computer programs

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

- It is technically feasible to complete the software product so that it shall be available for use.
- completion of the development of the software is intended for its use or sale.
- The software can either be used or sold.
- It is feasible to demonstrate how the software shall bring future economic benefits
- Adequate resources, whether technical, financial or otherwise, are available to complete the development of such computer program to enable its use or sale
- Development expenditure can be measured reliably.

Direct costs that are capitalized as part of computer software include the salaries of the employees who develop the software and the corresponding proportion of the indirectly related costs.

Other development expenditure not meeting the above criteria are expensed as incurred. Development expenditure previously recognized as expense is not recognized as an asset in subsequent periods.

Capitalized software development expenditure is recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method based on their estimated useful lives, provided they do not exceed three years.

- Customer relationships

Customer relationships exist when there has been an uninterrupted number of years, and it is expected that they shall continue to further operate in the foreseeable future and to contribute to the generation of estimable future revenues; customer relationships acquired through a business acquisition are recognized at fair value at the acquisition date. Amortization is calculated using the straight-line method over their estimated useful lives of 30 years and is recognized in expense in subsequent periods.

- Non-competence agreement

The Company has signed a non-compete agreement with the former partners of IPS, corresponding to the legal capacity of Grupo Rotoplas to limit the involvement of the former partners of IPS as competitors; the agreement arises from the acquisition of businesses and its fair value is recognized at the acquisition date. Amortization was calculated using the straight-line method over its 10-year useful life, which corresponds to the term of the contract and is recognized as expenditure in subsequent periods.

- Non-financial assets impairment

Intangible assets having indefinite useful lives, for instance goodwill or trademarks, are not subject to amortization and are tested annually for impairment. Assets subject to amortization are tested for impairment when events or circumstances that indicate that their carrying amount may not be recoverable occur. Impairment losses correspond to the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of assets is the higher of the fair value of the asset less costs incurred for its sale and its value in use. For purposes of impairment assessment, assets are grouped at the smallest levels at which they generate identifiable cash flows (CGU). Non-financial assets other than goodwill that have been subject to impairment are evaluated at each reporting date to identify possible reversals of such impairment.

#### **g) Financial assets**

- Classification

The Group classifies its financial assets as follows:

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

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

For assets measured at fair value (FV), gains and losses shall be recorded in profit or loss or in OCI. For investments in equity instruments that are not held for trading, which shall depend on whether the Group has irrevocably made a decision at initial recognition to record the investment at fair value through OCI.

Debt instruments are reclassified when, and only when, The Group changes its business model for the management of those assets.

- Interest income

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

For financial assets purchased or originated other than credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have become subsequently credit-impaired. For financial assets that have become credit-impaired, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If in subsequent reporting periods the credit risk on the credit-impaired financial instrument improves to the point where that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

- Recognition and measurement

The purchasing and selling of financial assets are recognized on the negotiation date, which is the date on which the Company commits to purchase or sell the asset. Financial assets are derecognized when the right to cash flows from the financial asset is expired or has been transferred and the Company has substantially transferred all the risks and rewards of ownership.

Initial recognition of the financial assets is fair value plus transaction costs, except when such financial assets are measured at fair value through profit or loss, which are initially recognized at fair value and transaction costs are recognized as an expense in the income statement. There are three measuring categories according to which the Company classifies its debt instruments:

**Amortized cost:** the assets measured at amortized cost held for collection of contractual cash flows where such cash flows represent solely payments of principal and interest. Interest income from these financial assets is included in financial 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.

**FV-OCI Assets** held for the collection of contractual cash flows and for purchase of financial assets, when such cash flows represent only payments of principal and interest, are measured at fair value through other comprehensive income (FV-OCI). Changes in the carrying amount are recognized 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 a 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 such financial assets is included in financial income using the effective interest rate method. Currency exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as a separate line item in the income statement.

**FV-results:** Any assets not meeting the amortized cost criteria are measured at fair value through profit or loss. A gain or loss on a debt instrument that is subsequently measured at fair value through profit or loss is recognized in profit or loss and presented on a net basis in other gains/(losses) in the period in which it arises.

#### **h) Financial instruments offsetting**

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, there is a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously. Such legally enforceable right must not be contingent on future events and must be enforceable only on the occurrence of future events such as a default insolvency or bankruptcy of either the Company or the counterparty.

**i) Impairment of financial assets**

- Financial assets at amortized cost

The Company uses the 3-stage model, considering the results of the evaluation of the portfolio performance. These changes are intended to determine the effects and macroeconomic factors affecting the ability of customers to settle their accounts, for which the Company considers the current and reasonable forecasting information available.

During 2021 the Company performed the administrative procedures for the recovery of the account receivable with the Brazilian entities, derived from this the Company has considered not to apply any allowance for impairment.

**j) Derivative financial instruments and hedging activities**

Derivative financial instruments are recognized on the date on which the respective contract was executed and are initially and subsequently measured at fair value. The classification of the gain or loss derived from changes in the fair values of these instruments, in profit or loss for the year or ORI, shall depend on whether they are designated as hedging instruments or not, as well as the nature of the hedged item, if applicable.

At the inception of the transaction, the Company documents the relationship between the hedging instruments and the hedged items, the objectives, and the risk management strategy behind its hedging transactions. The Company regularly documents whether the derivative financial instruments used in hedging transactions are indeed effective in hedging the cash flows of the hedged items.

The Company likewise entered into foreign currency forward contracts in connection with forecasted purchases over the next 12 months that qualify as "highly probable" forecasted transactions and, therefore, qualify for hedge accounting (economic hedges). Foreign currency forwards are subject to the same risk management policies as are all other derivative contracts.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is greater than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Negotiable derivatives are classified as current assets or liabilities.

When a derivative financial instrument expires or if it no longer qualifies for hedge accounting, the cumulative gain or loss in net equity at that date is recognized in the consolidated statement of comprehensive income.

The effective portion of changes in the fair value of derivatives designated and qualify as cash flow hedges are recognized in other comprehensive income.

Financial instruments not qualifying for hedge accounting are recognized at fair value through profit or loss.

It is the Group's policy to recognize transfers into or out of fair value hierarchy levels by the end of the reporting date

The fair value of financial instruments not traded in an active market, such as hedging instruments, is determined using valuation techniques that maximize the use of observable inputs and relies as little as possible on entity-specific estimates. When all relevant factors for establishing the fair value of a financial instrument are observable, such an instrument is included in level 2.



Specific valuation techniques for foreign currency hedging instruments represent the current value of future cash flows at the exchange rate as of the date of financial position statement.

**k) Inventories**

Inventories are recognized at cost or at the net realizable value, whichever is lower, controlled through the standard cost method, which is adjusted at the end of each month to determine 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 plant's regular operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

This cost includes reclassifications from equity of any gain or loss on cash flow hedges related to raw material purchases, but excludes borrowing costs

**l) 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.

**m) Guarantee deposits**

Guarantee deposits relate to disbursements made to secure the Company's commitments assumed under certain agreements (mainly related to leased property). Guarantee deposits, whose recoverability shall take place in a period of over 12 months, are recognized at their amortized cost using the effective interest rate method. Guarantee deposits to be recovered over a period of less than 12 months are not discounted.

**n) Cash and cash equivalents**

In the consolidated cash flows statement, cash and cash equivalents include 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 considerably low risks of changes to their values. Short-term highly liquid investments with maturities of three months or less are invested in bank debt securities and government bonds.

**o) Cash restrictions**

The cash and cash equivalents, whose restrictions cause the definition of cash and cash equivalents not to meet the aforementioned, are 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.

**p) Net equity**

- Capital stock

The Company's common shares are classified as capital stock within the net equity and is measured at historical cost. Incremental costs directly attributable to the issuance of new shares or options are shown in the net equity as a deduction from the amount received, net of taxes.

- 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.

- Statutory reserve

According to the General Law of Commercial Companies, a 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.

- Retained earnings

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

- 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 the net equity and do not qualify as capital contributions, equity reductions or distributions.

- Treasury shares

The Shareholders' Meeting may occasionally authorize disbursements of a maximum limit to acquire own shares. When an entity's own shares are repurchased, they become treasury shares. The related consideration paid, 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 written-off or reissued. When such 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 buyback fund balance for buying own shares.

#### **q) Accounts payable**

Accounts payable refers to obligations to pay for goods or services that have been acquired in the ordinary course of business the Company's operation. When accounts payable are expected to be paid in a one-year period or less from the closing date, they are presented in current liabilities. Unless the aforementioned is met, they are presented in non-current liabilities.

Subsequent to initial recognition at fair value, Accounts payable are measured at amortized cost using the effective interest method.

#### **r) Financial liabilities write-offs**

The Company derecognizes financial liabilities if, and only if, the Company's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Company trades a debt instrument with the existing lender into another instrument with substantially different conditions, such a trade is deemed as termination of the original financial liability and a new financial liability is recognized. Similarly, the Company considers a substantial modification of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is therefore assumed that the terms are substantially different if the present value of the discounted cash flows is under the new terms, including any

net fee paid of any received tariff and discounting utilizing the original effective rate, is at least 10% different from the discounted present value of the cash flows remaining of the original liability. If such a modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after the modification both should be recognized in profit or loss as the gain or loss on modification within other gains and losses.

**s) Loans**

Loans are initially recognized at fair value, net of related costs incurred, and subsequently recognized at amortized cost. Any difference between the proceeds received (net of related costs incurred) and the redemption value is recognized in the income statement over the term of the loan using the effective interest rate method.

Fees incurred to obtain the loans are recognized as transaction costs to the extent that it is probable that some or all of the loan shall be received. In this case, the fees are deferred until the loan is received.

Loans are classified as current liabilities unless the Company has an unconditional right to defer payment of a liability for at least 12 months after the reporting period.

**t) Loan costs**

General or specific loan costs that are directly attributable to the acquisition, construction, or production of qualifying assets for which an extended period (more than one year) is required to bring them to the condition necessary for their use or sale are capitalized as part of the cost of those assets.

Other loan costs are recognized as incurred or accrued in the statement of income.

**u) Government grants**

Government grants are not recognized until there is reasonable assurance that the Company shall comply with the related conditions and that the grants shall indeed be received.

The benefit of a government loan at a below-market interest rate is considered the same as a government grant and is measured as the difference between the funds received and the fair value of the loan based on prevailing market interest rates.

**v) Current and deferred income tax**

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

The current income tax 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. Management periodically evaluates positions taken in tax return filings in regard to situations in which applicable tax regulation is subject to interpretation. The Company acknowledges provisions where appropriate based on amounts expected to be paid to the tax authorities.

In every subsidiary, deferred income tax is recognized using the asset and liability method on the temporary differences arising from comparing the book and tax values of all the Company's assets and liabilities. However, deferred income tax is not recorded if it arises from the initial recognition of an asset or liability in a transaction that does not correspond to a business combination that at the time of the transaction affects neither accounting nor taxable income or loss.

Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at year-end and are expected to be applied when the deferred income tax asset is realized, or the liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profits shall be realized against which the temporary differences can be utilized.

Deferred tax liabilities arise on temporary tax differences arising from investments in subsidiaries, associates, and joint ventures, except for deferred tax liabilities when the reversal of the temporary difference is controlled by the Company and it is unlikely that the temporary difference shall reverse in the foreseeable future. Generally, the Company is not in a position to control the reversal of temporary differences for associated companies. Only when there is an agreement that gives the Company the ability to control such a reversal, temporary differences are not recognized.

**w) Employee benefits**

- Pension plan and seniority benefits

The Company operates pension and seniority premium plans generally funded through payments to funds administered by trusts, based on annual actuarial calculations. The Company has a defined benefit pension plan, which defines the amount of pension benefits an employee shall receive upon retirement, which usually depends on one or more factors, including the employee's age, years of service and compensation.

The liability or asset recognized in the consolidated statement of financial position in regard to defined benefit pension plans is the present value of the benefit obligation established at the date of the consolidated statement of financial position along with adjustments for unrecognized remeasurements of the defined benefit liability (net) and past service costs, which are recognized directly in the consolidated income statement.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated cash flows using interest rates of high-quality corporate bonds in absolute terms in a deep market. And, if not, should take as a reference the market rate of bonds issued by the government denominated in the same currency in which the benefits shall be paid, and which have maturity terms nearing the terms of the pension obligation.

Remeasurements of the net defined benefit liability arising from experience-based adjustments and changes in actuarial assumptions are charged or credited to net equity in other comprehensive income in the period in which they arise.

In Mexico, such plans generally expose the Company to actuarial risks, such as investment risk, interest rate risk, longevity risk and salary risk, as follows:

**Investment risk:** The expected rate of return for the investment funds is equivalent to the discount rate, which is calculated using a discount rate determined by reference to long-term government bonds; if the return on assets is less than such rate, this shall create a deficit in the plan.

**Interest rate risk:** A decrease in the interest rate shall increase the plan's liability; rates volatility depends exclusively on the economic environment.

**Longevity risk:** The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan's beneficiaries. An increase in the life expectancy of the beneficiary shall increase the liability.

**Salary risk:** The present value of the defined benefit obligation is calculated by reference to the future salaries of the beneficiary. Therefore, an increase in the expected salary shall increase the plan's liability

- Termination benefits

Termination benefits are paid when the employment relationship is terminated by the Company before the regular retirement date or when an employee voluntarily agrees to the termination of their employment relationship in exchange for these benefits. The Company recognizes termination benefits on the earlier of the following dates: a) when the Company can no longer withdraw the offer of said benefits, and b) when the Company recognizes the costs for a restructuring that is within the scope of IAS 37 "Provisions, contingent liabilities and contingent assets" and entails the payment of termination benefits. In the event that there is an offer that promotes the voluntary termination of the employment by the employees, the termination benefits are determined based on the expected number of employees who are expected to accept such offer. Benefits to be paid in the long term are discounted at their current value.

- Other officers' 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.

- Equity-Referenced Units

The Company operates a compensation plan, where the entity receives services from its employees in exchange of Referred Value Units ("UVR", for its Spanish acronym). 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. an 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 to hold shares for a specific period).

At the end of each period, the Company reviews its estimates of the number of UVRs that are expected to be vested based on the non-market vesting and service conditions. The impact such a review to the original estimate, if any, is recognized in profit or loss.

Additionally, in some circumstances employees may provide the services before the grant date and, therefore, the fair value at the grant date is estimated to 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 RVU itself; and the charges are considered as cash-settled shares.

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

The Company recognizes a liability, a gratifications expense, and ESPS based on a calculation that accounts for the profit attributable to the Company's shareholders after certain adjustments. The Company recognizes a provision when it is contractually bound or when there is past practice that generates an obligation assumed.

#### **x) Provisions**

Provisions are recognized when the Company has a present legal obligation or an obligation assumed as a result of past events, it is probable that an outflow of resources shall be required to settle such an obligation and the amount can be reasonably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow shall 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 regarding any one item included in the same class of obligations is low.

Provisions are measured at the present value of expenditures expected to be required to settle such an 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.

#### **y) Revenue recognition**

Revenue represents the amount of the consideration to which the Company expects to be entitled in exchange for the sale of goods or the rendering of services transferred in the normal course of the Company's operations. Revenue is stated net of rebates and discounts granted to clients.

Under the IFRS 15 method, the Company recognizes revenue once these steps are followed:

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

The Company considers the following concepts as performance obligations:

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

The Company manufactures and sells a broad variety of goods in the wholesale market. Sales of such products are recognized when the Company has delivered the products to the customer, who has the right 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 outstanding obligation to be met by the Company, which could result in the return or rejection of products.

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

Such 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 corresponding 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. Since the credit term is 7 to 60 days, consistent with market practices, it is not considered that financing is being offered to customers as a separate component of a sales transaction.

An account receivable is recognized once the goods are delivered, for that is the point in time in where the retribution is unconditional, hence, it is only a matter of time before the payment is collected.



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 lifelong term guarantee to its customers and/or end consumer for buying the “beige water-tanks” [Tinaco Beige], historically there have only been a handful of cases in which the client has exercised their guarantee right for such product and no estimate is recognized for it.

- Revenue from sales of products (recipients, plastic accessories, and other accessories) (retail)

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

Retail consideration payments are generally made in cash or by credit card. The Company offers these customers the right of return for a period of 30 days and does not have loyalty programs.

- Revenue from drinking fountain installation

The Company provides school water fountain installation services. Revenue is recognized upon completion of installation of water fountains and once the customer is completely satisfied with the installation. A 10% advance payment is requested at the beginning of the contract and is considered as a contractual liability.

- 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. In that regard, such revenue is recognized in the accounting period in which such services are rendered, for reference to the stage of completion of a specific transaction, and it is evaluated on the basis of actual services provided as a percentage of all services that shall be rendered.

- Revenue from lease of treatment plants

The Company leases water treatment plants, agreed upon 10-year fixed terms. The agreed terms with the client stipulate that the Company shall continue to bear ownership of the treatment plants, as well as the risks and benefits of such property, when the contract expires and as such, these leases are classified as operating leases.

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. Separation of the considerations received between the components lease components was not necessary.

- Dividend income

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

- E-Commerce revenue

The Company has developed an electronic platform to sell products online in the USA. 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.

## **z) Leases**

The Company leases several properties and vehicles. Lease agreements are typically made for fixed periods of 2 to 6 years but may have extension options. Lease terms are negotiated on a case-by-case basis and contain a wide array of

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 interest rate 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 derecognized 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 cost

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

#### Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Group. Such 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 equipment leases. No restrictions or covenants are to be complied with for leases in force as of December 31st, 2021 and 2020.

#### **aa) Dividend distributions**

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 shareholders and the right to receive this payment is established. In order for dividends to be paid (which are discounted from retained earnings), the Company uses the separate financial statements prepared in accordance with IFRS for statutory purposes.

#### **ab) 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 accounting year.

The calculation of diluted earnings per share is based on the profit attributable to ordinary shareholders and weighted-average number of ordinary shares between 2021 and 2020 decreasing such average of such potentially dilutive shares.

#### **ac) Financial statements restatement**



Over the last few years, 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%. For that reason 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 hyperinflationary. IAS 29 requires adjusting 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 in Argentinian peso as their functional currency are stated, for restatement procedures. The detailed table of such indexes shall be published monthly by the FACPCE.

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

Amounts corresponding to non-monetary items in each statement of financial position that are not measured at the date of the statement of financial position at fair value or net realizable value, as appropriate, are restated by applying to their historical cost the change in a general price index from the date of acquisition or the date of their last measurement at fair value through the date of the statement of financial position:

- The amounts related to monetary items in the statement of financial position, are not restated.
- Equity elements of each statement of financial position are restated:
  - 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 in which the items were issued to the date of restatement. Restated retained earnings arise from 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, and 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 by applying the following procedures:

- a. All amounts (i.e., assets, liabilities, equity items, expenses, and revenue) shall be translated at the closing exchange rate as of the closing date of the most recent statement of financial position,
- b. Comparative figures shall be those presented in the preceding year in the statement of financial position of (i.e., the amounts shall not be adjusted for any subsequent variations in which they have occurred at the price level or exchange rates).

On March 3, 2020, the IFRS Interpretations Committee ratified its agenda decision regarding the translation of a hyperinflationary foreign operation (IAS 21 and IAS 29) and the Company has chosen to present the hyperinflation and presentation currency translation effects in the translation effect of foreign entities because the entity deems that the combination of both effects meets the definition of foreign exchange difference in accordance with IAS 21.

Carlos Roberto Rojas Mota Velasco  
Chairman of the Board of Directors  
Grupo Rotoplas, S.A.B. de C.V.