





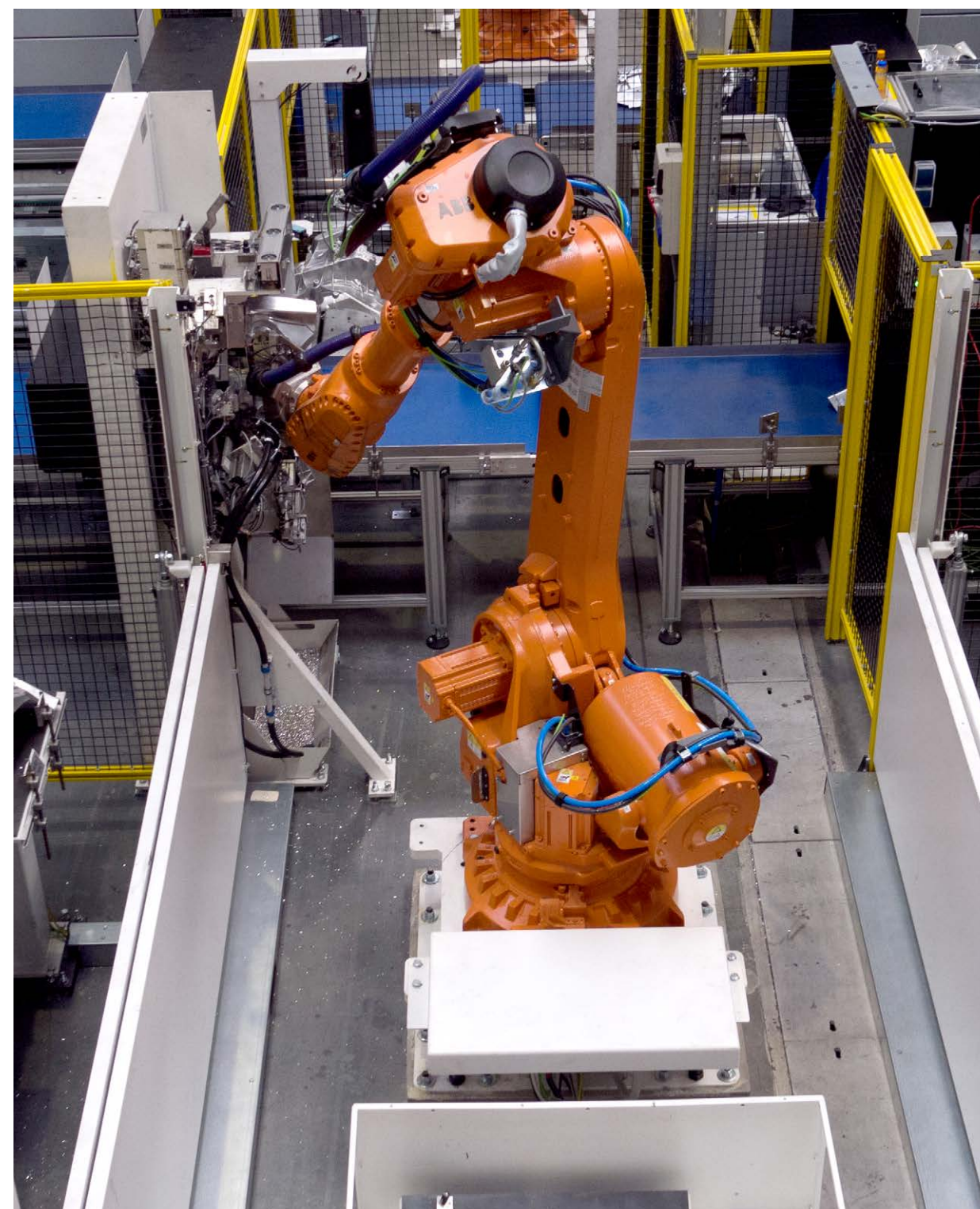
GRI Standards: 102-1, 102-7

NEMAK IS A LEADING PROVIDER OF INNOVATIVE LIGHTWEIGHTING SOLUTIONS FOR THE GLOBAL AUTOMOTIVE INDUSTRY, SPECIALIZING IN THE DEVELOPMENT AND MANUFACTURING OF ALUMINUM COMPONENTS FOR POWERTRAIN AND BODY STRUCTURE APPLICATIONS. AS OF 2017, THE COMPANY EMPLOYED MORE THAN 22,000 PEOPLE AT 38 FACILITIES WORLDWIDE AND GENERATED REVENUES OF US \$4.5 BILLION.

FOR MORE INFORMATION ABOUT NEMAK,  
VISIT [WWW.NEMAK.COM](http://WWW.NEMAK.COM)

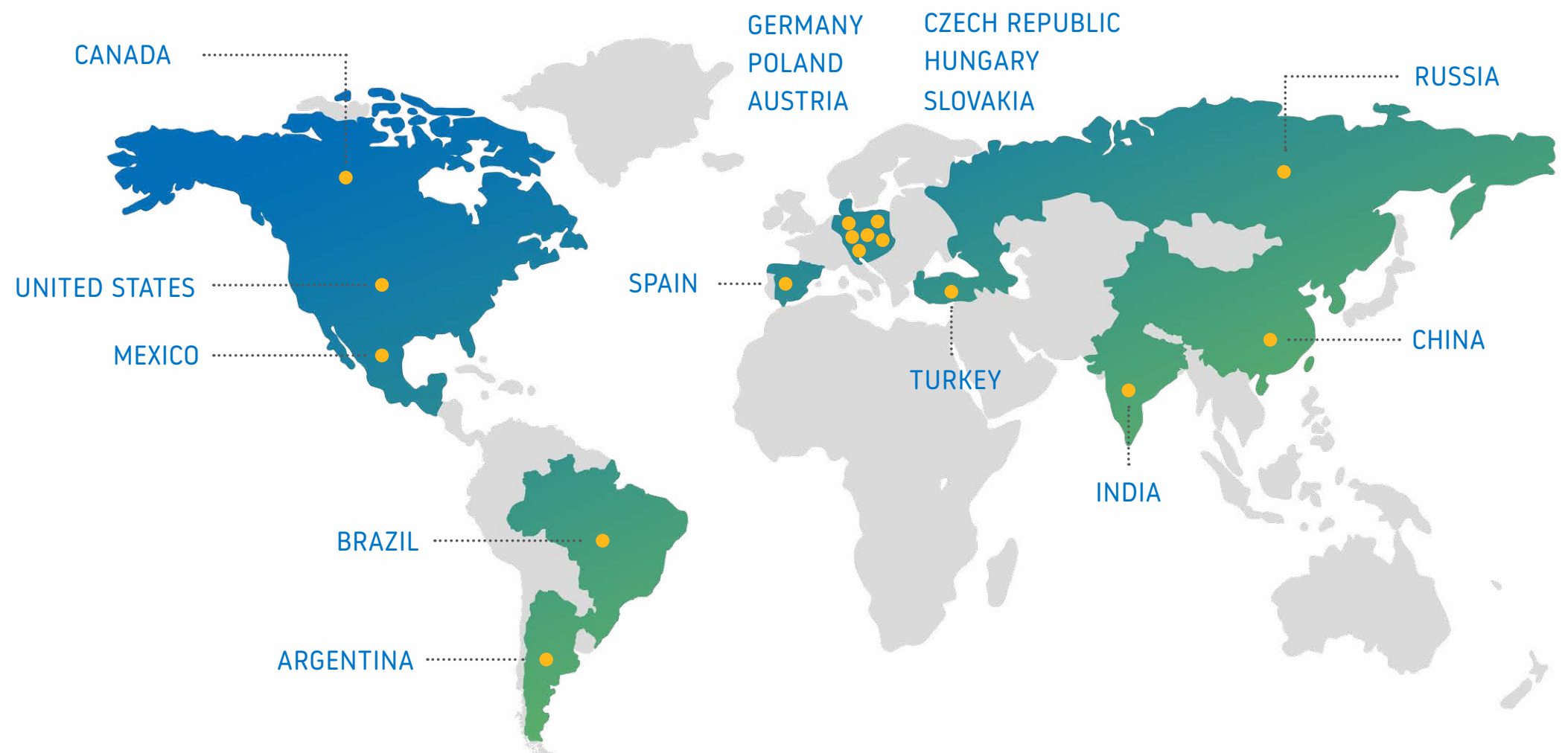
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# NEMAK AT A GLANCE

GRI Standards: 102-4, 102-6

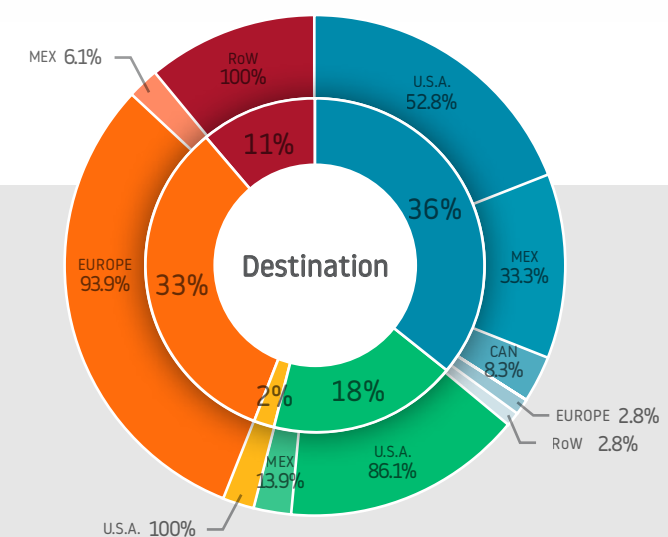
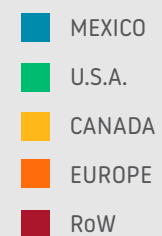


## Revenue Breakdown



## Revenue Composition(%)

### Production





# PRODUCT PORTFOLIO

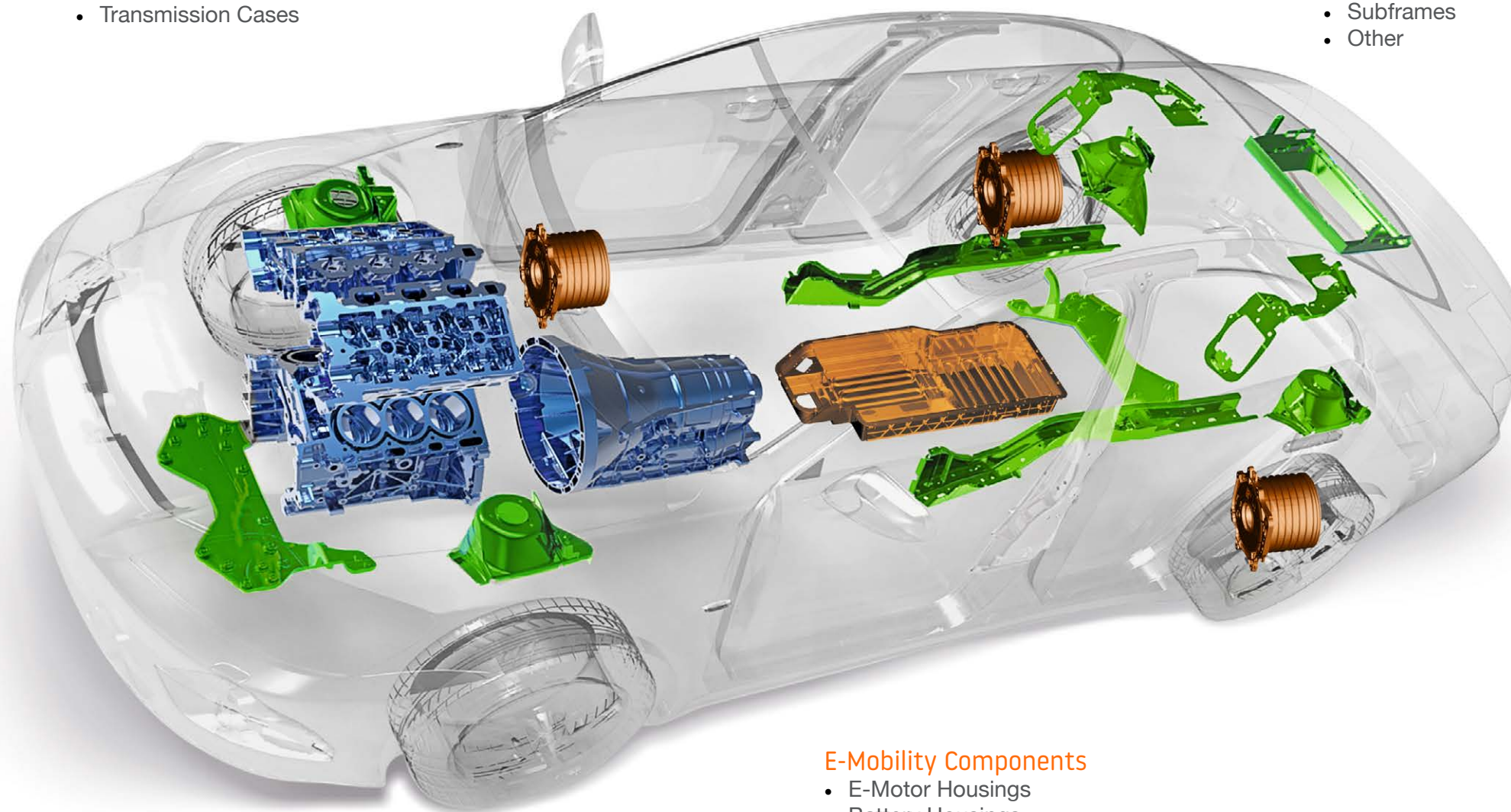
GRI Standard: 102-2

## Powertrain:

- Cylinder Heads
- Engine Blocks
- Transmission Cases

## Vehicle Structures

- Longitudinal Members
- Shock Towers
- Subframes
- Other



## E-Mobility Components

- E-Motor Housings
- Battery Housings
- Other E-Engine Components



## Volume

millions of equivalent units



## Total revenues

millions of U.S. dollars



## EBITDA

millions of U.S. dollars



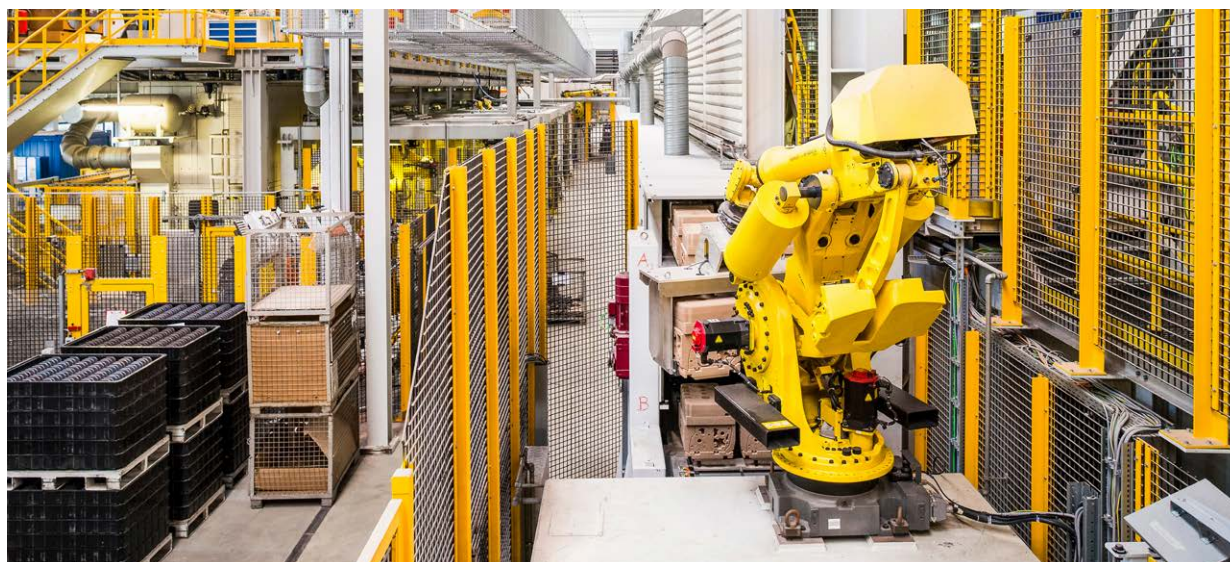
# FINANCIAL HIGHLIGHTS

GRI Standard: 201-1

EXPRESSED IN MILLIONS OF U.S. DOLLARS	2017	2016	CHANGE%
Volume (million equivalent units)	49.9	50.1	(0.4)
Total revenues	4,481	4,257	5.3
Gross profit	685	748	(8.4)
Sales & administrative expenses	(308)	(267)	15.4
Other income (expenses) net	(7)	(12)	(41.7)
Operating income	370	469	(21.1)
Interest expenses	(82)	(67)	22.4
Interest income	22	3	NA
Foreign exchange (loss)	(43)	(11)	NA
Financing expenses net	(103)	(75)	37.3
Participation in associates results	3	3	-
Income tax	(78)	(105)	(25.7)
Net income	192	292	(34.2)
EBITDA <sup>(1)</sup>	715	798	(10.4)
CAPEX	433	541	NA
Net debt	1,271	1,262	0.7

<sup>(1)</sup> EBITDA = Operating income + depreciation and amortization + non-recurring items





# LETTER TO SHAREHOLDERS

GRI Standards: 102-14, 102-15

## DEAR SHAREHOLDERS,

In 2017, Nematik reinforced its foundation for growth across its product lines, investing in technology, infrastructure, and human capital, which will enable it to support its customers' efforts to improve vehicle efficiency and meet increasingly stringent emissions and fuel economy targets in the coming years.

The automotive industry had a positive year at the global level, with the European, Asian, and South American markets performing well while North America recorded a slight decline.

The European market benefited from favorable macroeconomic conditions while in China the market maintained an upward trend, reaching another record year in light vehicle sales. Meanwhile, the South American market grew thanks to economic recovery in Brazil. Regarding the U.S. market, light vehicle sales remained above the 17 million figure in 2017, close to all-time-high levels.

Revenues increased 5% in 2017 to US\$4.5 billion mainly driven by higher aluminum prices. Volume was 49.9

million equivalent units, a slight decrease from 2016. Lower demand in the North American market was offset almost entirely by growth in the Europe and Rest of World regions. EBITDA for the year was US\$715 million, down 10% from 2016, due mainly to a combination of the normal time lag in transferring aluminum price increases to customers and higher expenses associated with new program launches.

Net income was US\$192 million in 2017, a 34% decrease from 2016, which resulted in earnings per share of Ps 1.20<sup>1</sup>. During the year, Nematik paid US\$171 million in dividends to shareholders.

Capital expenditures totaled US\$433 million. Resources were invested to strengthen Nematik's powertrain business as well as to grow its new structural and electric vehicle components (SC/EV) business.

Turning to its balance sheet, Nematik's net debt increased by US\$9 million in 2017 for a total of US\$1.3 billion at year's end. At the end of 2017, its net debt-to-EBITDA ratio was 1.78 times.



**ARMANDO GARZA SADA**  
Chairman of the Board

**ARMANDO TAMEZ**  
CEO

<sup>1</sup> This result was calculated based on 3,080,747,324 shares.



On the financing front, Nematik secured a seven-year, EUR500 million bond at 3.25% in March 2017, enabling it to prepay shorter-maturity debt. Additionally, this bond issue helped to better match Nematik's currency exposure with its cash flows, and to further diversify its sources of funding. This was followed by the placement of a new seven-year, US\$500 million bond at 4.75% in January 2018, the proceeds from which are being used to prepay another bond in the same amount which is due in 2023.

With these two bond issues, Nematik lowered its financial costs and extended the average life of its debt from 3.9 to 6.1 years, thereby reinforcing its financial position. As of the date of this report, the three major rating agencies—Moody's, Standard & Poor's, and Fitch—give Nematik's debt a rating one notch below investment grade or Ba1, BB+, and BB+, respectively. Furthermore, Nematik has a positive outlook from two of the three main rating agencies and a stable outlook from the other one.

During 2017, Nematik reached key milestones in the implementation of its business strategy, which focuses on providing lightweighting solutions for the automotive industry. These included winning important new programs in all the regions where it operates; creating a new global organization fully dedicated to the technical and commercial development of its SC/EV business;

and achieving breakthrough innovations that will allow it to continue to support the industry with new lightweighting alternatives.

Nematik made strides in strengthening its global footprint, beginning series production in two new facilities featuring high-pressure die casting (HPDC) technology—one in Slovakia, the other in Mexico. Moreover, it successfully brought on stream its new SC/EV business, launching seven new programs in this segment while advancing the development of three others. In 2017, Nematik's revenues in this segment were approximately US\$100 million.

Nematik also opened up new growth avenues within its SC/EV business. This included winning new programs to produce battery housings for OEMs in North America and to provide structural components with sub-assemblies for a European OEM. It also won its first-ever program in the segment for a customer in China. The company's order book in this business currently comprises new programs worth approximately US\$320 million in annual revenues.

Additionally, Nematik completed the ramp-up of its dedicated machining facility in Mexico, enabling it to provide more value-added services to its customers.







Nemak currently performs in-house machining on 56% of its total production, remaining on track to meet its goal of 70% in-house machining by 2020.

Nemak received several awards in the year for its successful development of new technologies and processes for the industry. Together with its customer FCA and Oak Ridge National Laboratory, Nemak was selected as a winner of the 2017 R&D 100 Awards in the U.S. for the co-development of a new high-temperature aluminum alloy. It was also recognized for the development of its proprietary Rotacast® aluminum casting process for high-performance engine blocks, which resulted in its nomination as a finalist for the 2018 Automotive News Pace Awards (the winners will be announced this coming April). Moreover, Nemak received special recognition for quality and performance from its OEM customers Changan Ford, Fiat Chrysler Automobiles, Jaguar Land Rover, and Tata Motors.

During the year, Nemak was awarded new contracts across all product lines totaling approximately US\$830 million in annual revenues.

The company also made progress in its initiatives to support its employees' personal and professional development, implementing nearly 200 health and safety programs throughout its regions. This included organizing its first-ever Health, Safety and Environment week

at the global level, underscoring its commitment to work towards a healthier and safer workplace through the involvement of all its employees.

In summary, in 2017 Nemak made substantial progress towards capitalizing on emerging industry trends—in particular, vehicle lightweighting and electrification—to lay a stronger foundation for future growth.

On behalf of the Board of Directors, we would like to reaffirm the strong potential we see for Nemak in a lighter, greener automotive industry, and to express our sincere gratitude for the contributions of all the company's stakeholders towards making this vision a reality.

*San Pedro Garza García, N.L. Mexico,  
January 31, 2018*

**Armando Garza Sada**  
Chairman of the Board of Directors

**Armando Tamez Martínez**  
Chief Executive Officer



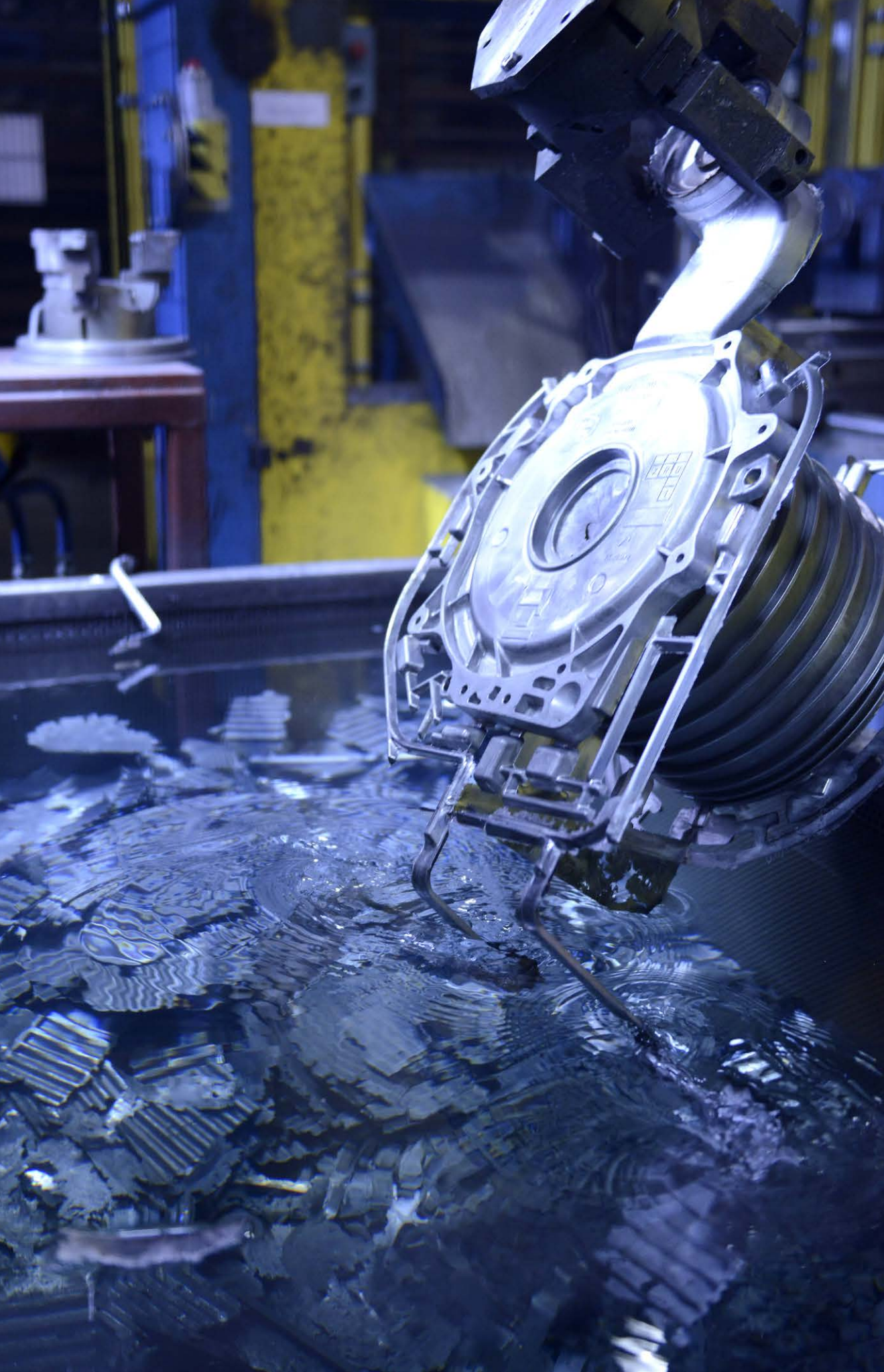


## INDUSTRY TRENDS

In 2017, Nemak conducted a detailed review of its strategy looking ahead to 2025, in order to identify the most relevant risks and opportunities that current automotive industry trends offer the company.

*GRI Standards: 102-15, 201-2*





## The main conclusions were as follows:

1. Technological innovations will allow the internal combustion engine (ICE) to maintain a relevant position in the marketplace at least for the next ten to fifteen years, helping OEMs to comply with increasingly stringent emissions and fuel efficiency regulations.  
Nemak has a leading position in the market for ICE components thanks to its broad, diversified technology portfolio and its ample experience in successfully launching high value-added applications across its global footprint.
2. OEMs will continue seeing lightweighting as one of their main avenues for improving vehicle efficiency and performance. Aluminum, alone or in conjunction with other materials, will remain a key lever for reducing weight in structures, bodies and other auto components.

3. The growing presence of electrified vehicles in the marketplace will drive an increased use of aluminum in vehicles, which is a singular opportunity for Nemak to step up its content-per-vehicle. To illustrate this point, whereas the dollar value of Nemak's products in a traditional ICE vehicle presently ranges between US\$450 and US\$500, in a hybrid vehicle, the value is between US\$480 and US\$580. And, the value of components currently produced by Nemak is estimated at US\$550-US\$700 in battery electric vehicles, due to the need to reduce weight to optimize their range.

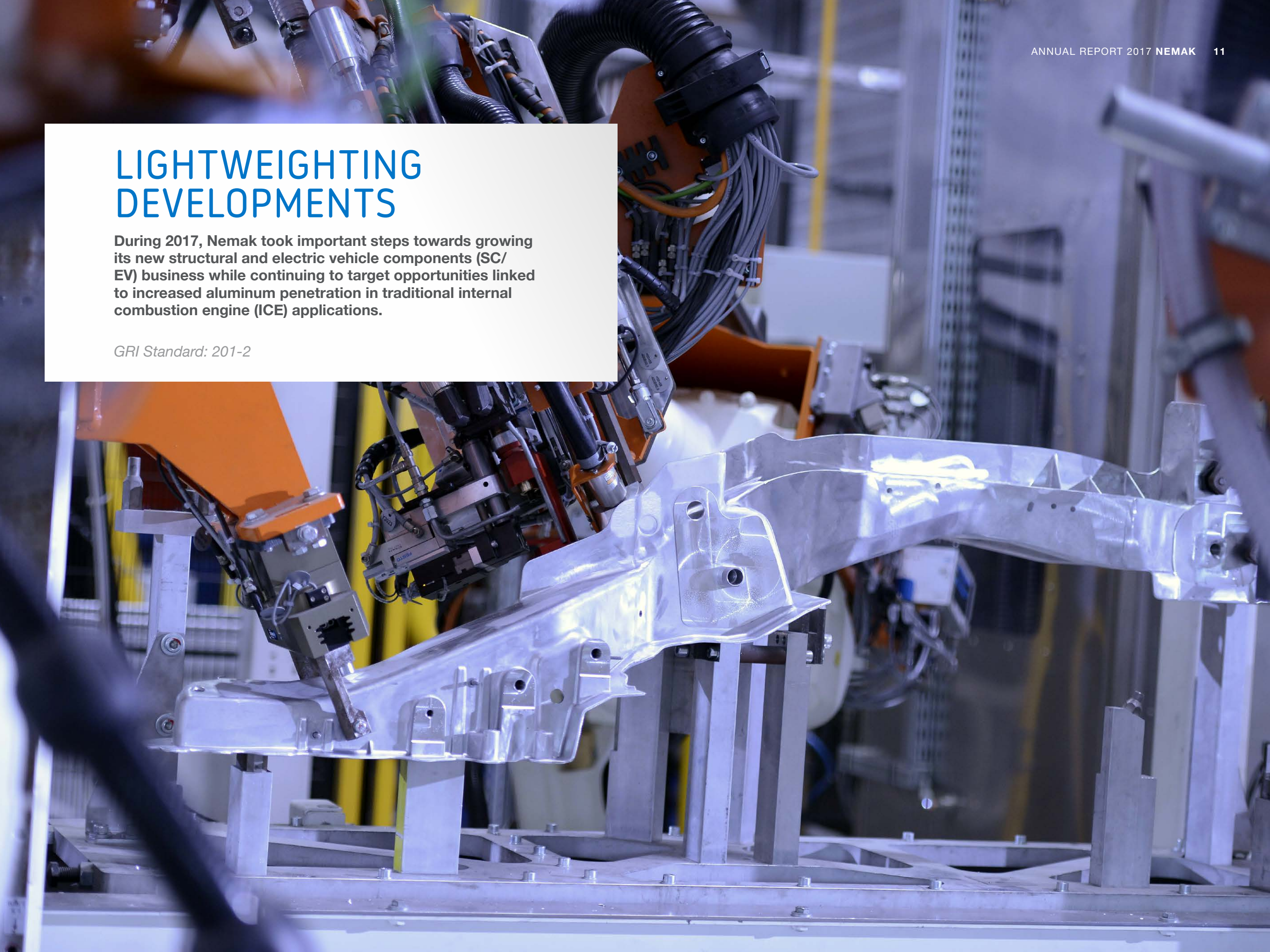
Based on these conclusions, Nemak will seek to maximize its core powertrain business, focusing on efficiency and cash flow. At the same time, it will continue to invest in its structural and electric vehicle components business in order to rapidly and profitably capture an important share of this new, developing segment.



## LIGHTWEIGHTING DEVELOPMENTS

During 2017, Nematik took important steps towards growing its new structural and electric vehicle components (SC/ EV) business while continuing to target opportunities linked to increased aluminum penetration in traditional internal combustion engine (ICE) applications.

*GRI Standard: 201-2*





Reinforcing its global footprint, Nemak started series production at two new facilities featuring high-pressure die casting (HPDC) technology: one in Slovakia, where it will focus primarily on battery housings and structural components; and the other in Mexico, where it will produce engine blocks, transmission housings, and structural components.

HPDC is a prime example of how resources and know-how that are instrumental to Nemak's base powertrain business can also serve as a foundation for excellence in the company's new SC/EV business. HPDC is ideal whenever high reliability, reproducibility and high productivity are needed. The process enables casting thin-walled, lightweight components and is well suited for high volumes. It also provides high ductility and static tensile strength, ensuring the component meets crashworthiness requirements—a critical criterion for shock towers, longitudinal members, and battery housings, among other SC/EV components.

While most of Nemak's contracted SC/EV business today is with HPDC, all of its main casting processes in its base ICE business have proven applications within its SC/EV segment. In particular, alternatives such as low pressure die casting or the company's patented core package system (CPS®) are well suited for applications requiring higher design flexibility and high integration with electric systems, such as complex battery housings and e-motor housings.

But Nemak's broad technology portfolio is also buttressing its base business. In the coming years, the company expects to see growth in ICE powertrain in its

Europe and Rest of World regions on the back of incremental programs to produce higher value-added engine blocks. According to industry experts, these markets are expected to account for the majority of global growth in aluminum penetration in engine blocks going forward.

In 2017, Nemak fully scaled up its first seven SC/EV programs, which are supplying new model vehicles for Alfa Romeo, BMW, Daimler and Volkswagen Group. Six of these programs are being served out of its European operation, and one out of its North America operation. In total, these seven programs accounted for approximately US \$100 million in revenues.

Moreover, it continued building up new dedicated teams and resources to support its SC/EV segment. This included expanding its engineering team based in Frankfurt as well as growing its operation in Bavaria, Germany, where it currently performs high value-added secondary processes—including assembly, joining, riveting, and welding—on SC/EV applications.

As of the date of this report, Nemak's total order book in SC/EV was worth approximately US\$320 million in annual revenues, with programs in Europe accounting for nearly 75% of the total and the rest divided between North America and Asia. Meanwhile, the company was quoting new SC/EV programs worth approximately US\$500 million in annual revenues.



HPDC is a prime example of how resources and know-how instrumental to Nemak's base powertrain business can also serve as a foundation for excellence in the company's new SC/EV business.

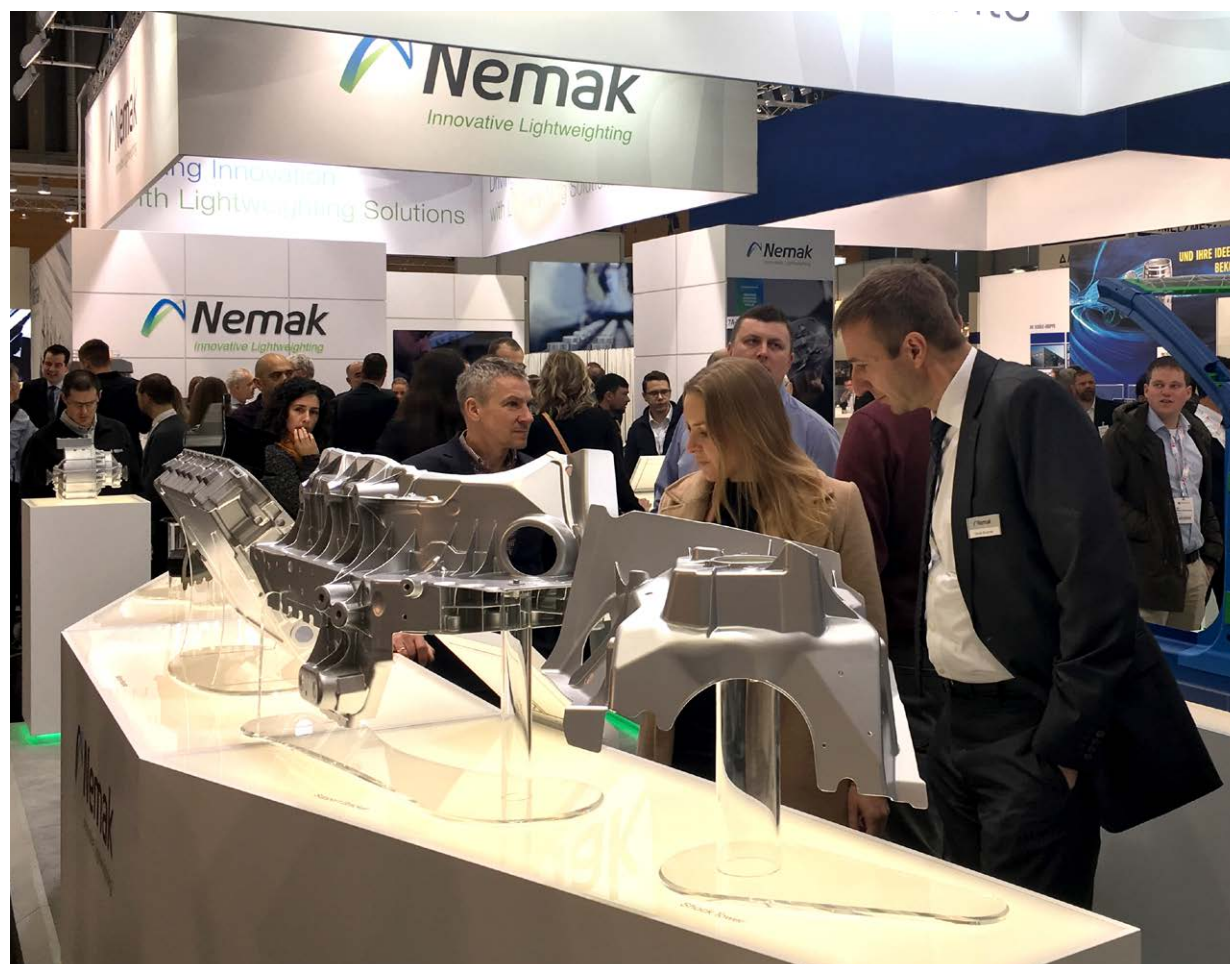




## INNOVATION

During 2017, Nemak leveraged its leading-edge technological capabilities to reinforce its customer relationships while tapping into emerging growth opportunities in vehicle lightweighting and electrification.





Signaling the culmination of an intensive research process, Nemak was selected as a winner of the 2017 R&D 100 Awards --together with Oak Ridge National Laboratory and FCA-- for the development of ACMZ cast aluminum alloys, a new class of aluminum superalloys for cylinder heads, which are exceptionally resistant to high temperatures.

**Given market demand for a combination of improved fuel efficiency and performance in new vehicles, automakers need powertrain materials that are lighter, but also more cost-efficient and capable of meeting the exacting thermo-mechanical requirements of next-generation, turbo-charged engines.**

The research team for this project used integrated computational materials engineering to atomically design and simulate alloys that are stronger at high temperatures and easier to manufacture than currently available alloys. Thus, ACMZ cast aluminum alloys could contribute to the ongoing shift towards more energy-efficient mobility.

Nemak's Rotacast® casting process for engine blocks also represents a key addition to its technology portfolio. Rotacast® satisfies market demand for a cost-effective alternative for high-performance, low-volume engine block programs that delivers a unique combination of design flexibility, high productivity, and advanced mechanical properties. For its success in introducing this innovation to the engine block market, Nemak was recently selected to compete in the finalist round of the 2018 Automotive News Pace Awards.

In preparation for expected growth in aluminum content in light vehicles, in 2017 Nemak worked closely with its customers to develop cutting-edge solutions in its structural and electric vehicle components (SC/EV) segment. These efforts benefitted from its expertise in casting design as well as advanced secondary processes such as machining, straightening, and heat treatment. To date, it has established collaboration agreements with more than 30 current and potential customers to develop SC/EV applications, including medium- and large-sized structural components as well as housings for e-motors, battery housings, and hybrid transmissions.

Looking ahead to 2018, Nemak's existing order book will provide it with ample opportunities to continue building on its track record in SC/EV. In particular, the company's proven capabilities in engineering, product development, and R&D will be critical to its efforts to capture new business opportunities in the segment while delivering a broader range of high value-added solutions to help its customers meet their emissions and weight reduction goals.



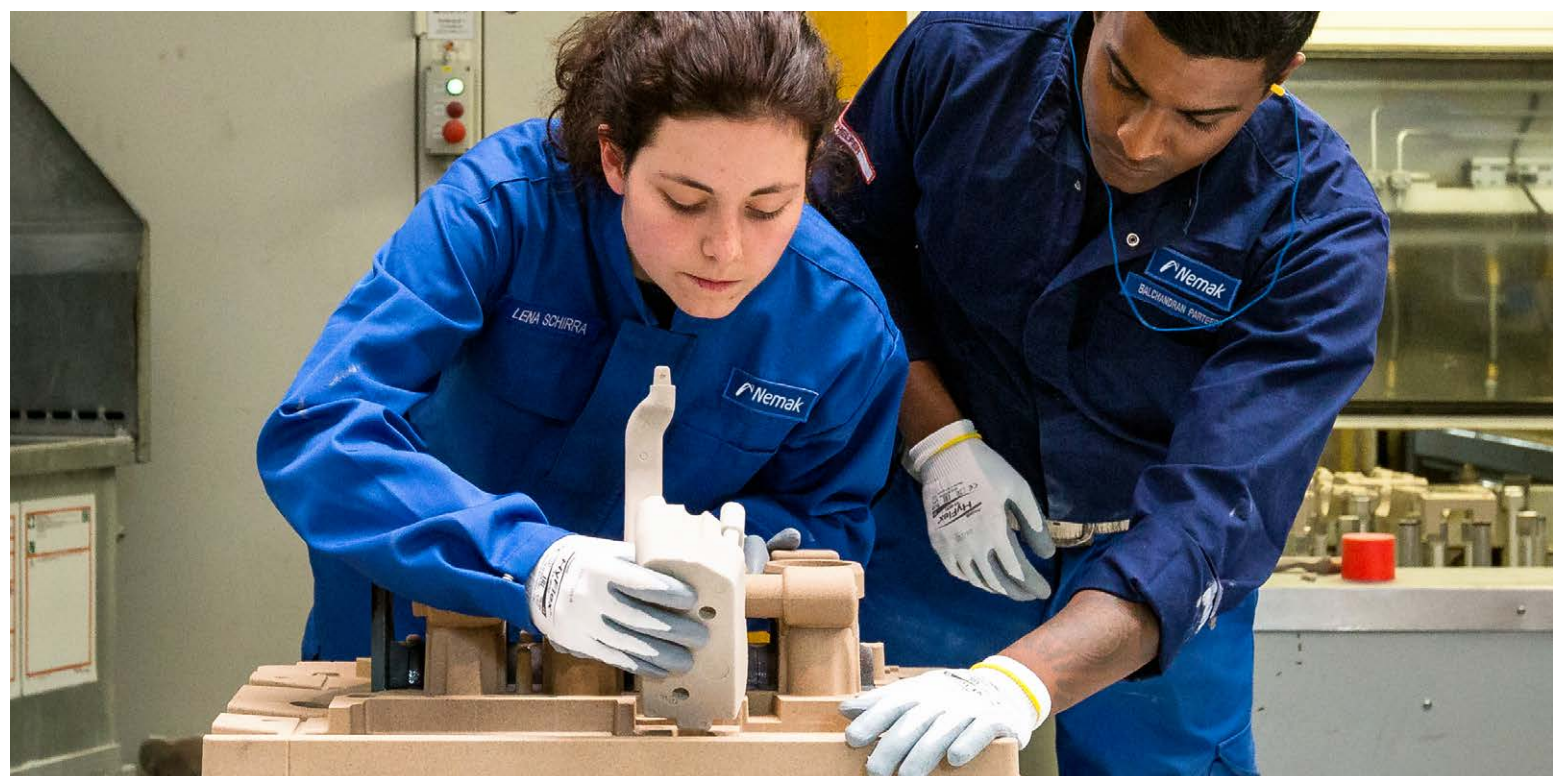
# TALENT AND CULTURE

People and Culture are key elements for the success of Nematik's vision.

*GRI Standards: 404-1, 404-2, 404-3*







# 22 hours per employee

is the average time spent in  
trainings and courses in the year.

**Nemak continuously works on adapting its practices to address the industry's talent challenges, considering People and Culture key elements for a successful execution of its strategic plans and business sustainability.**

## US\$8.2 millions

invested in employee training programs.

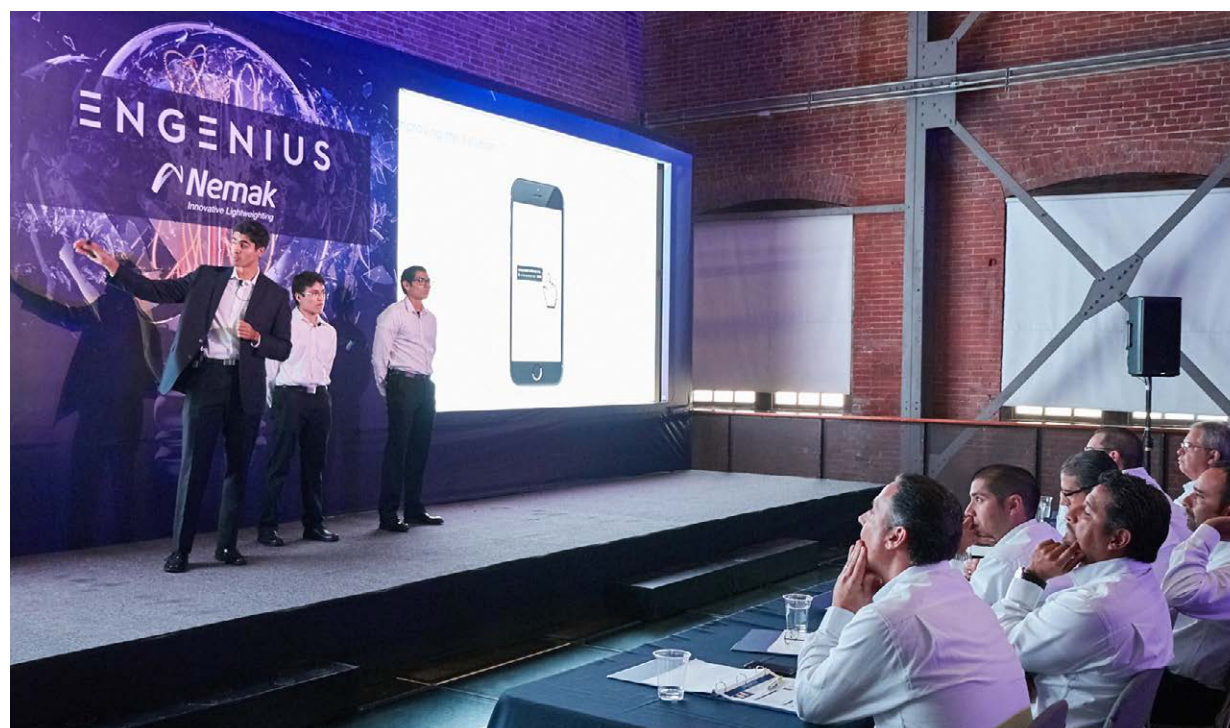
An important area of focus for Nemak in 2017 was to strengthen our operational excellence through a high level of organizational effectiveness. Structures and collaborative relationships were optimized maximizing the value delivery of all the functions on a global scale.

A relevant element of this alignment was the design and implementation of a dedicated organization to drive business growth in structural and electric vehicle components. Nemak vested this key avenue of growth with a solid talent base fully focused on capturing the business opportunities.

Nemak strengthened its learning and development programs and processes giving employees access to a broader set of developmental experiences and career-enriching activities such as functional training, mentoring and coaching, internships, and leadership programs. In addition, the company continued to work on developing succession plans throughout the organization.

To strengthen Nemak's global leadership in lightweighting technologies and innovation, the company worked on reinforcing the employment experience of one key talent segment: technical talent. Nemak worked around the key





drivers of engagement that are helping the company to integrate processes and activities that will significantly enhance the professional development of its technical experts while creating the optimal work environment for them to innovate, share their contributions and deliver breakthrough solutions for the current and future challenges of the business.

Nemak redoubled its efforts on building a culture that acts as a true enabler of its business strategy. With that in mind, Nemak evolved its set of corporate values, building upon strong current culture elements, such as customer focus and operational excellence, and strengthening them with new traits such as trust, collaboration and respect. Nemak's renovated corporate values – Customer Focus, Innovation, Trust and Collaboration, Respect and Responsibility – are set to act as catalyst for people's behaviors in support of the company's commitment towards its customers and its purpose of developing of a more sustainable mobility.

**Nemak sponsored 42 schools benefiting nearly 10,600 students and hosted 341 students for their internships.**

# 87%

Of employees received feedback on their performance and how to continue their career development at Nemak.







# SUSTAINABILITY

Nemak seeks to build a corporate culture that fosters profitable growth while acting responsibly to its people, society and the environment.

*GRI Standards: 301-2, 302-1, 302-2, 303-3, 305-1, 305-2, 305-5*



## COMMUNICATION WITH ITS STAKEHOLDERS

(GRI Standards: 102-40, 102-43, 102-46, 102-47, 103-2)

Nemak maintains constant communication with its stakeholders to provide them with relevant information on sustainability-related issues, and to be aware of their opinion, address their concerns and meet their needs. This dialogue is carried out through a variety of channels—including the transparency mailbox, face-to-face meetings, and social media, among others.

In 2015, Nemak carried out a materiality analysis with its main stakeholder groups—communities, clients, suppliers, investors and regulatory agencies—and identified twelve material aspects to the company's operation. These are:

### Nemak's Stakeholders

With a global footprint spanning 16 countries, Nemak's cultural and geographical diversity represent an important source of competitive advantage. The company's commitment to fostering mutually beneficial relationships with its stakeholders is a pillar of its approach to sustainability.

### Its employees

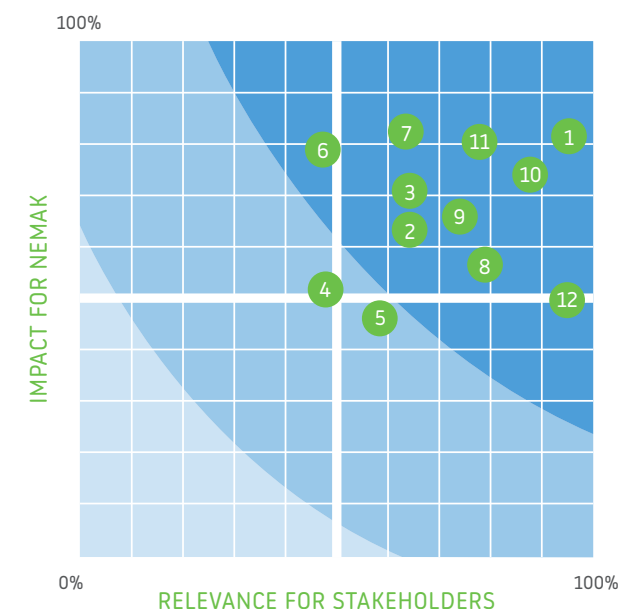
(GRI Standards: 403-2, 401-1, 404-2, 404-3, 405-2, 412-2)

Nemak continued to support the personal and professional development of its employees. Regarding Health and Safety, Nemak invested more than US\$9 million in 2017 on approximately 200 programs and activities, 60% more than in 2016. During the year, the first Global Health, Safety and Environment Week was simultaneously celebrated across all company sites.

### Relevance matrix

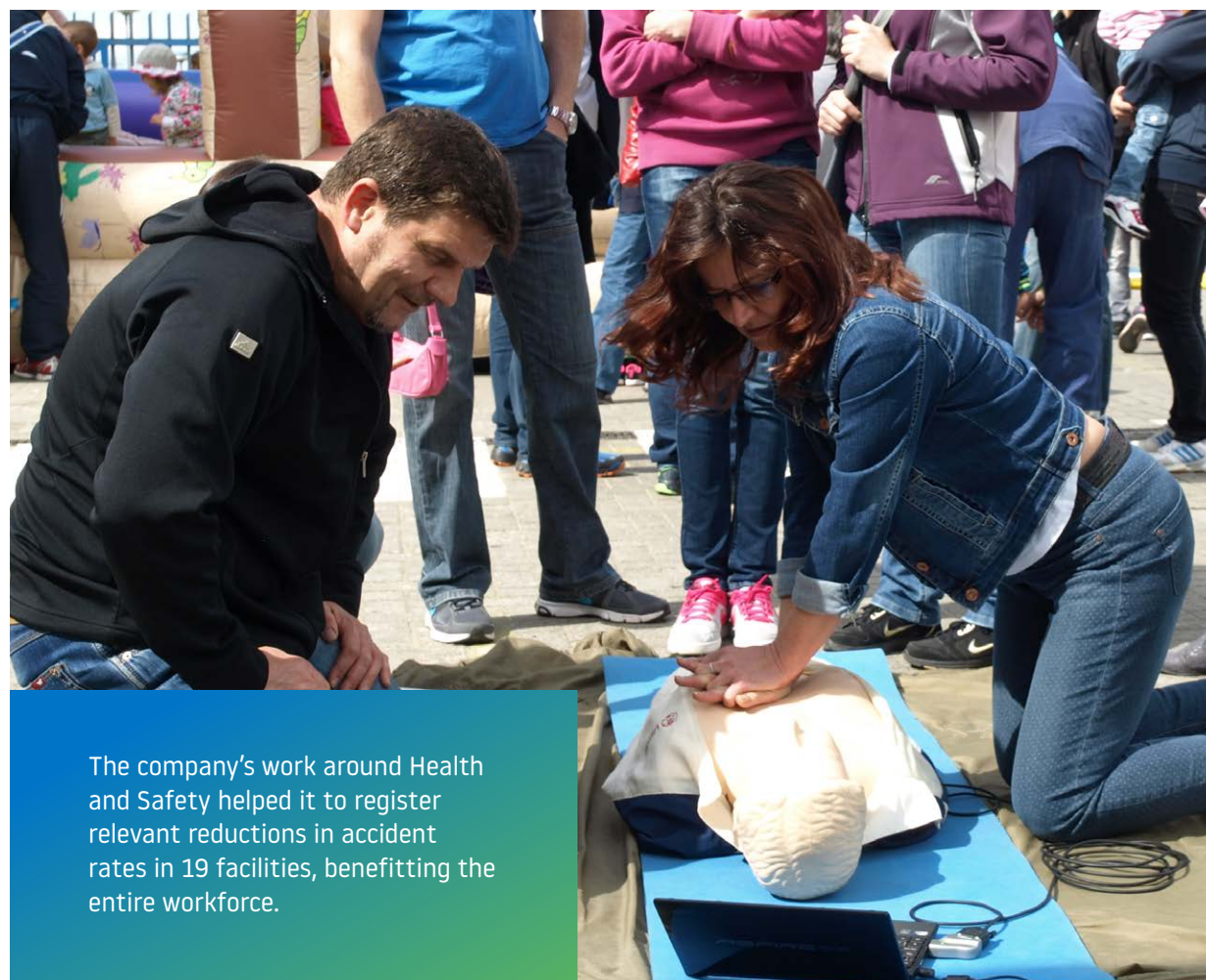
- 1 Energy efficiency
- 2 Climate change and emissions strategy
- 3 Environmental management
- 4 Water management
- 5 Responsibility on materials
- 6 Responsible criteria for product development
- 7 Labor practices
- 8 Health and safety
- 9 Relations with NGO's and regulatory agencies
- 10 Relations with clients and suppliers
- 11 Relations with shareholders
- 12 Wealth distribution

LOW RELEVANCE    MEDIUM RELEVANCE    HIGH RELEVANCE





**Through the investment of more than US\$8.2 million, Nemak held trainings and events that promoted sports and recreation, personal development and work-family balance, reaching more than 43,000 people. This investment represents a 50% increase compared to last year.**



All Nemak plants implemented actions to promote a healthier lifestyle including investments in improving medical facilities, complementary medical insurance for employees and their families and vaccination campaigns, among others.

Nemak continued supporting Human Rights in the workplace, investing close to 3,000 hours in trainings on employees' freedom of association and granting benefits above the minimum levels established by law.

The Company made strides in fostering gender equality in the workplace, supporting professional growth opportunities for all of its female employees. A highlight on this topic in 2017 was Women in Nemak, a series of talks and activities held by Nemak Mexico – the largest Nemak operation – on topics such as female empowerment, leadership and work-life balance. Nemak pays men and women

the same salary under otherwise equal circumstances.

In 2017, more than 12,000 employees took at least one training course, averaging 22 hours per person in the year. Nemak also granted 358 scholarships to its employees, whether to improve their technical skills, and/or to continue their professional studies. A total of 1,891 children of employees benefited from allowances, academic support and incentives given in every location, such as tuition fees, school supplies and rewards for those students with above-average academic grades.

#### **Its communities**

*(GRI Standards 413-1, 103-2, 203-1)*

Nemak nurtures solid and constructive relationships with the communities where it operates.

Nemak continued supporting the betterment of its communities through



charitable contributions. Moreover, 11 of Nemak's sites renovated their social impact assessments in 2017, validating the most relevant aspects for their communities and how to continue addressing them.

Nemak dedicated US\$1.46 million to support the betterment of its communities through social development activities. A relevant example was the contributions made in Győr, Hungary, for the construction of the Nemak IceHall, a modern sports facility dedicated to motivating local youth to maintain an active lifestyle. In addition, more than 368 employees participated in other volunteer activities, averaging 120 hours per volunteer in activities such as blood donation campaigns, work at hunger organizations, and child care at hospitals, among many others.



### Its Value Chain

Nemak diligently worked on promoting the adoption of sustainability practices within its supply chain by implementing and actively promoting its Global Sustainability Code for Suppliers. The supplier's adherence to the code is a key criterion for Nemak's competitive bidding processes. The code is based on principles and standards set forth in the following international treaties and agreements: The Organization for Economic Cooperation and Development's (OECD) Guidelines for Multinational Enterprises, the Global Compact and the Universal Declaration of Human Rights of the United Nations (UN), and the Conventions of the International Labor Organization (ILO). 50% of the Company's facilities carried out social, environmental, labor and HR practice assessments to their critical suppliers.

In addition, the Company started developing a new system (SAP module) to monitor suppliers, including scorecards and KPIs, programmed to kick-start in 2018.

Nemak continued participating in ALFA's Suppliers Development Program, aimed at identifying and building upon its suppliers' social responsibility and human rights practices. In 2017, this program went from a compliance-only phase to an innovation and efficiency phase, set to start in 2018. Also, 52% of the Company's procurement is prioritized to local suppliers, from the city and/or country where its facilities operate.





Regarding its clients, this year Nemak responded to sustainability questionnaires from the Carbon Disclosure Project (CDP) as well as the Sustainability Index of the Mexican Stock Exchange, providing detailed information on its actions aimed at supporting a more responsible and environmentally friendly operation.

### Its Shareholders

The relationship with its shareholders is one of the material aspects identified and has been a focal point for the Company's Sustainability practices. In 2017, Nemak celebrated the Nemak Investor Day in Mexico City and New York City. In this event, the CEO and CFO met with more than 150 investors, analysts, and representatives of financial institutions and shared Nemak's position on several strategic topics and addressing questions and concerns from the participants regarding the future of the Company.

Nemak Investor Day shown how the Company is well-positioned to deliver on its 2025 strategic plan and capture future growth opportunities through its robust innovative lightweighting technologies and expertise.

**Nemak recycles up to 90% of its leftover foundry sand and aluminum, with some plants reaching almost 100% recycling rate.**

### Respect and responsibility with the planet

*GRI Standards: 301-2, 302-1, 302-2, 303-3)*

Nemak continued working on its environmental performance by launching the Nemak HSE System and promoting responsible practices such as recycling, reducing energy and water consumption, as well as emissions control.

One of Nemak's main lines of action to protect the environment consists of making responsible use of the materials in its manufacturing processes. The Company works towards using recycled materials as much as possible. More than 80% of the aluminum used in manufacturing processes comes from recycled sources.

All Nemak sites carried out an identification and evaluation process of the direct and indirect impacts that their activities, products and services may have over the environment. Each and every one of these impacts is considered within the establishment of KPIs for the short and long term.

The investments made to increase Nemak's environmental practices and performance were the following:

	2017 (USD)	2016 (USD)
Waste reduction and disposal	2,456,309	2,639,418
Emissions reduction	3,055,128	3,095,512
Remediation and prevention costs	546,827	904,131
Environmental management	1,214,030	118,754
Environmental actions	1,204,543	1,592,928
<b>Total</b>	<b>8,571,022</b>	<b>8,350,743</b>

Nemak's energy consumption in 2017 was as follows:

	2017 (GJ x 10 <sup>6</sup> )	2017 (%)	2016 (GJ x 10 <sup>6</sup> )	2016 (%)
Natural gas	12.98	99.1	12.67	99
LGP	0.07	0.6	0.06	0.5
Fuel oil #6 H.V.	0.04	0.3	0.06	0.5
	<b>13.09</b>	<b>100</b>	<b>12.79</b>	<b>100</b>







Regarding water conservation and effective treatment, in 2017 the Company treated 339,070 m<sup>3</sup> and reused 1,284,329 m<sup>3</sup> of water in operating processes. Additionally, NEMAK started the construction of the sixth water treatment plant in Monterrey, Mexico, which will allow this site to increase its capacity to treat and reuse by 189,000 m<sup>3</sup> per a year.

In 2017, the Company continued to maintain equipment in optimal conditions, evaluated their emissions inventory to reduce overall impacts, started using solar power generation, and installed more robust emissions control systems, among other actions. All of the above resulted in a total reduction of 15,917 tons of CO<sub>2</sub>, equivalent to the emissions of 3,368 cars in a year, approximately.

	2017 (ton CO <sub>2</sub> e x 10 <sup>6</sup> )	2016 (ton CO <sub>2</sub> e x 10 <sup>6</sup> )*
Direct emissions	0.74	0.72
Indirect emissions	0.62	0.60
Intensity of emissions (by ton produced)	1.87	1.89
<b>Total</b>	<b>1.36</b>	<b>1.32</b>

\*There was a recalculation of 2016 emissions, and these differ from the results reported in NEMAK's Annual Report 2016

NEMAK is making new inroads towards becoming a more responsible and respectful organization and contributing to a more sustainable society.



# OPERATING SUMMARY

In 2017, Nemark made substantial progress in the development of its long-term business strategy, particularly in response to emerging industry megatrends such as lightweighting and electrification. This was achieved despite operating in a challenging economic environment, characterized by softness in certain automotive markets as well as higher and more volatile raw material prices, which affected results.

Automotive industry performance varied across the regions the company serves. In Europe and Asia, light vehicle sales posted a healthy growth rate. In contrast, the U.S. market, Nemark's biggest, reported a small decline in sales after having reached record levels in 2016. Lastly, markets in South America showed improved sales levels, recovering from the crisis that had previously affected Brazil.

As a result of the above, the company sold 49.9 million equivalent units, similar to the amount sold in 2016. Meanwhile, the price of aluminum, Nemark's main raw material, substantially increased during the year, causing revenues to increase 5% over 2016 to US\$4.5 billion. However, although Nemark is protected under its contracts from volatility in the cost

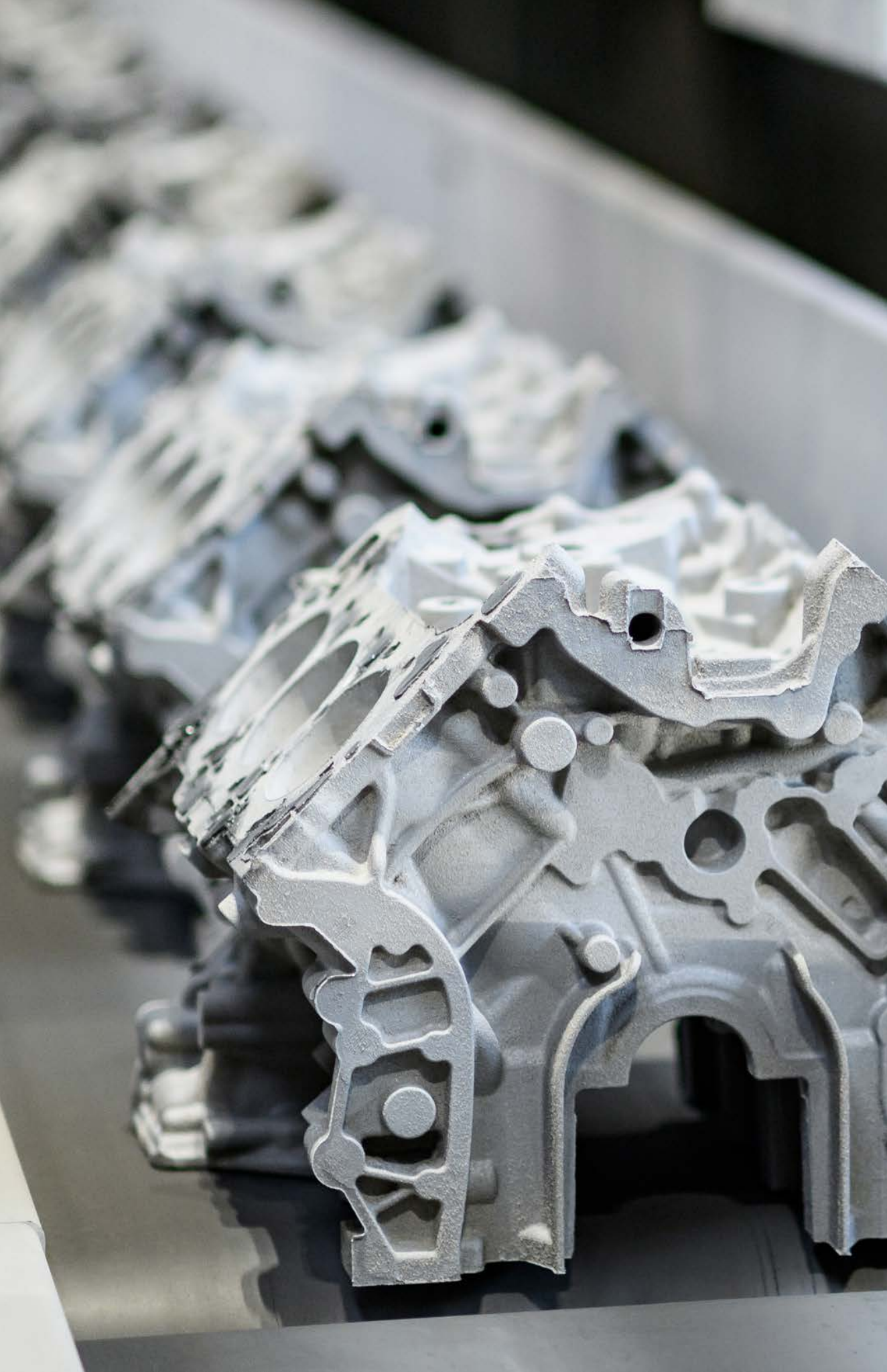
of raw materials, there is a delay in transferring any price changes to its customers. The company refers to this phenomenon as "metal price lag," which may imply a negative effect (if aluminum prices rise), a positive effect (if they fall), or neutral (if prices remain stable). In 2017, the above-mentioned volatility in aluminum prices resulted in a negative metal price lag, which had an adverse impact on Nemark's results. Furthermore, the company incurred extraordinary expenses related to new program launches. Mainly as a result of the above, Nemark's 2017 EBITDA was US\$715 million, 10% lower than 2016. EBITDA per unit was US\$14.30, lower than the US\$15.90 obtained in 2016.

Nemark's capital expenditures amounted to US\$433 million in 2017. These included investments to expand and adapt capacity to support production for recently won contracts, advance with its initiative to add value to production through machining, as well as facilitate a higher degree of efficiency across all its business units.

During the year, Nemark was awarded new contracts with a value of US\$830 million in annual revenues, a quarter of which corresponded to incremental business and the rest to replacements. This amount is similar to the one







the company reported in 2016. Several new contracts were for its new structural and electric vehicle components (SC/EV) business, bringing the order book for these products at the end of the year up to approximately US\$320 million in annual revenues. Moreover, 2017 marked the first year the SC/EV business made a substantial contribution to the overall sales figure, generating revenues of approximately US\$100 million.

### NORTH AMERICA

After reaching a new record in vehicle sales in 2016, North America showed a slight decrease in sales in 2017. Regarding Nemak, 2017 revenues in this region remained unchanged compared to 2016. While volumes were 6% lower than a year ago, selling prices were up reflecting higher aluminum prices.

Volumes declined due to lower production of small- and medium-size vehicles at Ford and FCA as well as inventory adjustments at GM. Despite flat revenues, 2017 EBITDA declined 17% due mainly to the company reporting a negative metal price lag as well as extraordinary launching expenses.

### EUROPE

During 2017, the European automotive industry performed better than in 2016, Recording a 4% increase in new light vehicle sales.

Nemak benefitted from this trend, selling 6% more equivalent units than the year before. New program launches, some of which corresponded to the new SC/EV business line, also helped to achieve higher volumes. Furthermore, higher selling prices helped to drive revenue up 10% vis-a-vis 2016. The increase in revenue helped the Company to offset growing costs of raw materials and launching expenses, enabling it to record an EBITDA total slightly lower than that of 2016.

### REST OF WORLD

The Rest of World region is comprised of the company's operations in South America (mainly Brazil) and Asia (mainly China). In 2017, volumes grew 14%, as South America began to recover ground previously lost due to the economic crisis in Brazil, while Asia continued to post solid growth figures. Reflecting the above, 2017 revenue increased 24% while 2017 EBITDA grew 36% in the year.



# BOARD OF DIRECTORS

GRI Standards: 102-18, 102-22

## Armando Garza Sada<sup>3</sup>

**Chairman of the Board of ALFA, S. A. B. de C. V.**

Board Member of Nemark since April 1999. Chairman of the Boards of ALPEK and NEMAK. Member of the Boards of AXTEL, CEMEX, FEMSA, Grupo Lamosa, Liverpool, Proeza and ITESM.

## Álvaro Fernández Garza<sup>3</sup>

**President of ALFA, S. A. B. de C. V.**

Board Member of Nemark since March 2010. Chairman of the Universidad de Monterrey (UEM). Member of the Boards of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, and Museo de Arte Contemporáneo de Monterrey.

## Juan Carlos Calderón Rojas<sup>3</sup>

**Former Vice President of Sustainability at ALFA S. A. B. de C. V.**

Board Member of Nemark since June 2015. Member of the Boards of Coparmex Nuevo Leon and Grupo Franca.

## Robert J. Fascetti<sup>1</sup>

**Former Vice President of Powertrain Engineering at Ford Motor Company**

Board Member of Nemark since December 2005. He has more than 29 years of powertrain and product development experience at Ford Motor Company.

## Eugenio Garza Herrera<sup>1A</sup>

**Chairman of the Board of Xignux S. A. de C. V.**

Board Member of Nemark since June 2015. Member of Corporación EG, Citibanamex, Endeavor, Cydsa, Mexico Evalua, Pak2Go, Akaan, and Centro Roberto Garza Sada de Arte, Arquitectura y Diseño de la UDEM. Additionally, President of the Consejo Consultivo Norte de Citibanamex and the Comisión de Transparencia, Gobierno Eficaz y Mejora Regulatoria del Consejo de Nuevo León. In addition, he is member of the Executive Board of the Committee of Institutional Government and Chairman of the Development Committee of the ITESM and of the Consejo Regional Banco de Mexico.

## Fabiola Garza Sada<sup>2</sup>

**Investor**

Board Member of Nemark since June 2015. Member of the Board of ALFA Fundacion.

## Eduardo Garza T. Fernández<sup>1A</sup>

**President of Grupo Frisa Industrias**

Board Member of Nemark since June 2015. Member of the Board of Grupo Lamosa. Participates as board member at the ITESM, Consejo Nacional de Alianzas Educativas, BBVA Bancomer S.A., Corporación EG Ruhrpumpen Group, Consejo Nuevo León para la Planeación Estratégica, Endeavor Mexico, the US-Mexico Foundation and Grupo Ragasa.

## Alfonso González Migoya<sup>1A</sup>

**Chairman of the Board of Controladora Vuela Compañía de Aviación, S. A. B. de C. V.**

Board Member of Nemark since June 2015. Member of the Boards of Femsa, Coca-Cola Femsa, the Mexican Stock Exchange, Banregio Grupo Financiero, Javer, Cumprum and ITESM.

## Gary Lapidus<sup>1</sup>

**Independent investor and consultant**

Board Member of Nemark since June 2015. Former Institutional Investor-ranked automobile and auto parts Senior Equity Research Analyst at Goldman, Sachs & Co. and Sanford C. Bernstein & Co. Previously Mr. Lapidus was a Principal with the management consulting firm Booz-Allen & Hamilton.

## Stuart Rowley<sup>2</sup>

**Vice President Strategy, Ford Motor Company**

Board Member of Nemark since February 2017. Stuart has over 26 years of experience with Ford Motor Company in finance and strategy positions globally. Prior to assuming his present position, Stuart was Vice President and Controller of Ford from April 2012 to June 2016.

## Alejandro Ruiz Fernández<sup>2</sup>

**President of Pronto Projects, S. A. de C. V.**

Board Member of Nemark since June 2015. Board Member of Pronto Projects, and Constructora e Inmobiliaria Malsa.

## Adrián G. Sada Cueva<sup>1</sup>

**President of Vitro, S. A. B. de C. V.**

Board Member of Nemark since June 2015. Member of the Boards of Vitro, Comegua, Minera Autlán, and Grupo Financiero Banorte.

## Carlos Jiménez Barrera

**Secretary**

<sup>1</sup>Independent Board Member

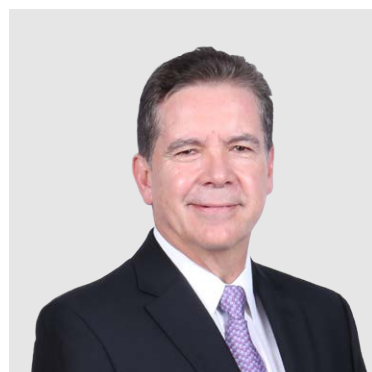
<sup>2</sup>Patrimonial Board Member

<sup>3</sup>Related Patrimonial Board Member

<sup>A</sup>Audit and Corporate Practices Committee



# MANAGEMENT TEAM



**ARMANDO TAMEZ**  
CEO



**KNUT BENTIN**  
BU Director Mexico



**KLAUS LELLIG**  
BU Director Europe



**LUIS PEÑA**  
BU Director USA / CAN & SA



**ERNESTO SAENZ**  
BU Director Asia



**JOSE CARLOS PONS**  
VP of Business Development



**MARKUS NOLTE**  
VP of Commercial



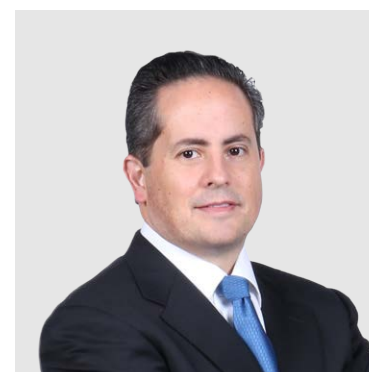
**JOSEF NUESCHEN**  
Vehicles Structures Director



**RAMIRO MONTERO**  
VP of Manufacturing and  
Product Development



**MARC WINTERHALTER**  
VP Purchasing



**ALBERTO SADA**  
CFO



**MARCO LANDEROS**  
VP of HR



# CORPORATE GOVERNANCE

GRI Standards: 102-18, 102-19, 102-20, 102-22, 102-24, 102-25, 102-26

Nemak operates in accordance with the Mexican Code of Best Corporate Practices (CMPC) instituted in the year 2000 by the Mexican Securities Commission. The Purpose of the Code is to establish a frame of reference for corporate governance and thereby increase investor confidence in Mexican companies.

Once a year, all companies that are listed on the Mexican Stock Exchange, S.A.B. de C.V. (*Bolsa Mexicana de Valores, S.A.B. de C.V.*) must disclose the extent to which they adhere to the CMPC by answering a questionnaire. The responses of the different companies may be consulted on the BMV's website. A summary of Nemak's principles of corporate governance is presented below, reflecting the answers the company gave to the questionnaire in May 2017 and updated where necessary.

- A. The Board of Directors is made up of twelve members, who have no alternates. Of the twelve directors, five are independent board members. This annual report provides information on all the board members, identifying those who are independent and their participation in the Audit and Corporate Practices Committee.
- B. The Board of Directors is advised by the Audit and Corporate Practices Committee, which is made up of independent board members. The Committee Chairman is an independent board member.
- C. The Board of Directors meets four times per year. Meetings of the Board may be called by the

Chairman of the Board, the Chairman of the Audit and Corporate Practices Committee, the Secretary of the Board or at least 25% of its members. At least one such meeting every year is dedicated to defining the company's medium and long-term strategies.

- D. Members must inform the Chairman of the Board of any conflicts of interest that may arise, and abstain from participating in any related deliberations. Average attendance at Board meetings was 91.6% during 2017.
- E. The Audit and Corporate Practices Committee studies and issues recommendations to the Board of Directors on matters such as selecting and determining the fees to be paid to the external auditor, coordinating with the company's internal audit area and studying accounting policies.
- F. Additionally, the Audit and Corporate Practices Committee is responsible for issuing recommendations to the Board of Directors on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies.
- G. The company has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control system and issues reports thereon.

- H. The Board of Directors is advised by the planning and finance department when evaluating matters relating to the feasibility of investments, strategic positioning of the company, alignment of investing and financing policies, and review of investment projects. This is carried out in coordination with the planning and finance department of the holding company, ALFA, S. A. B. de C. V.
- I. Nemak has a department specifically dedicated to maintaining an open line of communication between the company and its shareholders and investors. This ensures that investors have the financial and general information they require to evaluate the company's development and progress. Nemak uses press releases, notices of material events, quarterly results conference calls, investor meetings, its website and other communication channels.
- J. Nemak promotes good corporate citizenship and adheres to the recommendations of its holding company, ALFA, S. A. B. de C. V. It has a mission, vision and values, and code of ethics that are promoted within the organization.



# CONSOLIDATED FINANCIAL STATEMENTS

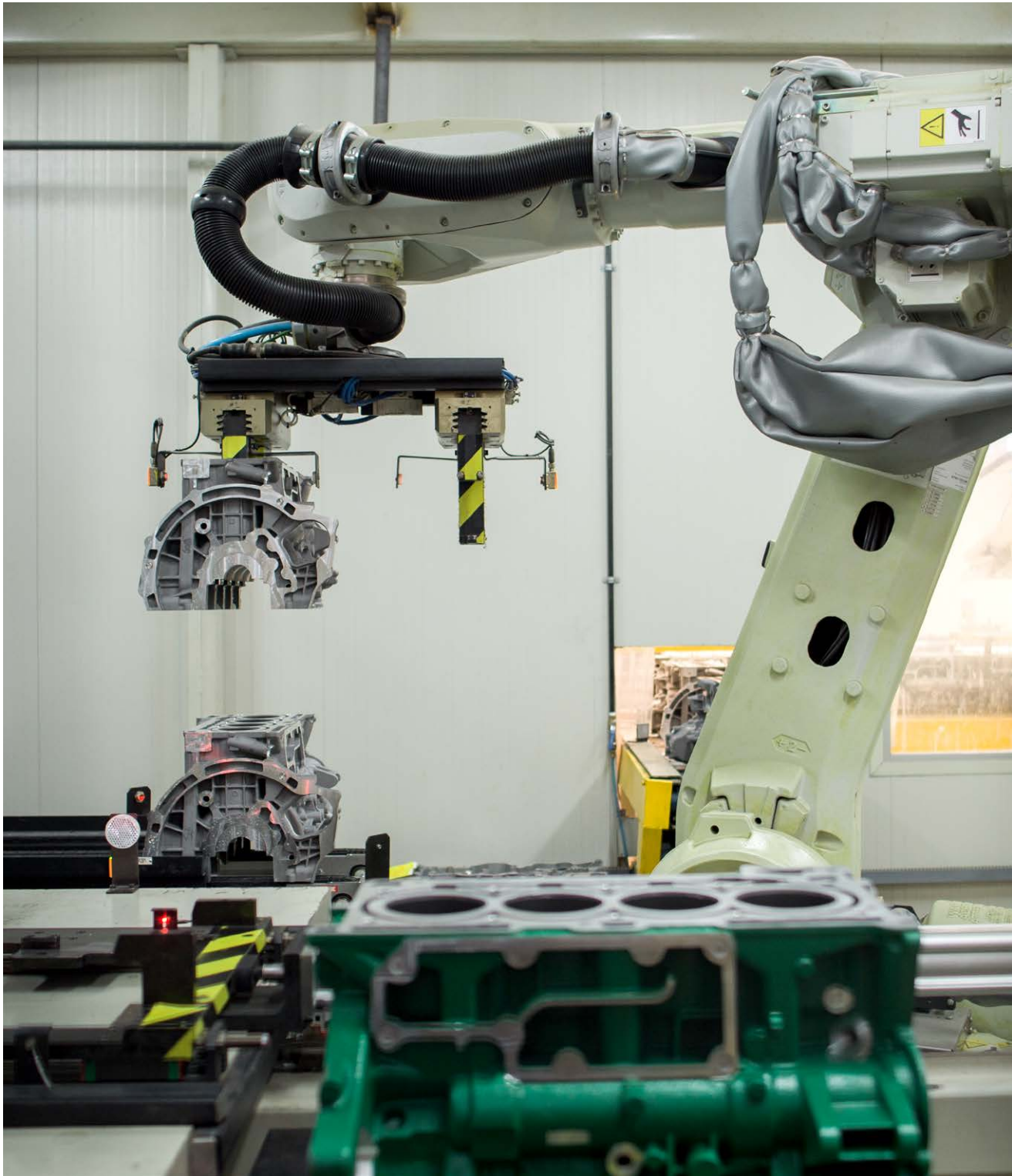
Nemak, S. A. B. de C. V. and Subsidiaries  
(Subsidiary of Alfa, S. A. B. de C. V.)

Consolidated Financial Statements as of  
and for the years ended December 31,  
2017 and 2016 and Independent Auditors'  
Report Dated January 31, 2018



# INDEPENDENT AUDITORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR 2017 AND 2016

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS ("MD&A")

The following report should be considered in conjunction with the Letter to Shareholders (pages 6-8) and the Audited Financial Statements (pages 35-83). Unless otherwise indicated, figures are stated in millions of nominal Mexican pesos from 2017, 2016 and 2015. Percentage changes are shown in nominal terms.

The financial information included in this MD&A corresponds to the last three years (2017, 2016 and 2015) and has been prepared in compliance with the International Financial Reporting Standards ("IFRS"). The analysis comprises three years to adapt it to the "Disposiciones de Carácter General, aplicables a las Emisoras de Valores y a otros Participantes del Mercado de Valores" (Standards issued by the Mexican securities authority) as of December 31, 2017.

Monterrey, N.L., Mexico. January 31, 2018.-

### ECONOMIC ENVIRONMENT

During 2017, the world economy continued to grow while the financial markets suffered from volatility due to uncertainty regarding: i) economic policy in certain developed countries, ii) geopolitical risks and, iii) the normalization of monetary policy by the Federal Reserve Bank of the United States ("Fed"). Despite facing challenging market conditions, the Mexican peso slightly appreciated vis-a-vis the US Dollar in the year.

Regarding international trade, the most relevant factor for Mexico was the renegotiation of the North American Free Trade Agreement (NAFTA) between Canada, the US and Mexico. The process began early in 2017 and several discussion rounds took place during the year on certain chapters of the treaty. Official comments from

representatives of the three countries did not eliminate uncertainty regarding the outcome of the negotiations, which in turn added to the volatility of the exchange rate between the Mexican peso and the US Dollar experienced during the year. As of the date of this report, the NAFTA renegotiation process continues.

Comments on key economic indicators helpful to better understand Nematik's 2017 results follow:

Mexico's 2017 Gross Domestic Product ("GDP") was 2.2%<sup>b</sup>, as compared to 2.3%<sup>b</sup> in 2016. Its consumer inflation index was 6.8%<sup>b</sup>, compared to 3.4%<sup>b</sup> in 2016. The Mexican peso appreciated 4.6%<sup>c</sup> in nominal terms in 2017, which compares to a depreciation of 19.5%<sup>c</sup> in 2016. In real terms, the peso average overvaluation vis-a-vis the US Dollar went from 6.3%<sup>d</sup> in 2016 to 3.1%<sup>d</sup> in 2017.

Regarding interest rates in Mexico, the average Tasa Intercambiaria de Equilibrio ("TIIE") was at 7.1%<sup>b</sup> in nominal terms during 2017, and 4.5%<sup>b</sup> in 2016. There was an increase in real terms, as the cumulative rate went from 0.5% in 2016 to 7.3% in 2017, which was basically a response to the increase in rates made by the Fed in the year. The annual average for nominal 3-month LIBOR in U.S. Dollars was 1.3%<sup>b</sup> in 2017, higher than the 0.7% average rate observed in 2016<sup>b</sup>. If the nominal depreciation of the Mexican peso is taken into account, the LIBOR in constant pesos went from 16.5%<sup>a</sup> in 2016, to 1.3%<sup>a</sup> in 2017.

a = Instituto Nacional de Estadística, Geografía e Informática de México (INEGI)

b = Banco de México

c = Banco de México. Tipo de cambio para solventar obligaciones denominadas en moneda extranjera pagaderas en la República Mexicana (Exchange Rates)

d = Company calculations based on INEGI information, bilateral data with the US considering consumer prices.



## RESULTS

### 2017 vs 2016

Total Revenues amounted to \$84,779 in 2017, up 7% from the \$79,244 reported in 2016. The main reason for the increase was higher selling prices, which increased as changes in the price of aluminum, Nematik's main production input, are passed on to customers according to contractually established formulas. Meanwhile, volumes decreased 0.4% compared to the previous year, mainly due to lower demand from customers in North America.

Cost of Goods Sold (COGS), which includes depreciation of fixed assets, was \$71,812 in 2017, a 9.9% increase compared to the \$65,345 in 2016. The increase in COGS basically reflects the increase in aluminum prices. As explained above, aluminum price changes are transferred to customers as per contractual negotiations; however, such transfers take time, resulting in what the Company calls "metal price lag", the effects of which can be negative (when aluminum prices go up), neutral (when prices remain stable), or positive (when aluminum prices go down).

Sales, General and Administrative expenses increased to \$5,818 in 2017, 17.4% higher than the \$4,957 reported in 2016. The main reason for the increase was incremental expenses associated with the new programs launched during the year.

As a result of the negative metal price lag and the increase in expenses already explained, the 2017 Operating Income reached \$7,015, a 19.2% decrease over the \$8,684 reported in 2016. In turn, EBITDA (Operating Income plus Depreciation and Amortization, plus/minus other non-cash charges) was \$13,546, 8.8% lower than the \$14,849 reported in 2016. The main reason for the decrease was the reduction in Operating Income already explained.

Net Financial Result amounted to \$1,900 in 2017, up 32% from the \$1,439 reported in 2016. The main factors behind the increase were, first, higher financial expenses due to higher interest rates on existing debt and, second, exchange losses caused mainly by variations in the Euro vs U.S. Dollar exchange rate.

Income Taxes amounted to \$1,484 in 2017, 21.5% lower than the \$1,890 paid in 2016. A lower net income, as explained in the following paragraph, was the main cause for the decrease.

Net Income reached \$3,691, 31.8% lower than the \$5,410 reported in 2016. The decrease was mainly the result of lower Operating Income and higher Net Financial Result.

Capital Expenditures and acquisitions amounted to \$8,279 in 2017. Investments were made across the regions where the Company operates to increase and adapt production capacity to meet demand linked to recently won contracts. Likewise, to achieve greater production efficiency.

At the end of 2017, Nematik's Net Debt amounted to \$25,084, 3.8% lower than the \$26,078 reported at the end of 2016. The restatement of foreign debt into Mexican Pesos explains most of the decrease.

In U.S. Dollars, Net Debt was US\$1,271 million as of the end of 2017, similar to the US\$1,262 million reported in 2016.

Nematik's financial condition remained solid in 2017. Key financial ratios were the following: Debt, net of cash, to EBITDA of 1.78 times; Interest Coverage, 11.20 times. These ratios were similar to those at the end of 2016.

## 2017 HIGHLIGHTS

### Eurobond Issuance

In March 2017, Nematik issued a 5-year 500 million Euro-denominated bond in the international debt markets, which bore a coupon of 3.25%. The proceeds were used to prepay shorter maturity debt in a similar amount, increasing the average life from four to six years. Additionally, this placement enabled Nematik to better match the currency mix of its debt and cash flows in euros.

### U.S. Dollar Bond Issuance

In January 2018, Nematik issued a 7-year US\$500 million bond in the international debt markets, which bore a coupon of 4.75%. The proceeds are being used to prepay shorter maturity, higher coupon U.S. Dollar debt in a similar amount, enabling the company to further extend the average life of its debt and obtain savings in financial expenses worth approximately US\$3.75 million per year.



### **Launched seven programs to produce structural and electric vehicle components**

During 2017, Nematik brought on stream its first programs to produce structural and electric vehicle (SC/EV) components. In total, seven programs were launched while three more remained in the testing phase as of the date of this report. For the year, Nematik generated approximately US\$100 million to total revenues in SC/EV.

### **2016 vs 2015**

Total Revenues amounted to \$79,244 in 2016, up 11.8% from the \$70,891 reported in 2015. The main reason for the increase was the depreciation of the Mexican Peso in the period, which benefited revenues in Dollars and Euros. On the other hand, there was a small decline in sales volumes mainly due to the production downscale of a major U.S.-based OEM's mid-size car platforms, which were sourced by Nematik. Aluminum prices showed some volatility during the year, affecting revenues but to a lower extent than last year.

Cost of Goods Sold (COGS), which includes depreciation, was \$65,345 in 2016, a 10.5% increase compared to the \$59,143 in 2015. The increase in COGS basically reflects the impact of a higher exchange rate on costs denominated in Dollars and Euros, which was partially offset by lower aluminum prices. As in previous years, Nematik continued to make progress in achieving higher efficiency at the plant level which helped to prevent COGS from growing even more.

Sales, General and Administrative expenses (SG&A) increased to \$4,957, 12.8% higher than the \$4,393 reported in 2015. The main reason for the increase was the depreciation of the Mexican Peso, which affected SG&A in U.S. Dollars and Euros.

As a result of the above, Operating Income reached \$8,684, a 17.4% increase over the \$7,398 reported in 2015. In turn, EBITDA (Operating Income plus Depreciation and Amortization, plus/minus other non-cash charges) was \$14,849, 23.6% higher than the \$12,006 reported in 2015.

Net Financial Result amounted to \$1,439 in 2016, up 11.3% from the \$1,293 reported in 2015. The main factor behind the increase was the depreciation of the Peso vis-à-vis the U.S. Dollar, as it generated foreign exchange losses on dollar-denominated debt and also increased interests paid on the same.

Income Taxes amounted to \$1,890 in 2016, 21.8% higher than the \$1,552 paid in 2015. The main reason for the increase was the higher Operating Income reported in the year already explained.

Net Income reached \$5,410, up 17.6% compared to the \$4,601 reported in 2015. Higher Net Income was the result of Operating Income growing more than Net Financial Expenses and Income Taxes.

Capital Expenditures and acquisitions amounted to \$10,164 in 2016, up 39% compared to the \$7,314 reported in 2015. The projects developed in the year included the construction of two new facilities in Mexico; the beginning of the construction of another one in Slovakia; the acquisition of a company in Turkey; and capacity expansions in all regions to meet growing demand and normal maintenance capex. The depreciation of the Mexican Peso vs. the U.S. Dollar also explained the increase of the year, as the majority of the investments were made in dollars or euros.

At the end of 2016, Nematik's Net Debt amounted to \$26,078, up 26% from the \$20,820 reported at the end of 2015. The restatement of foreign debt into Mexican Pesos due to the depreciation of this currency explained most of the increase of the year. In U.S. Dollars, Net Debt was US\$1,262 million, similar to the US\$1,210 million reported at the end of 2015.

Nematik's financial condition remained strong in 2016. Key financial ratios were the following: Debt, net of cash, to EBITDA of 1.6 times; Interest Coverage, 11.9 times. These ratios compared positively against the corresponding 2015 ones, which were 1.6 and 10.2, respectively. The main reason for the improvement was the higher EBITDA of the year.





## 2016 HIGHLIGHTS

### **Acquisition of Cevher Döküm Sanayii A.Ş. – a Turkish aluminum automotive castings company**

Toward the end of the year, Nematik completed the acquisition of Cevher Döküm Sanayii A.Ş. Apart from increasing capacity and foothold in Europe, Nematik's strategic rationale behind this acquisition is to further strengthen its competitive position in that market.

### **Construction of two new facilities in Mexico**

During 2016, Nematik made substantial progress regarding the construction of two new facilities at its site near Monterrey, Mexico that will require the investment of approximately US\$287 million. As reported last year, one of these facilities will be dedicated to providing in-house machining services. The other will feature High Pressure Die Casting ("HPDC") technology, which is already used in other plants of the Company. At the end of 2016, both facilities were close to starting commercial production.

### **Construction of a new facility in Slovakia**

Additionally, Nematik started construction of a new plant in Slovakia, also featuring HPDC technology. This new plant will be dedicated to the production of structural components and will come onstream by the second semester of 2017. Investment amounted to US\$54 million.

### **Outlook changed to "positive" by rating agencies**

During the year, the three major rating agencies—Fitch, Moody's, and Standard & Poor's—all raised Nematik's outlook from Stable to Positive, while maintaining its rating one notch below investment grade.





# INDEPENDENT AUDITORS' REPORT

to the Board of Directors  
and Stockholders of Nemark, S. A. B. de C. V.

## OPINION

We have audited the consolidated financial statements of Nemark, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including 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 of December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

## BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") together with the Code of Ethics issued by the Mexican Institute of Public Accountants ("IMCP Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code and with the IMCP Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## OTHER MATTER

The Company's consolidated financial statements for the year ended December 31, 2016, have been audited by other auditors, who expressed an unqualified opinion on February 20, 2017.

## 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. We have determined that the matters described below are the key audit matters which should be communicated in our report.

## ASSESSMENT OF LONG-LIVED ASSETS AND GOODWILL

As described in Note 3 k. to the consolidated financial statements, the Company performs impairment tests on its long lived assets and goodwill.

We have focused our procedures on the review of the long-lived assets and goodwill, mainly due to the significance of the balance in the consolidated financial statements of the Company, and because the impairment tests involve the application of significant judgments by the Company's Management in determining the assumptions related to the estimation of the recoverable value allocated to its cash generating units ("CGUs").



As part of our audit, we focused on the following significant assumptions that the Company considered when estimating future projections to assess the recoverability of long lived assets and goodwill: growth rate of the industry, new projects and significant customers, estimated revenues, discount rates, expected gross profit margin and projected cash flows. With support from our expert appraisers, our procedures, among others, included:

- Identification of long-lived assets impairment indicators.
- We reviewed the models applied to determine the recoverable value of the long lived assets and goodwill methods used for valuing assets with similar characteristics.
- We challenged the financial projections by comparing them to the business performance and historical trends, verifying the explanations of the variations with Management. In addition, we assessed the internal processes used by Management to make projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board of Directors.
- We analyzed the assumptions used in the impairment model, specifically including the cash flow projections, EBITDA multiple and long-term growth plans. The key assumptions used to estimate cash flows in impairment tests of the Company are those related to revenue growth and operating margin.
- Independent assessment of discount rates used and the methodology used in the preparation of the model of the impairment test. In addition, we tested the integrity and accuracy of the impairment model.
- To determine the CGUs, we considered the Company's operating cash flows, debt policies, legal structure analysis, how Management allocates and assigns resources to production activities and an understanding of commercial and sales departments.
- We discussed with Management the sensitivity calculations for all CGUs, calculating the degree to which the assumptions used will need to be changed, and the likeliness these changes may arise.

The results of our procedures were satisfactory, and we believe the assumptions used, including the discount rate, are reasonable.

## ASSESSMENT OF THE RECOVERABILITY OF DEFERRED INCOME TAX ASSETS

The Company records deferred income tax assets derived from tax losses. Management performed an assessment of the probability of recovering the tax losses carryforward to support the deferred tax assets recognized on its consolidated financial statements.

Due to the significance of the deferred income tax asset balance as of December 31, 2017 amounting to \$4,506 million, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item and performed among others the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We challenged the projections used by comparing them to the business performance and historical trends, verifying the explanations of the variations with Management.
- With the support of internal experts, we assessed the processes used to determine the projected taxable income, and the assumptions used by Management in preparing tax projections.
- We discussed with Management the sensitivity analysis and assessed the degree to which the changes in key assumptions used could impact the probability of recovery.

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure are included in Notes 3.I and 23, respectively, to the accompanying consolidated financial statements.



## INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

Management is responsible for the other information presented. The other information comprises the information included in the Annual Report that the Company must prepare pursuant to the General Provisions Applicable to Issuers and other Participants in the Mexican Stock Exchange and file it with the National Banking and Securities Commission ("CNBV" for its acronym in Spanish). The annual report is expected to be made available to us after the date of this auditors' report.

Our opinion of the consolidated financial statements does not cover the other information and we do not express any form of assurance over it.

In connection with our audit of the consolidated financial statements, our responsibility will be to read the other information, when available, and in doing so, consider whether the other information contained therein is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to contain a material error. If based on the work we have performed, we conclude that there is a material misstatement therein, we are required to communicate the matter in a statement in the annual report required by the CNBV and those charged with governance in the Company.

## RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, 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 consolidated financial reporting process.

## AUDITOR'S 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 auditor's 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 auditor's 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 auditor's 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 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's 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 auditor's 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.

Galaz, Yamazaki, Ruiz Urquiza, S.C.  
Member of Deloitte Touche Tohmatsu Limited



C. P. C. Roberto Benavides González  
Monterrey, Nuevo León, México  
January 31, 2018



# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of December 31, 2017 and 2016  
In millions of Mexican pesos

As of December 31,

	Note	2017	2016
<b>ASSETS</b>			
<i>Current assets:</i>			
Cash and cash equivalents	6	\$ 3,757	\$ 2,661
Restricted cash	7	113	474
Trade and other accounts receivable, net	8	11,406	11,581
Inventories	9	12,694	11,784
Assets available for sale		32	40
Prepaid expenses		434	367
<b>Total current assets</b>		<b>28,436</b>	<b>26,907</b>
<i>Non-current assets:</i>			
Property, plant and equipment, net	10	52,274	50,094
Goodwill and intangible assets, net	11	12,782	12,057
Deferred income tax	23	1,002	1,520
Other non-current accounts receivable	8, 24	688	720
Other non-current assets	12	1,507	595
<b>Total non-current assets</b>		<b>68,253</b>	<b>64,986</b>
<b>Total assets</b>		<b>\$ 96,689</b>	<b>\$ 91,893</b>

	Note	2017	2016
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<i>Liabilities</i>			
<i>Current liabilities:</i>			
Debt	14	\$ 1,494	\$ 3,699
Trade and other accounts payable	13	22,949	18,894
Income taxes payable		274	549
Derivative financial instruments		9	-
Other current liabilities	15	783	542
<b>Total current liabilities</b>		<b>25,509</b>	<b>23,684</b>
<i>Non-current liabilities:</i>			
Debt	14	27,905	25,310
Employee benefits	16	1,225	1,058
Deferred income taxes	23	3,346	4,152
Other non-current liabilities	15	281	618
<b>Total non-current liabilities</b>		<b>32,757</b>	<b>31,138</b>
<b>Total liabilities</b>		<b>58,266</b>	<b>54,822</b>
<b>STOCKHOLDERS' EQUITY</b>			
Capital stock	17	6,604	6,607
Share premium		10,434	10,434
Retained earnings		12,722	12,309
Other reserves	17	8,663	7,721
<b>Total stockholders' equity</b>		<b>38,423</b>	<b>37,071</b>
<b>Total liabilities and stockholders' equity</b>		<b>\$ 96,689</b>	<b>\$ 91,893</b>

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez  
Chief Executive Officer



Alberto Sada Medina  
Chief Financial Officer



# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2017 and 2016  
In millions of Mexican pesos, except for earnings per share amounts

	Note	2017	2016
Revenues	25	\$ 84,779	\$ 79,244
Cost of sales		(71,812)	(65,345)
<b>Gross profit</b>		<b>12,967</b>	<b>13,899</b>
Administrative expenses		(5,818)	(4,957)
Other expenses, net	20	(134)	(258)
<b>Operating income</b>		<b>7,015</b>	<b>8,684</b>
Financial income	21	417	53
Financial expenses	21	(1,542)	(1,257)
Loss due to exchange fluctuation, net	21	(775)	(235)
<b>Financial results, net</b>	<b>21</b>	<b>(1,900)</b>	<b>(1,439)</b>
Equity in income of associates recognized using the equity method	12	60	55
<b>Income before income taxes</b>		<b>5,175</b>	<b>7,300</b>
Income taxes	23	(1,484)	(1,890)
<b>Net consolidated income</b>		<b>\$ 3,691</b>	<b>\$ 5,410</b>
Basic and diluted earnings per share, in Mexican pesos			
Weighted average outstanding shares (millions)		1.20	1.76
	17	3,079	3,081

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez  
Chief Executive Officer



Alberto Sada Medina  
Chief Financial Officer



# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos

	Note	2017	2016
Net consolidated income		\$ 3,691	\$ 5,410
Other comprehensive income for the year:			
Items that will not be reclassified to the consolidated statement of income:			
Remeasurement of employee benefit obligations, net of taxes	23	(31)	(55)
Items that will be reclassified to the consolidated statement of income:			
Effect of derivative financial instruments contracted as cash flow hedges, net of taxes	23	63	46
Effect of translation of foreign entities	23	879	5,486
<b>Total comprehensive income of the year</b>		<b>911</b>	<b>5,477</b>
<b>Consolidated comprehensive income</b>		<b>\$ 4,602</b>	<b>\$ 10,887</b>

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez  
Chief Executive Officer



Alberto Sada Medina  
Chief Financial Officer



## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total stockholders' equity
Balances as of January 1, 2016	\$ 6,607	\$10,443	\$8,645	\$2,244	\$27,939
Transactions with stockholders:					
Dividends declared	-	-	(1,755)	-	(1,755)
Cost of initial public offering	-	(9)	9	-	-
	-	(9)	(1,746)	-	(1,755)
Net income	-	-	5,410	-	5,410
Total other comprehensive income of the year	-	-	-	5,477	5,477
Comprehensive income	-	-	5,410	5,477	10,887
<b>Balances as of December 31, 2016</b>	<b>6,607</b>	<b>10,434</b>	<b>12,309</b>	<b>7,721</b>	<b>37,071</b>
Transactions with stockholders:					
Other	(3)	-	3	-	-
Dividends	-	-	(3,163)	-	(3,163)
	(3)	-	(3,160)	-	(3,163)
Net income	-	-	3,691	-	3,691
Total other comprehensive income of the year	-	-	(31)	942	911
Comprehensive income	-	-	3,660	942	4,602
Other	-	-	(87)	-	(87)
<b>Balances as of December 31, 2017</b>	<b>\$ 6,604</b>	<b>\$ 10,434</b>	<b>\$ 12,722</b>	<b>\$8,663</b>	<b>\$38,423</b>

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez  
Chief Executive Officer



Alberto Sada Medina  
Chief Financial Officer



# CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, 2017 and 2016  
In millions of Mexican pesos

	2017	2016
<b>Cash flows from operating activities</b>		
Income before income taxes	\$ 5,175	\$ 7,300
Depreciation and amortization	6,320	5,872
Costs related to employee benefits	97	97
Impairment of property, plant and equipment	211	293
Exchange fluctuation, net	775	230
Interest expense, net	1,000	1,117
Other	(309)	(24)
<b>Movements in working capital:</b>		
Trade receivables and other accounts receivable, net	(323)	1,229
Inventories	(591)	(548)
Suppliers and related parties	3,690	(1,361)
Income taxes paid	(1,686)	(1,380)
<b>Net cash flows provided by operating activities</b>	<b>14,359</b>	<b>12,825</b>

	2017	2016
<b>Cash flows from investing activities</b>		
Interest collected	362	11
Cash flow in acquisitions of property, plant and equipment	(6,732)	(6,896)
Cash flow in acquisition of intangible assets	(1,547)	(1,972)
Dividends collected	21	21
Restricted cash	(426)	(1)
Cash flow in acquisition of business, net of cash acquired	-	(56)
Other	83	29
<b>Net cash flows used in investing activities</b>	<b>(8,239)</b>	<b>(8,864)</b>
<b>Cash flows from financing activities</b>		
Proceeds from debt	15,827	10,994
Payments of debt	(16,133)	(11,960)
Interest paid	(1,545)	(1,112)
Other	(21)	(9)
Dividends paid	(3,163)	(1,755)
<b>Net cash flows used in financing activities</b>	<b>(5,035)</b>	<b>(3,842)</b>
Net increase in cash and cash equivalents	1,085	119
Exchange fluctuation of cash and cash equivalents	11	749
Cash and cash equivalents at the beginning of the year	2,661	1,793
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 3,757</b>	<b>\$ 2,661</b>

Investing and financing activities not requiring the use of cash flows:

In 2017, the transactions that did not require cash flows correspond to \$66 related to finance leases. In 2016, the transactions that did not require cash flows corresponds to the debt assumed in the acquisition of a business as disclosed in Note 2a.

See accompanying notes to consolidated financial statements.



Armando Tamez Martínez  
Chief Executive Officer



Alberto Sada Medina  
Chief Financial Officer

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of and for the years ended December 31, 2017 and 2016  
Millions of Mexican pesos, except where otherwise indicated

## 1. GENERAL INFORMATION

Nemak, S. A. B. de C. V. and subsidiaries (“Nemak” or the “Company”), subsidiary of Alfa, S. A. B. de C. V. (“ALFA”), is a company specialized in the production of aluminum components for the automotive industry, such as engine, monoblocks, transmission parts, structural components and others. The main offices of Nemak are located in Libramiento Arco Vial Km. 3.8, Col. Centro in García, Nuevo León, Mexico.

When reference is made to the controlling entity Nemak, S. A. B. de C. V. as an individual legal entity, it will be referred to as “Nemak SAB”.

Nemak SAB is a public corporation whose shares are listed on the Mexican Stock Exchange. The Company is owned by ALFA at 75.24%; by Ford Motor Company at 5.45% and of a group of Mexican and foreign investors through the Mexican Stock Exchange. ALFA has control over the relevant activities of the Company.

In the notes to the financial statements, reference to pesos or “\$” stands for millions of Mexican pesos. The captions dollars or “US\$” refer to millions of U.S. dollars. In the case of information in millions of euros, reference will be made to “EUR” or Euros.

## 2. SIGNIFICANT EVENTS

### 2017

#### a. Opening of a new operating plant in Mexico

On March 1, 2017, Nemak announced the inauguration of its new High Pressure Die Casting plant (“HPDC”) at the facilities of García, N.L. The new plant uses HPDC

technology for the production of aluminum auto parts, particularly monoblocks, transmission housings and structural parts. In addition, it includes a machining center for the processing of such components. The investment required in the plant was approximately US\$200 and mass production began during the first half of the year.

#### b. Placement of debt bonds in the European market

On March 9, 2017, Nemak issued Senior Notes on the London Stock Exchange and to qualified institutional investors in the amount of Euro 500, through a private offering under Rule 144A and Regulation S of the U.S. Securities Act. The Senior Notes accrue an annual coupon of 3.25%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.

### 2016

#### a. Acquisition of de Cevher Döküm

On November 1, 2016, Nemak acquired the total shares of CEVHER DÖKÜM SANAYİİ A.Ş. (“Cevher”), a company engaged in the production of cast aluminum parts for the manufacture of automobile components. The acquired entity operates a production plant in Turkey and a trading company. This acquisition was performed by the Company to expand its market, diversify risks and strengthen its leadership in the industry. The business acquisition is included in the Europe segment, as described in Note 25. Additionally, the entity changed its legal name to Nemak İzmir Döküm Sanayii, A. S.

This purchase was classified as a business combination in accordance with the requirements of the IFRS 3, Business Combinations; therefore, Nemak applied the acquisition method to measure the assets acquired and liabilities assumed in the transaction. The amount paid for the debt-free acquisition amounted to \$56 (EUR 2.5) net cash received. The acquisition was financed by contracting long-term bank loans.

Costs related to the acquisition amounted \$15 and were recorded in the statement of income, in the other expenses, net caption. The revenues contributed for the assets of Cevher included in the consolidated statement of income from the acquisition date to



December 31, 2016 were \$182, and a net loss of \$36. The Company recognized a bargain purchase gain of Euro 2.2 associated with this acquisition, which was recorded in 2017 when Nematik finalized its purchase accounting and 2016 figures were not restated given the immaterial nature of the 2017 purchase adjustments.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the most significant accounting policies followed by Nematik and its subsidiaries, which have been consistently applied in the preparation of the financial information in the years presented, unless otherwise specified:

#### a. Basis for preparation

The consolidated financial statements of Nematik have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include all International Accounting Standards ("IAS") in effect and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges which are measured at fair value, and for the financial assets and liabilities at fair value through profit or loss with changes reflected in the consolidated statement of income and for financial assets available for sale.

The consolidated financial statements have been prepared on a historical cost basis, except for certain items measured at fair value, as detailed in this note. The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

#### b. Consolidation

##### i. Subsidiaries

The subsidiaries are all the entities over which the Company has control. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. When the Company's participation in subsidiaries is less than 100%, the share attributed to outside shareholders is reflected recorded as non-controlling interest. The gain or loss of the subsidiaries, as well as their assets and liabilities, are consolidated in full from the date on which control is transferred to the Company and up to the date it loses such control.

The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable acquired assets and liabilities and contingent liabilities assumed in a business combination are initially measured at their fair values at the acquisition date. The Company recognizes any non-controlling interest in the acquiree based on the share of the non-controlling interest in the net identifiable assets of the acquired entity.

The Company accounts for business combinations using the predecessor method in a jointly controlled entity. The predecessor method involves the incorporation of the carrying amounts of the acquired entity, which includes the goodwill recognized at the consolidated level with respect to the acquiree. Any difference between the carrying value of the net assets acquired at the level of the subsidiary and its carrying amount at the level of the Company are recognized in stockholders' equity.

The acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities assumed. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

If the business combination is achieved in stages, the value in books at the acquisition date of the equity previously held by the Company in the acquired entity is remeasured at its fair value at the acquisition date. Any loss or gain resulting from such remeasurement is recorded in income of the year.

Transactions and intercompany balances and unrealized gains on transactions between Nematik companies are eliminated in preparing the consolidated financial statements. In order to ensure consistency with the policies adopted by the Company, the accounting policies of subsidiaries have been changed where it was deemed necessary.

As of December 31, 2017, the subsidiaries included in the consolidated financial statements of Nematik were as follows:

	Country <sup>(1)</sup>	Percentage of ownership (%) <sup>(2)</sup>	Functional currency
Nematik, S. A. B. de C. V. (Holding)	Mexico		U.S. dollar
Nematik Mexico, S. A.	Mexico	100	U.S. dollar
Modellbau Schönheide GmbH	Germany	100	Euro
Corporativo Nematik, S. A. de C. V. (Administrative services)	Mexico	100	Mexican peso
Nematik Canada, S. A. de C. V. (Holding)	Mexico	100	Mexican peso
Nematik of Canada Corporation	Canada	100	Canadian dollar
Nematik Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nematik Automotive, S. A. de C. V.	Mexico	100	Mexican peso
Camen International Trading, Inc.	USA	100	U.S. dollar
Nematik Europe GmbH	Germany	100	Euro
Nematik Exterior, S. L. (Holding)	Spain	100	Euro
Nematik Dillingen GmbH	Germany	100	Euro
Nematik Dillingen Casting GmbH & Co KG	Germany	100	Euro
Nematik Wernigerode GmbH	Germany	100	Euro
Nematik Wernigerode GmbH & Co KG	Germany	100	Euro
Nematik Linz GmbH	Austria	100	Euro
Nematik Győr Kft	Hungary	100	Euro

Nematik Poland Sp. z.o.o.	Poland	100	Euro
Nematik Slovakia, S. r. o.	Slovakia	100	Euro
Nematik Czech Republic, S.r.o.	Czech Republic	100	Euro
Nematik Spain, S. L.	Spain	100	Euro
Nematik Rus, LLC.	Russia	100	Russian ruble
Nematik Pilsting GmbH	Germany	100	Euro
Nematik Alumínio do Brazil Ltda.	Brazil	100	Brazilian Real
Nematik Argentina, S. R. L.	Argentina	100	Argentine peso
Nematik Nanjing Automotive Components Co., Ltd.	China	100	Chinese renminbi yuan
Nematik Chongqing Automotive Components, Co, Ltd.	China	100	Chinese renminbi yuan
Nematik Aluminum Casting India Private, Ltd	India	100	Indian rupee
Nemre Insurance Pte LTD	Singapore	100	U.S. dollar
Nematik Commercial Services, Inc.	USA	100	U.S. dollar
Nematik USA, Inc.	USA	100	U.S. dollar
Nematik USA Services Inc	USA	100	U.S. dollar
Nematik Automotive Castings, Inc.	USA	100	U.S. dollar
J. L. French Servicios, S. de R. L. de C. V.	Mexico	100	Mexican peso
J. L. French, S. de R. L. de C. V.	Mexico	100	Mexican peso
Nematik Izmir Döküm Sanayi A. Ş. <sup>(3)</sup>	Turkey	100	Euro
Nematik Izmir Dis Tiscaret A. Ş. <sup>(3)</sup>	Turkey	100	Euro

<sup>(1)</sup> Country of company's incorporation.

<sup>(2)</sup> Direct and indirect ownership percentage of Nematik SAB. Share ownership percentages as of December 31, 2017 and 2016, except for the entities constituted in 2016.

<sup>(3)</sup> Business acquisition in 2016.

As of December 31, 2017 and 2016, there are no significant restrictions in subsidiaries over the capacity of the Company to access the use of assets and pay off liabilities.

#### ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, in example, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the



book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control the dilution effect is recognized in income.

### *iii. Sale or disposal of subsidiaries*

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in the income statement. The fair value is the initial carrying value for the purposes of accounting for any subsequent retained interest in the associate, joint venture or financial asset. Any amount previously recognized in comprehensive income in respect of that entity is accounted for as if the Company had directly disposed of the related assets and liabilities. This implies that the amounts recognized in the comprehensive income are reclassified to income for the year.

### *iv. Associates*

Associates are all entities over which the Company has significant influence but not control. Generally an investor must hold between 20% and 50% of the voting rights in an investee for it to be an associate. Investments in associates are accounted for using the equity method and are initially recognized at cost. The Company's investment in associates includes goodwill identified at acquisition, net of any accumulated impairment loss.

If the equity in an associate is reduced but significant influence is maintained, only a portion of the amounts recognized in the comprehensive income are reclassified to income for the year, where appropriate.

The Company's share of profits or losses of associates, post-acquisition, is recognized in the income statement and its share in the other comprehensive income of associates is recognized as other comprehensive income. When the Company's share of losses in an associate equals or exceeds its equity in the associate, including unsecured receivables, the Company does not recognize further losses unless it has incurred obligations or made payments on behalf of the associate.

The Company assesses at each reporting date whether there is objective evidence that the investment in the associate is impaired. If so, the Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes it in "share of profit/loss of associates recognized by the equity method" in the income statement.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to have significant influence over an associate, any difference between the fair value of the remaining investment, including any consideration received from the partial disposal of the investment and the book value of the investment is recognized in the income statement.

## **c. Foreign currency translation**

### *i. Functional and presentation currency*

The amounts included in the financial statements of each of the Company's subsidiaries and associates should be measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in millions of Mexican pesos.

When there is a change in the functional currency of one of the subsidiaries, according to International Accounting Standard 21 - Effects of changes in foreign exchange rates ("IAS 21"), this change is accounted for prospectively, translating at the date of the change of functional currency, all assets, liabilities, equity and income items to the exchange rate of that date.

### *ii. Transactions and balances*

Transactions in foreign currencies are translated into the functional currency using the foreign exchange rates prevailing at the transaction date or valuation date when the amounts are re-measured. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the closing exchange rates are recognized as foreign exchange gain or loss in the income statement, except for those which are deferred in comprehensive income and qualify as cash flow hedges.

Changes in the fair value of securities or monetary financial assets denominated in foreign currency classified as available for sale are divided between fluctuations resulting from changes in the amortized cost of such securities and other changes in value. Subsequently, currency fluctuations are recognized in income and changes in the carrying amount arising from any other circumstances are recognized as part of comprehensive income.

*Translation of subsidiaries with recording currency other than the functional currency.* The financial statements of foreign subsidiaries, having a recording currency different from their functional currency were translated into the functional currency in accordance with the following procedure:

- The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- To the historical balances of monetary assets and liabilities and shareholders' equity translated into the functional currency there were added the movements occurred during the period, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period, stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- The income, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the income statement, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items were used.
- The exchange differences arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated income statement in the period they arose.

*Translation of subsidiaries with functional currency other than the presentation currency.*

The results and financial position of all Nematik entities (none of which is in a hyperinflationary environment) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the closing date;
- Stockholders' equity of each consolidated statement of financial position are translated at historical rates.
- Income and expenses for each income statement are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and
- The resulting exchange differences are recognized in the consolidated statement comprehensive income.

The primary exchange rates in the various translation processes are listed below:

		<i>Local currency to Mexican pesos</i>			
		Closing Exchange rate at December 31,		Average Exchange rate December 31,	
Country	Local currency	2017	2016	2017	2016
Canada	Canadian dollar	15.74	15.41	15.09	14.21
United States	U.S. dollar	19.75	20.66	19.10	20.54
Brazil	Brazilian real	5.96	6.35	5.81	6.21
Argentina	Argentine peso	1.06	1.30	1.07	1.30
Czech Republic	Euro	23.69	21.80	22.92	21.80
Germany	Euro	23.69	21.80	22.92	21.80
Austria	Euro	23.69	21.80	22.92	21.80
Hungary	Euro	23.69	21.80	22.92	21.80
Poland	Euro	23.69	21.80	22.92	21.80
Slovakia	Euro	23.69	21.80	22.92	21.80
Spain	Euro	23.69	21.80	22.92	21.80
China	Chinese renminbi yuan	3.03	2.98	2.92	2.98
India	Indian rupee	0.31	0.30	0.30	0.30
Russia	Russian ruble	0.34	0.34	0.33	0.33
Singapore	U.S. dollar	19.74	20.66	19.10	20.54
Turkey	Euro	23.69	21.80	22.92	21.80



**d. Cash and cash equivalents**

Cash and cash equivalents include cash on hand, bank deposits available for operations and other short-term investments of high liquidity with original maturities of three months or less, all of which are subject to insignificant risk of changes in value and maintain a high credit quality. Bank overdrafts are presented as loans as a part of the current liabilities.

**e. Restricted cash**

Cash and cash equivalents whose restrictions cause them not to comply with the definition of cash and cash equivalents given above, are presented in a separate line in the statement of financial position and are excluded from cash and cash equivalents in the statement cash flows.

**f. Financial instruments****Financial assets**

The Company classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, investments held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized on the settlement date.

Financial assets are written off in full when the right to receive the related cash flows expires or is transferred and the Company has also transferred substantially all risks and rewards of ownership, as well as control of the financial asset.

*i. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held for trading unless they are designated as hedges.

Financial assets at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Gains or losses from changes in fair value of these assets are presented in the income statement as incurred.

*ii. Loans and receivables*

The receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the statement of financial position date. These are classified as non-current assets.

Loans and receivables are measured initially at fair value plus directly attributable transaction costs and subsequently at amortized cost, using the effective interest method. When circumstances occur that indicate that the amounts receivable will not be collected at the amounts originally agreed or will be collected in a different period, the receivables are impaired.

*iii. Held to maturity investments*

If the Company intends and has the demonstrable ability to hold debt securities to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if expected to be settled within the next 12 months, otherwise they are classified as non-current. Initially they are recognized at fair value plus any directly attributable transaction costs, and subsequently they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or derecognized on the day they are transferred to or by the Company. At December 31, 2017 and 2016, the Company had no such investments.

*iv. Available for sale investments*

Available for sale investments are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless their maturity is less than 12 months or management intends to dispose of the investment within the next 12 months after the consolidated statement of financial position date.

Available for sale investments are initially recognized at fair value plus directly attributable transaction costs. Subsequently, these assets are carried at fair value (unless they cannot be measured by their value in an active market and the value is not reliable, in which case they will be recognized at cost less impairment).

Gains or losses arising from changes in fair value of monetary and non-monetary instruments are recognized directly in the consolidated statement of comprehensive income in the period in which they occur.

When investments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are reclassified to the statement of income.

### **Financial liabilities**

Financial liabilities that are not derivatives are initially recognized at fair value and are subsequently valued at amortized cost using the effective interest method. Liabilities in this category are classified as current liabilities if expected to be settled within the next 12 months, otherwise they are classified as non-current.

Trade payables are obligations to pay for goods or services that have been acquired or received from suppliers in the ordinary course of business. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are initially recognized at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between the funds received (net of transaction costs) and the settlement value is recognized in the income statement over the term of the loan using the effective interest method.

### **Offsetting financial assets and liabilities**

Assets and liabilities are offset and the net amount is presented in the consolidated 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 to realize the asset and settle the liability simultaneously.

### **Impairment of financial instruments**

#### **a. Financial assets carried at amortized cost**

The Company assesses at the end of each year whether there is objective evidence of impairment of each financial asset or group of financial assets. An impairment loss is recognized if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and provided that the loss event (or events) has an impact on the estimated future cash flows arising from the financial asset or group of financial assets that can be reliably estimated.

Aspects evaluated by the Company to determine whether there is objective evidence of impairment are:

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal.
- Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.
- There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.
- Verifiable information indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:
  - (i) Adverse changes in the payment status of borrowers in the group of assets.
  - (ii) National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group.

Based on the items listed above, the Company assesses whether there is objective evidence of impairment. Subsequently, for the category of loans and receivables, when impairment exists, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate. The carrying amount of the asset is reduced by that amount, which is recognized in the income statement.

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company could determine the impairment of the asset given its fair value determined on the basis of a current observable market price. If in the subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the loss impairment is recognized in the income statement.



#### b. Financial assets available for sale

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. As of December 31, 2017 and 2016, the Company does not have financial assets available for sale. In the case of equity financial instruments, a significant reduction of approximately to 30% of the cost of the investment against its fair value or a reduction of the fair value against the cost for a period longer than 12 months is considered objective evidence of impairment.

Subsequently, in the case of financial assets available for sale, an impairment loss determined by computing the difference between the acquisition cost and the current fair value of the asset, less any impairment loss previously recognized, is reclassified from the other comprehensive income to the income statement. Impairment losses recognized in the income statement related to equity financial instruments are not reversed through the consolidated income statement. Impairment losses recognized in the income statement related to financial debt instruments could be reversed in subsequent years, if the fair value of the asset is increased as a result of a subsequent event.

#### c. Derivative financial instruments and hedging activities

All derivative financial instruments are identified and classified as fair value hedging hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the consolidated statement of financial position as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices and its fair value is determined using valuation techniques accepted in the financial sector.

The fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months.

Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured, applicable to this transaction.

#### Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the income statement. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the income statement in the same line item as the hedged position. As of December 31, 2017 and 2016, the Company has no derivative financial instruments classified as fair value hedges.

#### Cash flow hedges

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in stockholders' equity. The effective portion is temporarily recorded in comprehensive income, within stockholders' equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded in income.

#### Suspension of hedge accounting

The Company suspends hedge accounting when the derivative financial instrument or the non-derivative financial instrument has expired, is cancelled or exercised, when the derivative or non-derivative financial instrument is not highly effective to offset the changes in the fair value or cash flows of the hedged item, or when the Company decides to cancel the hedge designation.

On suspending hedge accounting, in the case of fair value hedges, the adjustment to the carrying amount of a hedged amount for which the effective interest rate method is used, is amortized to income over the period to maturity. In the case of cash flow hedges, the amounts accumulated in equity as a part of comprehensive income remain in equity until the time when the effects of the forecasted transaction affect income. In the event the forecasted transaction is not likely to occur, the income or loss accumulated in comprehensive income are immediately recognized in the income statement. When the hedge of a forecasted transaction appears satisfactory and subsequently does not meet the effectiveness test, the cumulative effects in comprehensive income in stockholders' equity are transferred proportionally to the income statement, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the financial statements of the Company, is a mathematical approximation of their fair value. It is computed using proprietary models of independent third parties using assumptions based on past and present market conditions and future expectations at the closing date.

#### g. Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the average cost method. The cost of finished goods and work-in-progress includes cost of product design, raw materials, direct labor, other direct costs and production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is the estimated selling price in the normal course of business, less the applicable variable selling expenses. Costs of inventories include any gain or loss transferred from other comprehensive income corresponding to raw material purchases that qualify as cash flow hedges.

#### h. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to the asset 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 Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the income statement during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

When the Company carries out major repairs or maintenance of its property, plant and equipment assets, and the cost is recognized in the book value of the corresponding asset as a replacement, provided that the recognition criteria are met. The remaining portion of any major repair or maintenance is derecognized. The Company subsequently depreciates the recognized cost in the useful life assigned to it, based on its best estimate of useful life.

Depreciation is calculated using the straight-line method, considering separately each of the asset's components, except for land, which is not subject to depreciation. The estimated useful lives of assets classes are as follows:

Buildings and constructions	33 to 50 years
Machinery and equipment	10 to 14 years
Vehicles	4 to 8 years
Lab and IT furniture and equipment	6 to 10 years
Other assets	10 to 20 years

The spare parts to be used after one year and attributable to specific machinery are classified as property, plant and equipment in other fixed assets.

Borrowing costs related to financing of property, plant and equipment whose acquisition or construction requires a substantial period (nine months or more), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the income statement in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

The residual value and useful lives of assets are reviewed at least at the end of each reporting period and, if expectations differ from previous estimates, the changes are accounted for as a change in accounting estimate.

Gains and losses on disposal of assets are determined by comparing the sale value with the carrying amount and are recognized in other expenses, net, in the income statement.

#### i. Leases

The classification of leases as finance or operating depends on the substance of the transaction rather than the form of the contract.



Leases in which a significant portion of the risks and rewards relating to the leased property are retained by the lessor are classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) are recognized in the consolidated income statement based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the minimum lease payments. If its determination is practical, in order to discount the minimum lease payments to present value, the interest rate implicit in the lease is used; otherwise, the incremental borrowing rate of the lessee should be used. Any initial direct costs of the leases are added to the original amount recognized as an asset.

Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations are included in non-current debt, net of finance charges. The interest element of the finance cost is charged to the income for the year during the period of the lease, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

#### j. Intangible assets

Intangible assets are recognized in the consolidated statement of financial position when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

##### (i) Indefinite useful life

These intangible assets are not amortized and are subject to annual impairment assessment. At As of December 31, 2017 and 2016, no factors have been identified limiting the life of these intangible assets.

##### (ii) Finite useful life

These assets are recognized at cost less accumulated amortization and impairment losses recognized. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

The estimated useful lives of intangible assets with finite useful lives are summarized as follows:

Development costs	5 to 20 years
Relationships with customers	5 to 17 years
Software and licenses	3 to 11 years
Trademarks and patents	15 to 20 years

##### a. Goodwill

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired, determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

##### b. Development costs

Research costs are recognized in income as incurred. Expenditures on development activities are recognized as intangible assets when such costs can be reliably measured, the product or process is technically and commercially feasible, potential future economic benefits are obtained and the Company intends also has sufficient resources to complete the development and to use or sell the asset. Their amortization is recognized in income by the straight-line method over the estimated useful life of the asset. Development expenditures that do not qualify for capitalization are recognized in income as incurred.

##### c. Other relationships with customers

The Company has recognized certain relationships with customers corresponding to the costs incurred to obtain new agreements with certain OEMs (Original Equipment Manufacturers), and which will be recognized as a revenue reduction over the term of these agreements. The amortization method used is based on the volume of units produced. At December 31, 2017 and 2016, the Company recorded a reduction to revenue associated with the amortization of these assets of \$72 and \$2 for this item, respectively.

#### k. Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when 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 the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

#### l. Income tax

The amount of income taxes in the income statement represents the sum of the current and deferred income taxes.

The amount of income taxes included in the consolidated statement of income represents the current tax and the effects of deferred income tax assets determined in each subsidiary by the asset and liability method, applying the rate established by the legislation enacted or substantially enacted at the statement of financial position date, wherever the Company operates and generates taxable income. The applicable rates are applied to the total temporary differences resulting from comparing the accounting and tax bases of assets and liabilities, and that are expected to be applied when the deferred tax asset is realized or the deferred tax liability is expected to be settled, considering, when applicable, any tax-loss carryforwards, prior to the recovery analysis. The effect of the change in current tax rates is recognized in current income of the period in which the rate change is determined.

Management periodically evaluates positions taken in tax returns with respect to situations in which the applicable law is subject to interpretation. Provisions are recognized when appropriate based on the amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken. The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by Nemark and it is probable that the temporary differences will not reverse in the near future.

Deferred tax assets and liabilities are offset when a legal right exists and offset exists when the taxes are levied by the same tax authority.

#### m. Employee benefits

##### i. Pension plans

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to their service in the current and past periods. The contributions are recognized as employee benefit expense on the date that is required the contribution.

Defined benefit plans:

A defined benefit plan is a plan which specifies the amount of the pension an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the consolidated statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the statement of financial position date less the fair value of plan assets. 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 future cash outflows using discount rates in conformity with the IAS 19 – Employee Benefits that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income in the year they occur. The Company determines the net finance expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

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



*ii. Post-employment medical benefits*

The Company provides medical benefits to retired employees after termination of employment. The right to access these benefits usually depends on the employee's having worked until retirement age and completing a minimum of years of service. The expected costs of these benefits are accrued over the period of employment using the same criteria as those described for defined benefit pension plans.

*iii. Termination benefits*

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. The benefits that will be paid in the long term are discounted at their present value.

*iv. Short-term benefits*

The Company provides benefits to employees in the short term, which may include wages, salaries, annual compensation and bonuses payable within 12 months. Nemark recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

*v. Employee participation in profit and bonuses*

The Company recognizes a liability and an expense for bonuses and employee participation in profits when it has a legal or assumed obligation to pay these benefits and determines the amount to be recognized based on the profit for the year after certain adjustments.

*n. Provisions*

Liability provisions represent a present legal obligation or a constructive obligation as a result of past events where an outflow of resources to meet the obligation is likely and where the amount has been reliably estimated. Provisions are not recognized for future operating losses.

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 value of money over time and the risks specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.

When 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 small. Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) as a result of past events, it is likely that an outflow of economic resources will be required to settle the obligation and the amount can be reasonably estimated.

A restructuring provision is recorded when the Company has developed a formal detailed plan for the restructure, and a valid expectation for the restructure has been created between the people affected, possibly for having started the plan implementation or for having announced its main characteristics to them.

*o. Share-based payments*

ALFA (holding company) has compensation plans based on the market value of its shares in favor of certain senior executives of the Company. The conditions for granting such compensation to the eligible executives includes compliance with certain financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The Board of Directors has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of Alfa. Adjustments to this estimate are charged or credited to the income statement.

The fair value of the amount payable to employees in respect of share-based payments which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period of service required. The

liability is included within other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as compensation expense in the income statement.

#### p. Treasury shares

The Company's stockholders' periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value.

#### q. Capital stock

Nemak's common shares are classified as capital stock within stockholders' equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a reduction from the consideration received, net of tax.

#### r. Comprehensive income

Comprehensive income is composed of net income plus the annual effects of their capital reserves, net of taxes, which are comprised of the translation of foreign subsidiaries, the effects of derivative cash flow hedges, actuarial gains or losses, net investment hedges, the effects of the change in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates, and other items specifically required to be reflected in stockholders' equity, and which do not constitute capital contributions, reductions and distributions.

#### s. Segment reporting

Segment information is presented consistently with the internal reporting provided to the chief operating decision maker who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

#### t. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the normal course of operations. Revenue is shown net of estimated customer returns, rebates and similar discounts and after eliminating intercompany sales.

The Company grants discounts and incentives to customers, which are recognized as a deduction from income or as selling expenses depending on their nature. These programs include customer discounts for sales of products based on: i) sales volume (usually recognized as a reduction of revenue) and ii) promotions in retail products (usually recognized as selling expenses), mainly.

Revenue from the sale of goods and products are recognized when all and each of the following conditions are met:

- The risks and rewards of ownership have been transferred.
- The amount of revenue can be reliably measured.
- It is likely that future economic benefits will flow to the Company.
- The Company retains no involvement associated with ownership nor effective control of the sold goods.
- The costs incurred or to be incurred in respect of the transaction can be measured reasonably.
- The Company estimates are based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue recognition criteria depend on the contractual conditions with its customers. In most cases depending of the agreements with each customer the risks and rewards of ownership are transferred when the goods are taken from the plant of the Company to the customers, in other cases the risks and rewards of ownership are transferred when the goods are delivered from the plant to the customers.

#### u. Advanced payments

Advanced payments mainly comprise insurance and the corporate fee paid to suppliers. These amounts are registered based on the contractual value and are carried to the income statement on a monthly basis during the life to which each advanced payment corresponds: the amount that corresponds to the portion to be recognized within the next 12 months is presented in current assets and the remaining amount is presented in non-current assets.



#### v. Earnings per share

Earnings per share are calculated by dividing the profit attributable to the stockholders of the parent by the weighted average number of common shares outstanding during the year. As of December 31, 2017 and 2016 there are no dilutive effects from financial instruments potentially convertible into shares.

#### w. Changes in accounting policies and disclosures

##### i. New standards and changes adopted by the Company.

The Company adopted all new standards and interpretations in effect as of January 1, 2017, including the annual improvements to IFRS; however, they had no significant effects on the Company's consolidated financial statements.

##### ii. New standards and interpretations yet to be adopted by the Company.

A number of new standards, amendments and interpretations have been issued, are not yet effective for reporting periods ended December 31, 2017, and have not been early adopted by the Company.

Below is a summary of these new standards and interpretations as well as the Company's assessment as to the potential impacts on the consolidated financial statements:

#### **IFRS 9, Financial Instruments**

IFRS 9, "Financial Instruments", replaces IAS 39 "Financial Instruments: Recognition and Measurement". This standard is mandatorily effective for periods beginning on or after January 1, 2018 and introduces a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. More specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or fair value through other comprehensive income (FVTOCI), lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

In regards of the expected loss impairment model, the initial adoption requirement of IFRS 9 is retrospective and establishes as an option to adopt it without modifying the financial statements of previous years by recognizing the initial effect on retained earnings at the date of adoption. In case of hedge accounting, IFRS 9 allows application with a prospective approach.

The Company did not have a material impact associated with the new measurement category of FVTOCI as it does not currently hold any instruments that qualify for this treatment; however, potential impacts could arise should it change its investment strategy in the future. Additionally, in terms of hedge accounting, the requirements of IFRS 9 are consistent with the Company's current accounting policy under IAS 39 and no impact is anticipated on its initial adoption nor future hedging operations.

Lastly, regarding the new expected loss impairment model, the Company's management decided to adopt the standard retrospectively recognizing the effects on retained earnings as of January 1, 2018 and has determined the impacts on its consolidated financial position are not material as of that date. The Company has estimated that the effects it will have on its results from operations are not significant.

#### **IFRS 15, Revenues from contracts with customers**

IFRS 15, Revenues from contracts with customers, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer. The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

Management has selected the modified retrospective method that consists of applying the requirements of IFRS 15 to the date of its initial application, January 1, 2018 without restating the financial statements of previous years, adjusting the effects identified in retained earnings to the aforementioned date of initial application. Under the modified retrospective method, the Company chose to apply the requirements of the new standard only to contracts that had not been completed at the date of initial application of IFRS 15.

The Company determined and quantified the initial adoption impact in retained earnings of \$1,103million pesos, net of deferred income taxes, which consists of variable consideration for performance obligations related to long-term contractual relationships that at the date of adoption have already been met.

### **IFRS 16, Leases**

IFRS 16, Leases, supersedes IAS 17, Leases, and the related interpretations. This new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Under IFRS 16, lessees will recognize the right of use of an asset and the corresponding lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. On the other hand, the financial liability will be measured at the initial recognition, in a similar way as required by IAS 17 Leases and subsequently, it should be evaluated if a remeasurement is required, based on contractual modifications of the minimum lease payments.

Additionally, IFRS 16 establishes as exception to these requirements to leases with a term of 12 months or less and containing no purchase options, as well as for leases where the leased asset is low-valued, such as personal computers or small office furniture items.

Management has determined that IFRS 16 could have an impact on the accounting of its existing operating leases. As of December 31, 2017, the Company has non-cancellable operating lease commitments of \$702; however, it has not determined yet to what extent these commitments will result in the recognition of an asset or liability for future payments, and how this will affect the Entity's capital structure, its results and cash flows. The Company will be applying a prospective modified transition as of January 1, 2019, which implies that any transition impact will be recognized directly in stockholders' equity.

### **IFRIC 22, Interpretation on foreign currency transactions and advance consideration**

This new interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation is being issued to reduce diversity in practice related to the exchange rate used when an entity reports transactions that are denominated in a foreign currency in accordance with IAS 21 in circumstances in which consideration is received or paid before the related asset, expense, or income is recognized. Effective for annual reporting periods beginning after January 1, 2018 with earlier application permitted.

The Company translates advance consideration at the exchange rate on the date of the transaction, either received or paid; as a result, management concluded there were no significant impacts on the Company's consolidated financial statements resulting from the adoption of this interpretation.

### **IFRIC 23, Interpretation on uncertainty over income tax treatments**

This new interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income tax, when there is uncertainty over income tax treatments. Uncertain tax treatments is a tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. In such circumstances, the Company shall recognize and measure its current or deferred tax assets or liabilities by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits, and the tax rates determined by applying this interpretation.

The Company shall apply IFRIC 23 for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. On initial application, IFRIC 23 must be applied retrospectively under the requirements of IAS 8 or retrospectively with the cumulative effect of initially applying the interpretation as an adjustment to the opening balance of retained earnings.

The Company is assessing and determining the potential impacts for the adoption of this interpretation on its consolidated financial statements.



## 4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Company's activities expose it to various financial risks; market risk (including exchange rate risk, aluminium, price risk, and interest rate variation risk), credit risk and liquidity risk.

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance. The objective of the risk management program is to protect the financial health of its business, taking into account the volatility associated with prices, foreign exchange and interest rates. The Company uses derivative financial instruments to hedge certain exposures to risks, including hedges of input prices.

ALFA has a Risk Management Committee (RMC), comprised of the Board's Chairman, the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO") and a Risk Management Officer ("RMO") acting as technical secretary. The RMC reviews derivative transactions proposed by the subsidiaries of ALFA, including Nematik, in which a potential loss analysis surpasses US\$1. This Committee supports both the CEO and the Board's President of ALFA. All new derivative transactions which the Company proposes to enter into, as well as the renewal or cancellation of derivative arrangements, must be approved by both Nematik's and ALFA's CEO, as well as by ALFA according to the following schedule of authorizations.

	<i>Maximum possible loss US\$</i>	
	Individual transaction	Annual cumulative transactions
Chief Executive Officer of Nematik	1	5
Risk Management Committee of Alfa	30	100
Finance Committee	100	300
Board of Directors of Alfa	>100	>300

The proposed transactions must meet certain criteria, including that the hedges are lower than established risk parameters, and that they are the result of a detailed analysis and properly documented. Sensitivity analysis and other risk analyses should be performed before the operation is entered into.

Company's risk management policy indicates the maximum percentages must be hedged with respect to the projected exposure:

	<i>Maximum coverage (as a percentage of the projected exposure)</i>
	Current year
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

### Capital management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns to stockholders and benefits to other stakeholders, as well as maintaining an optimal capital structure to reduce cost of capital.

To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to stockholders, return equity to stockholders, issue new shares or sell assets to reduce debt.

Nematik monitors capital based on a leverage ratio. This percentage is calculated by dividing total liabilities by total equity.

The financial ratio of total liabilities/total equity was 1.52 and 1.50 as of December 31, 2017 and 2016, respectively, resulting in a leverage ratio that complies with the Company's management and risk policies.

**Financial instruments by category**

Below are the Company's financial instruments by category:

As of December 31, 2017 and 2016, financial assets and liabilities consist of the following:

	<i>As of December 31,</i>	
	2017	2016
Cash and cash equivalents	\$ 3,757	\$ 2,661
Restricted cash	889	486
Financial assets measured at amortized cost:		
Trade and other accounts receivable	9,592	12,301
Equity investments	71	71
	<b>\$ 14,309</b>	<b>\$ 15,519</b>
Financial liabilities measured at amortized cost:		
Debt	\$29,399	\$ 29,009
Trade and other accounts payable	22,949	18,894
	<b>\$ 52,348</b>	<b>\$ 47,903</b>

**Fair value of financial assets and liabilities measured at amortized cost**

The amount of cash and cash equivalents, restricted cash, customers and other accounts receivable, other current assets, trade and other accounts payable, current debt, other current liabilities approximate their fair value, because their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2017 and 2016.

The carrying amount and estimated fair value of assets and liabilities valued at amortized cost is presented below:

	<i>As of December 31, 2017</i>		<i>As of December 31, 2016</i>	
	Carrying amount <sup>(1)</sup>	Fair value	Carrying amount	Fair value
Financial assets:				
Non-current accounts receivable	\$ 688	\$ 624	\$ 720	\$ 653
Financial liabilities:				
Debt	27,928	29,097	27,156	27,016

<sup>(1)</sup> As of December 31, 2017 the carrying amount of debt, for purposes of comparing it to its fair value, is presented gross of interest payable and issuance costs.

Estimated fair values were determined on a discounted cash flow basis, and these fair values are considered level 3 in the fair value hierarchy for non-current accounts receivable, level 1 for publicly traded debt securities and level 2 for all other financial liabilities.

**Market risks****(i) Exchange rate risk**

The Company operates internationally, and is exposed to foreign exchange risk, primarily derived from the transactions and balances that the subsidiaries conduct and have in foreign currency, respectively. A foreign currency is that which is different from the functional currency of an entity. In addition, the Company is exposed to changes in the value of financial instruments arising from foreign exchange variations.

The respective exchange rates of the Mexican peso, the U.S. dollar and the euro are very important factors for the Company due to the effect they have on its consolidated results. Nematik estimates that approximately 55% of its sales are U.S. dollars denominated and 36% in Euros, since the price of its products is set based on such currencies.

Nematik's main currency risk associated with its financial instruments arises from its financial debt in foreign currencies, primarily the euro, which is held in U.S. dollar functional currency entities.



The sensitivity analysis corresponding to the effects the Company would have on net income and equity for the year ended December 31, 2017 as a result of an appreciation or depreciation of the dollar against the euro by +/- 10%. These effects have been converted to pesos at the closing exchange rate of \$23.6399 as follows:

Sensitivity analysis	In millions of Mexican pesos
a) Appreciation of the dollar against the euro	\$ 1,185
b) Depreciation of the dollar against the euro	\$ (1,185)

### Derivative financial instruments

Effectiveness of derivative financial instruments designated as hedges for accounting purposes is measured periodically.

For the year ended December 31, 2016, the Company did not maintain derivative financial instruments designated as hedge accounting. However, for the year ended December 31, 2017, the Company accounted for some derivative financial instruments as hedges of the risks described below.

#### (ii) Price risk commodities

##### a. Aluminum

Nemak utilizes significant amounts of aluminum in the form of scrap, as well as ingots as its main raw material. In order to mitigate the risks related to the volatility of the prices of this commodity, the Company has entered into agreements with its customers, whereby the variations of aluminum prices are transferred to the sales price of the products through a pre-established formula.

However, there is a residual risk since each OEM uses its own formula to estimate aluminum prices, which normally reflects market prices based on an average term that may range from one to three months. As a result, the basis used by each OEM to calculate the prices of aluminum alloys may differ from the ones used by the Entity to buy aluminum, which could negatively impact its business, financial position and the results of its operations.

##### b. Natural gas

Nemak is an entity that uses natural gas to carry out its operating processes and develop its products. This consumption has grown as the volume of their end products increase, which causes that an increase in the price of natural gas creates negative effects on the operating cash flows. In order to mitigate its exposure to the price of this material, the Entity conducts, some natural gas hedging transactions using derivative instruments. Therefore, according to its risk management program, the Company enters into hedges against the exposure to the increase in natural gas prices, for future purchases by entering into swaps where variable prices are received and a fixed price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives should be contracted to expand the time or the amount of hedging. Currently, a portion of Company's consumption is hedged until April 2018.

These derivative instruments have been classified as cash flow hedges for accounting purposes. Effectiveness of derivative financial instruments designated as hedges is measured periodically.

As of December 31, 2017 the fair value of these financial instruments is as follows:

Type of derivative, value or contract	As of December 31, 2017							
	Value of the underlying asset				Expiration per year			
	Notional amount	Units	Reference	Fair value	2018	2019	2020+	Collateral / warranty
Cash flow hedges								
Natural gas	6	Dollar / MBTU <sup>(1)</sup>	2.74	\$(0.46)	\$ (0.46)	\$ -	\$ -	\$ -

<sup>(1)</sup> Dollar per Mega British Thermal Unit

##### Interest rate risk

The Company is exposed to interest rate risk mainly for long-term loans bearing interest at variable rates. Fixed-interest loans expose the Company to interest rate risk at fair value, which implies that Nemak might be paying interest at rates significantly different from those of an observable market.

As of December 31, 2017, if interest rates on variable rate are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$2.8.

*Contracts for the exchange of interest rates (interest rate swaps):*

Although, at the end of 2017, there were no interest rate derivative financial instruments, at the end of 2016 the Company had fixed-rate Euribor exchange rate agreements. These derivatives were entered into with the intention of hedging a loan owned by a foreign entity that was acquired by one of Nemak's subsidiaries, which was paid in advance at the time of acquisition. However, these derivatives were held until September 2017, when the cancellation was made. During this period, derivatives were accounted for as trading instruments since they did not meet the requirements to be measured as accounting hedges.

Positions in derivative financial instruments to hedge the risk of variability in interest rates are summarized below:

Type of derivative, value or contract	As of December 31, 2016							
	Value of the underlying asset				Expiration per year			
	Notional amount	Units	Reference	Fair value	2017	2018	2019+	Collateral / warranty
IRS Euribor								
Sobre Euribor	190	% per year	0.16	\$(5)	\$ (2)	\$ 2	\$ 1	\$ -

*Credit risk*

Credit risk is managed on a group basis, except for the credit risk related to accounts receivable balances. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and

conditions of payment. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions. If there is no independent rating, the Company's risk control group evaluates the creditworthiness of the customer, taking into account their financial position, past experience and other factors.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board of Directors. During 2017 and 2016, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

The allowance for impairment of trade accounts receivable represents estimated losses resulting from the inability of customers to make required payments. In determining this allowance for doubtful accounts, significant estimates have to be made. The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information. In addition, the Company considers a number of factors to determine the size and appropriate timing for the recognition and amount of allowances, including historical collection experience, customer base, current economic trends and the ageing of the accounts receivable portfolio.

*Liquidity risk*

Projected cash flows are determined at each operating subsidiary of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, and it's that some flexibility is maintained open and committed credit lines.

The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not violated. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury department invests those funds in time deposits, with high credit quality whose maturities or liquidity allow flexibility to meet the cash flow needs of the Company.



The following table analyzes the non-derivative financial instruments, grouped according to their maturity, from the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than a year	From 1 to 5 years	More than 5 years
As of December 31, 2017			
Trade and other accounts payable	\$ 23,698	\$ -	\$ -
Debt (excluding debt issuance costs)	1,175	2,559	3,262
Senior Notes	-	-	21,715
Notes payable	415	-	-
Finance leases	58	422	278
As of December 31, 2016			
Suppliers and other accounts payable	\$ 19,380	\$ -	\$ -
Debt (excluding debt issuance costs)	3,780	11,392	3,735
Senior Notes	852	1,989	11,184
Notes payable	15	76	12
Financial leases	36	110	56

The Company expects to meet its obligations with cash flows generated by operations. Additionally Nematik has access to credit lines with various banks to meet possible requirements.

At December 31, 2017 and 2016, the Company has uncommitted short term credit lines unused for more than US\$850 (\$16,775) and US\$867 (\$17,916), respectively. Additionally, at December 31, 2017 and 2016, Nematik has committed medium-term credit lines of US\$360 (\$7,105) and US\$349 (\$7,212), respectively.

#### *Fair value hierarchy*

The following is an analysis of financial instruments measured in accordance with the fair value hierarchy. The 3 different levels of the fair value hierarchy are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets, which are directly or indirectly observable.
- Level 3: Valuations made through techniques where one or more of their significant data inputs are unobservable.

The Company's assets and liabilities that are measured at fair value as of December 31, 2017 and 2016, are classified within the level 2 of the fair value hierarchy.

There were no transfers between Levels 1 and 2 or between Level 2 and 3 during the period.

The specific valuation techniques used to value financial instruments include:

- Market quotations or trader quotations for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of estimated future cash flows based on observable yield curves.
- The fair value of forward exchange agreements is determined using exchange rates at the closing balance date, with the resulting value discounted at present value.
- Other techniques such as the analysis of discounted cash flows, which are used to determine fair value of the remaining financial instruments.

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### **a. Estimated impairment of goodwill and intangible assets with indefinite lives**

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 11). For impairment testing, goodwill and intangibles assets with indefinite lives are allocated

with those cash generating units (CGUs) of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

Future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.

- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

#### **b. Recoverability of deferred tax assets**

The Company has tax losses to be utilized, derived mainly from significant foreign exchange losses, which may be used in the subsequent years (Note 23). Based on the projections of taxable profits that Nematik expects to generate in the following years, management evaluates the probability of recovery of its deferred tax assets.

#### **c. Long lived assets**

The Company estimates the useful lives of long-lived assets in order to determine the depreciation and amortization expenses to be recorded during the reporting period. The useful life of an asset is calculated when the asset is acquired and is based on past experience with similar assets, considering anticipated technological changes or any other type of changes. Were technological changes to occur faster than estimated, or differently than anticipated, the useful lives assigned to these assets could have to be reduced. This would lead to the recognition of a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in the recognition of a charge for impairment to reflect the reduction in the expected future economic benefits associated with the assets.

The Company reviews depreciable and amortizable assets on an annual basis for signs of impairment, or when certain events or circumstances indicate that the book value may not be recovered during the remaining useful life of the assets. For intangible assets with an indefinite useful life, the Company performs impairment tests annually and at any time that there is an indication that the asset may be impaired.

To evaluate the impairment, the Company uses cash flows, which consider the administrative estimates for future transactions, including estimates for revenues, costs, operating expenses, capital expenses and debt service. In accordance with IFRS, discounted future cash flows associated with an asset or cash-generating unit (CGU) would be compared to the value in books of the asset or CGU at issue to determine if impairment exists whenever the aforementioned discounted future cash flows are less than its book value. In such case, the carrying amount of the asset or group of assets is reduced to its recoverable amount.

#### **d. Contingent losses**

Management also makes judgments and estimates in recording provisions for matters relating to claims and litigation. Actual costs may vary from estimates for several reasons, such as changes in cost estimates for resolution of complaints and disputes based on different interpretations of the law, opinions and evaluations concerning the amount of loss.

Contingencies are recorded as provisions when it is likely that a liability has been incurred and the amount of the loss is reasonably estimable. It is not practical to estimate sensitivity to potential losses if other assumptions were used to record these provisions, due to the number of underlying assumptions and the range of possible reasonable outcomes regarding potential actions by third parties, such as regulators, both in terms of loss probability and estimates of such loss.

## **6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents presented in the consolidated statements of financial position consist of the following:

	<i>December 31,</i>	
	2017	2016
Cash on hand and in banks	\$ 3,570	\$ 2,115
Short-term bank deposits	187	546
<b>Total cash and cash equivalents</b>	<b>\$ 3,757</b>	<b>\$ 2,661</b>



## 7. RESTRICTED CASH

The value of restricted cash is composed as follows:

	December 31,	
	2017	2016
Current	\$ 113	\$ 474
Non-current (Note 12)	776	12
<b>Restricted cash<sup>(1)(2)</sup></b>	<b>\$ 889</b>	<b>\$ 486</b>

<sup>1</sup> The Company received formal notices from the Brazilian tax authorities corresponding to tax credits, related to their review of its operations in Brazil. Pending the resolution of these requirements, and by virtue of a court order, Nemark has segregated bank balances as of December 31, 2017 and 2016, of \$774 and \$474, respectively, which will be reimbursed to the Company upon final resolution. In October 2017, the Brazilian Supreme Court ruled in favor of Nemark and other taxpayers meeting certain criteria. However, it admitted the modulation claim presented by the Attorney General of the National Treasury Department, alleging that the reimbursement to all taxpayers who obtained a favorable resolution would be extremely burdensome for the national economy.

<sup>2</sup> In accordance with the provisions of a credit agreement, the Company has made long term cash deposit pursuant to a preferential loan arranged in order to participate in a financing by a US agency to promote investment in rural / low-development regions in the USA.

## 8. TRADE AND OTHER RECEIVABLES, NET

	December 31,	
	2017	2016
Current:		
Trade accounts receivable	\$ 5,875	\$ 5,071
Due from related parties	2,574	3,100
Recoverable taxes	2,502	2,997
Sundry debtors	547	465
Allowance for impairment of trade accounts receivable	(92)	(52)
<b>Total</b>	<b>\$ 11,406</b>	<b>\$ 11,581</b>
Non-current:		
Non-current receivable due from related parties (Note 24)	\$ 688	\$ 720

The analysis by age of the balances due from trade accounts receivables not covered by impairment provisions is as follows:

	December 31,	
	2017	2016
1 to 30 days	\$ 915	\$ 1,091
30 to 90 days	241	438
90 to 180 days	135	138
Over 180 days	31	107
<b>Total</b>	<b>\$ 1,322</b>	<b>\$ 1,774</b>

Movements in the allowance for impairment of trade accounts receivable are as follows:

	2017	2016
Opening balance as of January 1	\$ (52)	\$ (33)
Allowance for impairment of trade and other accounts receivable	(67)	(51)
Receivables written off during the year	-	27
Other	27	5
<b>Final balance as of December 31</b>	<b>\$ (92)</b>	<b>\$ (52)</b>

The increases in the allowance for impairment of trade and other accounts receivable are recorded in the statement of income.

As of December 31, 2017 and December 31, 2016, the maximum credit risk of the accounts receivable is expressed by their carrying amount.

## 9. INVENTORIES

	December 31,	
	2017	2016
Raw material and other consumables	\$ 6,132	\$ 8,278
Work in process	4,360	1,589
Finished goods	2,202	1,917
	<b>\$ 12,694</b>	<b>\$ 11,784</b>

For the years ended on December 31, 2017 and 2016, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of \$25 and \$4, respectively.

At December 31, 2017 and 2016, there were no inventories pledged as collateral.

## 10. PROPERTY, PLANT AND EQUIPMENT, NET

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and equipment	Constructions in progress	Other fixed assets	Total
For the year ended December 31, 2016								
Opening balance, net	\$ 1,246	\$ 6,601	\$ 23,687	\$ 61	\$ 446	\$ 5,548	\$ 675	\$ 38,264
Translation effect	264	1,346	4,689	13	98	1,036	116	7,562
Additions	-	(3)	1,193	-	14	8,110	18	9,332
Additions from business acquisitions	132	129	825	7	6	124	-	1,223
Disposals	-	(1)	(901)	-	(1)	(6)	4	(905)
Depreciation of the year	-	(402)	(4,545)	(28)	(164)	-	-	(5,139)
Transfers	34	495	4,550	21	247	(5,480)	(110)	(243)
<b>Final balance as of December 31, 2016</b>	<b>\$ 1,676</b>	<b>\$ 8,165</b>	<b>\$ 29,498</b>	<b>\$ 74</b>	<b>\$ 646</b>	<b>\$ 9,332</b>	<b>\$ 703</b>	<b>\$ 50,094</b>
As of December 31, 2016								
Cost	\$ 1,676	\$ 13,564	\$69,308	\$339	\$ 2,012	\$9,332	\$ 703	\$ 96,934
Accumulated depreciation	-	(5,399)	(39,810)	(265)	(1,366)	-	-	(46,840)
<b>Net carrying amount as of December 31, 2016</b>	<b>\$ 1,676</b>	<b>\$ 8,165</b>	<b>\$ 29,498</b>	<b>\$ 74</b>	<b>\$ 646</b>	<b>\$ 9,332</b>	<b>\$ 703</b>	<b>\$ 50,094</b>



	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and equipment	Constructions in progress	Other fixed assets	Total
For the year ended as of December 31, 2017								
Net opening balance	\$ 1,676	\$ 8,165	\$ 29,498	\$74	\$ 646	\$ 9,332	\$ 703	\$ 50,094
Translation effect	(1)	34	551	34	55	(164)	402	911
Additions	59	(140)	1,327	(1)	6	6,834	222	8,307
Disposals	-	(4)	(841)	1	(25)	(101)	(384)	(1,354)
Impairment charge recognized in the year	-	-	(211)	-	-	-	-	(211)
Depreciation charge recognized in the year	-	(402)	(5,013)	(58)	21	-	(21)	(5,473)
Transfers	-	1,150	6,371	20	349	(7,961)	71	-
<b>Final balance as of December 31, 2017</b>	<b>\$ 1,734</b>	<b>\$ 8,803</b>	<b>\$ 31,682</b>	<b>\$ 70</b>	<b>\$ 1,052</b>	<b>\$ 7,940</b>	<b>\$ 993</b>	<b>\$ 52,274</b>
As of December 31, 2017								
Cost	\$ 1,734	\$ 14,670	\$ 75,864	\$ 328	\$ 2,417	\$ 7,940	\$ 1,062	\$ 104,015
Accumulated depreciation	-	(5,867)	(44,182)	(258)	(1,365)	-	(69)	(51,741)
<b>Net carrying amount as of December 31, 2017</b>	<b>\$ 1,734</b>	<b>\$ 8,803</b>	<b>\$ 31,682</b>	<b>\$ 70</b>	<b>\$ 1,052</b>	<b>\$ 7,940</b>	<b>\$ 993</b>	<b>\$ 52,274</b>

Of the total depreciation expense, \$5,206 and \$4,873, were charged to cost of sales, \$2 and \$2, to selling expenses and \$265 and \$264, to administrative expenses in 2017 and 2016, respectively.

As of December 31, 2017 the portion of property, plant and equipment pledged as collateral was \$116.

Assets under finance leases include the following amounts in which the Company is the lessee:

	December 31,	
	2017	2016
Cost – finance leases	\$ 530	\$ 464
Accumulated depreciation	(207)	(225)
<b>Net carrying amount</b>	<b>\$ 323</b>	<b>\$ 239</b>

The Company has entered into non-cancellable finance lease agreements as lessee. The lease terms of the agreements entered into vary between 3 and 20 years. For the years ended December 31, 2017 and 2016, the acquisition of assets of property, plant and equipment that did not require cash flows were \$66 and \$50.

## 11. GOODWILL AND INTANGIBLE ASSETS

	Development costs	Relationships with customers	Software and licenses	Intellectual property rights	Goodwill	Total
<b>Cost</b>						
As of January 1, 2016	\$ 4,448	\$ 2,023	\$ 515	\$ 93	\$ 5,187	\$ 12,266
Translation effects	1,615	121	103	19	649	2,507
Additions	851	921	169	-	-	1,941
Disposals	(3)	(45)	(53)	-	-	(101)
<b>As of December 31, 2016</b>	<b>6,911</b>	<b>3,020</b>	<b>734</b>	<b>112</b>	<b>5,836</b>	<b>16,613</b>
Translation effects	(592)	25	385	(5)	421	234
Additions	1,256	280	11	-	-	1,547
Disposals	(148)	-	(2)	-	-	(150)
<b>As of December 31, 2017</b>	<b>\$ 7,427</b>	<b>\$ 3,325</b>	<b>\$ 1,128</b>	<b>\$ 107</b>	<b>\$ 6,257</b>	<b>\$ 18,244</b>
<b>Accumulated amortization</b>						
January 1, 2016	\$ (1,901)	\$(606)	\$ (450)	\$ (93)	\$-	\$ (3,050)
Amortizations	(505)	(111)	(146)	-	-	(762)
Disposals	1	-	28	-	-	29
Translation effects	(524)	(108)	(122)	(19)	-	(773)
<b>As of December 31, 2016</b>	<b>(2,929)</b>	<b>(825)</b>	<b>(690)</b>	<b>(112)</b>	<b>-</b>	<b>(4,556)</b>
Amortizations	(613)	(145)	(89)	-	-	(847)
Disposals	58	-	2	-	-	60
Translation effects	(74)	(126)	76	5	-	(119)
<b>As of December 31, 2017</b>	<b>\$ (3,558)</b>	<b>\$ (1,096)</b>	<b>\$ (701)</b>	<b>\$ (107)</b>	<b>\$-</b>	<b>\$ (5,462)</b>
<b>Net carrying amount</b>						
Cost	\$ 6,911	\$ 3,020	\$ 734	\$112	\$ 5,836	\$ 16,613
Accumulated amortization	(2,929)	(825)	(690)	(112)	-	(4,556)
<b>As of December 31, 2016</b>	<b>3,982</b>	<b>2,195</b>	<b>44</b>	<b>-</b>	<b>5,836</b>	<b>12,057</b>
Cost	7,427	3,325	1,128	107	6,257	18,244
Accumulated amortization	(3,558)	(1,096)	(701)	(107)	-	(5,462)
<b>As of December 31, 2017</b>	<b>\$ 3,869</b>	<b>\$ 2,229</b>	<b>\$ 427</b>	<b>\$ -</b>	<b>\$ 6,257</b>	<b>\$ 12,782</b>



Of the total amortization expense, \$661 and \$521, were charged to cost of sales, \$186 and \$205, to administrative expenses, \$- and \$7 to selling expenses, in 2017 and 2016, respectively

Research expenses incurred and recorded in the 2017 and 2016 consolidated statements of income were \$6 and \$11, respectively.

### Impairment testing of goodwill

Goodwill is allocated to operating segments that are expected to benefit from the synergies of the business combination, irrespective of whether other assets or liabilities of the acquirer are assigned to those units or groups of units, as follows:

	North America	Europe	Rest of the world	Total
Balance as of January 1, 2016	\$ 2,216	\$ 2,087	\$ 650	\$ 4,953
Exchange differences	398	371	114	883
<b>Balance as of December 31, 2016</b>	<b>\$ 2,614</b>	<b>\$ 2,458</b>	<b>\$ 764</b>	<b>\$ 5,836</b>
Exchange differences	270	124	27	421
<b>Balance as of December 31, 2017</b>	<b>\$ 2,884</b>	<b>\$ 2,582</b>	<b>\$ 791</b>	<b>\$ 6,257</b>

The estimated gross margin has been budgeted based on past performance and market development expectations. The growth rate used is consistent with the projections included in the industry reports. The discount rate used is before taxes and it reflects the inherent risk in future cash flows.

The recoverable amount of all cash generating units has been determined based on fair value less costs of disposal considering a market participant's perspective. These calculations use cash flow projections based on pre-tax financial budgets approved by management covering 5 year period. Cash flows beyond the 5 year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in calculating the value in use in 2017 and 2016 were as follows:

	2017		
	North America	Europe	Rest of the World
Growth rate	1.50%	1.50%	2.50%
Discount rate	8.50%	8.00%	9.12%

	2016		
	North America	Europe	Rest of the World
Estimated gross margin	24.21%	20.87%	15.10%
Growth rate	1.50%	1.50%	2.40%
Discount rate	9.20%	8.70%	9.40%

With regards to the value in use estimate of the cash generating units, the Company performed a sensitivity analysis considering a potential change in the key assumptions described above. The resulting amounts from the sensitivity analysis would not reflect that the carrying amount exceeds the value in use.

## 12. OTHER NON-CURRENT ASSETS

	December 31,	
	2017	2016
Restricted cash	\$ 776	\$ 12
Available for sale financial assets <sup>(1)</sup>	71	71
Investments in associates	505	415
Other assets	155	97
<b>Total other non-current assets</b>	<b>\$ 1,507</b>	<b>\$ 595</b>

<sup>(1)</sup> Equity investments are investment in shares of companies of non-public companies. No impairment loss was recognized as of December 31, 2017 and 2016.

The accumulated summarized financial information for investments in associates accounted for under the equity method and that are not considered material, is as follows:

	2017	2016
Net income equal to comprehensive income	60	\$ 55

There are no contingent liabilities or commitments related to the Company's investments in associates.

### 13. TRADE AND OTHER PAYABLES

	December 31,	
	2017	2016
Trade account payable	\$ 17,901	\$ 15,006
Advances from customers	472	505
Other social security fees and benefits	819	779
Related parties (Note 24)	34	54
Other payables	3,723	2,550
	<b>\$ 22,949</b>	<b>\$ 18,894</b>

### 14. DEBT

	December 31,	
	2017	2016
Current:		
Bank loans <sup>(1)</sup>	\$ 924	\$ 1,788
Current portion of non-current debt	155	1,634
Notes payable <sup>(1)</sup>	415	277
<b>Total current debt<sup>(2)</sup></b>	<b>\$ 1,494</b>	<b>\$ 3,699</b>
Non-current debt:		
Unsecured bank loans	\$ 5,917	\$ 16,443
Finance leases	758	203
<i>In U.S dollars:</i>		
Senior Notes	9,868	10,194
<i>In euros:</i>		
Senior Notes	11,847	-
Other	-	104
Non-current debt before debt issuance costs	28,390	26,944
Less: Debt issuance costs	(330)	-
Less: current portion of other debts	(155)	(1,634)
<b>Non-current debt</b>	<b>\$ 27,905</b>	<b>\$ 25,310</b>

<sup>(1)</sup> As of December 31, 2017 and 2016, short-term bank loans and notes payable bore interest at an average rate of 4.37% and 3.84%, respectively.

<sup>(2)</sup> The fair value of bank loans and notes payable approximate their current book value, due to their short maturity.



The carrying amounts, terms and conditions of non-current debt were as follows:

Description	Contractual currency	Value in MX pesos <sup>(4)</sup>	Debt issuance costs	Interest paid	Balance as of December 31, 2017	Balance as of December 31, 2016 <sup>(5)</sup>	Inception date MM/DD/YYYY	Maturity date MM/DD/YYYY	Interest rate
Club Deal (Citi) <sup>(1)</sup>	USD	\$ -	\$ -	\$ -	\$ -	\$ 4,436	12/02/2013	12/02/2018	2.34%
Club Deal-(Citi) <sup>(1)</sup>	EUR	-	-	-	-	865	12/02/2013	12/02/2018	1.50%
Club Deal-(BBVA) <sup>(2)</sup>	USD	446	-	2	448	5,190	11/13/2016	11/13/2020	2.07%
Club Deal-(BBVA) <sup>(2)</sup>	EUR	96	-	-	96	975	11/13/2016	11/13/2020	1.25%
Bancomext LP	USD	2,373	7	2	2,368	2,471	12/23/2016	12/23/2025	3.39%
Nafin LP	USD	1,585	6	-	1,579	1,647	12/29/2016	12/29/2025	3.40%
Unicredit Turkey	EUR	806	-	-	806	741	12/28/2016	12/28/2019	1.25%
Brazil	BRL	85	-	-	85	90	01/31/2016	01/15/2025	8.50%
Modellbau	EUR	-	-	-	-	27	04/30/2009	09/30/2017	1.82%
Russia	RUB	2	-	-	2	-		01/11/2017	4.05%
Spain	EUR	139	-	-	139	-		12/25/2031	0.37%
USA	USD	394	-	-	394	-		04/06/2024	1.42%
<b>Total unsecured bank loans</b>		<b>5,926</b>	<b>13</b>	<b>4</b>	<b>5,917</b>	<b>16,442</b>			
Issuance costs		(161)	-	-	(161)	-			
<b>Total unsecured bank loans</b>		<b>5,765</b>	<b>13</b>	<b>4</b>	<b>5,756</b>	<b>16,442</b>			
Senior Notes <sup>(3)</sup>	USD	9,798	120	190	9,868	10,195	02/28/2013	02/28/2023	5.50%
Senior Notes - EUR <sup>(3)</sup>	EUR	11,931	197	113	11,847	-		09/15/2024	3.25%
Issuance costs		(169)	-	-	(169)	-			
<b>Total Senior Notes</b>		<b>21,560</b>	<b>317</b>	<b>303</b>	<b>21,546</b>	<b>10,195</b>			
Finance lease:									
USA	USD	13	-	-	13	1	01/01/2013	09/01/2017	10.64%
China	RMB	188	-	-	188	200	09/06/2006	02/28/2023	6.45%
Russia	RUB	-	-	-	-	2	08/01/2014	04/30/2018	4.05%
Canada	CAD	6	-	-	6	-		01/03/2020	0.83%
Modellbau	EUR	21	-	-	21	-		05/15/2020	1.82%
Dillingen	EUR	501	-	-	501	-		05/15/2020	1.82%
Mexico	USD	29	-	-	29	-			
<b>Total finance lease</b>		<b>758</b>	<b>-</b>	<b>-</b>	<b>758</b>	<b>203</b>			
Other liabilities		-	-	-	-	104			
<b>Total</b>		<b>28,083</b>	<b>330</b>	<b>307</b>	<b>28,060</b>	<b>26,944</b>			
Less: current portion of non-current debt		(155)	-	-	(155)	(1,634)			
<b>Non-current debt</b>		<b>\$ 27,928</b>	<b>\$ 330</b>	<b>\$307</b>	<b>\$ 27,905</b>	<b>\$ 25,310</b>			

<sup>(1)</sup> Club Deal (Citi) in USD and EUR accrues at the LIBOR+1.5% and EURIBOR+1.5%, respectively.

<sup>(2)</sup> Club Deal (BBVA) in USD and EUR accrues at the LIBOR+1.25% and EURIBOR+1.25%, respectively.

<sup>(3)</sup> Senior Notes at a fixed interest rate of 5.5% Senior Notes EUR at a fixed interest rate of 3.25%

<sup>(4)</sup> At the exchange rate prevailing at the period end.

<sup>(5)</sup> For the year ended as of December 31, 2016 the issuance costs were \$254.

At December 31, 2017, the annual maturities of non-current debt are as follows:

	2018	2019	2020	2021 and thereafter	Total
Bank loans <sup>1</sup>	\$ 97	\$ 945	\$ 806	\$ 4,069	\$ 5,917
Senior Notes <sup>2</sup>	-	-	-	21,715	21,715
Finance leases	58	171	86	443	758
	<b>\$ 155</b>	<b>\$ 1,116</b>	<b>\$ 892</b>	<b>\$ 26,227</b>	<b>\$ 28,390</b>

<sup>(1)</sup> Interest on bank loans will be paid quarterly.

<sup>(2)</sup> Interest on Senior Notes will be paid semiannually.

### Covenants:

Loan contracts and debt agreements contain restrictions, primarily with respect to compliance with certain financial ratios, including:

- Interest coverage ratio: which is defined as EBITDA (See Note 25) for the period of the last four complete quarters divided by financial expenses, net, for the last four quarters, which shall not be less than 3.0 times.
- Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt appropriate, divided by EBITDA for the period of the last four complete quarters, which shall not be more than 3.5 times.

Additionally to the aforementioned agreements, there are commitments related to the Senior Notes issued in USD in February 2013, as well as similar financing denominated in Euros issued in March 2017, among the most important of which is the limitation to contract debt or increase it in the event that it does not comply with the fixed-charges coverage ratio at a rate of at least 2.25 and 2.0 times, respectively. During 2017 and 2016, the financial ratios were calculated in according to the formulas set out in the effective debt agreements.

At December 31, 2017 and the date of issuance of these financial statements, the Company is in compliance with all obligations and covenants contained in its credit agreements; such obligations, among other conditions are subject to certain exceptions, and require or limit the ability of the Company to:

- Provide certain financial information;
- Maintain books and records;
- Maintain assets in appropriate conditions;
- Comply with applicable laws, rules and regulations;
- Incur additional indebtedness;
- Pay dividends (only applicable to Nemak, SAB)
- Grant liens on assets;
- Enter into transactions with affiliates;
- Perform a consolidation, merger or sale of assets, and
- Carry out sale and lease-back operations

As of December 31, 2017 and 2016 there are no assets pledged as collateral for any of the subsidiaries, except for:

- Some assets, pledged as collateral in a long-term debt granted by a Brazilian government entity to promote investment ("BNDES"). At December 31, 2017 the outstanding balance and the value of the pledged assets are approximately US\$ 4.3 (\$84.6) and US\$4.7 (\$92.4), respectively.
- Various minor loans to finance equipment acquisitions in several subsidiaries with liens of approximately US\$1.7 (\$34.01).

### Significant debt transactions in 2017:

- On March 9, 2017, Nemak issued Senior Notes on the Irish Stock Exchange in the amount of Euro500, through a private offering under Rule 144A and Regulation S. The Senior Notes accrue an annual coupon of 3.25%, maturing in 7 years. The proceeds were mainly used to prepay other financial liabilities with shorter maturity terms.

### Significant debt transactions in 2016:

- New financing. During December 2016, the Company completed its refinancing of the debt of its subsidiary, Nemak Izmir (a business acquired, see Note 2) through Unicredit Bank A. G. The loan was of EUR34 at a term of a little over 3 years and payable in a single installment on the final maturity date. The applicable interest rate is variable at Euribor+1.6%. The loan is unsecured.



b. Increase in revolving lines committed in the medium term. Nemark contracted US\$20 with Comerica Bank and US\$50 with Scotia Bank, both at a three-year term and maturing in January and April 2019, respectively.

The Company's finance lease obligations as of December 31, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
Finance lease obligations – minimum payments, including non-accrued interest	\$ 13	\$ -
Less than 1 year	117	30
Over 1 year and less than 5 years	352	148
Over 5 years	442	96
<b>Total</b>	<b>\$ 924</b>	<b>\$ 274</b>

The present value of finance lease liabilities is as follows:

	December 31,	
	2017	2016
Less than 1 year	\$ 94	\$ 17
Over 1 year and less than 5 years	217	101
Over 5 years	447	85
	<b>\$ 758</b>	<b>\$ 203</b>

The rights to the leased assets revert to the lessor in the event of the Company's default.

## 15. OTHER LIABILITIES

	December 31,	
	2017	2016
<b>Current:</b>		
Other taxes and withholdings	\$ 555	\$ 372
Deferred income	20	-
Statutory employee profit sharing	140	139
Share-based payment (Note 18)	31	31
Bank overdrafts	37	-
<b>Total</b>	<b>\$ 783</b>	<b>\$ 542</b>
<b>Non-current:</b>		
Other	\$ 281	\$ 618
<b>Total</b>	<b>\$ 281</b>	<b>\$ 618</b>

## 16. EMPLOYEE BENEFITS

The valuation of employee benefits for retirement plans is based primarily on their years of service, current age and estimated salary at retirement date.

Subsidiaries of the Company have established funds for the payment of retirement benefits through irrevocable trusts.

The employee benefit obligations recognized in the consolidated statement of financial position are shown below:

	December 31,	
	2017	2016
<b>Country</b>		
Mexico	\$ 228	\$ 323
United States	39	42
Canada	154	151
Poland	162	122
Austria	259	246
Germany	138	99
Other	245	75
<b>Total</b>	<b>\$ 1,225</b>	<b>\$ 1,058</b>

Below is a summary of the primary financial data of these employee benefits:

	December 31,	
	2017	2016
Obligations in the consolidated statement of financial position:		
Pension benefits	\$ 1,055	\$ 897
Post-employment medical benefits	170	161
Liability recognized in the consolidated statement of financial position	1,225	1,058
Charge in the statement of income for:		
Pension benefits	(104)	(186)
Post-employment medical benefits	(16)	(9)
	(120)	(195)
Remeasurements from employee benefit obligations recognized in other comprehensive income for the year		
Pension benefits	(43)	(61)
Post-employment medical benefits	3	(12)
	(40)	(73)
<b>Remeasurements accumulated in stockholder's equity</b>	<b>\$ (226)</b>	<b>\$ (186)</b>

#### Post-employment pension and medical benefits

The Company operates post-employment medical benefits in Mexico and Canada. The accounting method, assumptions and frequency of valuations are similar to those used for benefits defined in pension schemes.

Amounts recognized in the consolidated statement of financial position are determined as follows:

	December 31,	
	2017	2016
Present value of the obligations	\$ 1,878	\$ 1,669
Fair value of plan assets	(653)	(607)
<b>Net liabilities in the consolidated statement of financial position</b>	<b>\$ 1,225</b>	<b>\$ 1,062</b>
The movement in the defined benefit obligation during the year was as follows:		
	2017	2016
As of January 1	\$ 1,669	\$ 1,271
Current service cost	91	131
Interest cost	52	52
Contributions from plan participants	1	5
Remeasurements:		
Loss (gain) for changes in personnel experience	62	70
Reductions	(22)	-
Benefits paid	(56)	(42)
Exchange differences	81	182
<b>As of December 31,</b>	<b>\$ 1,878</b>	<b>\$ 1,669</b>

The movement in the fair value of plan assets for the year was as follows:

	2017	2016
As of January 1st	\$ (607)	\$ (492)
Interest income	(24)	(11)
Remeasurements – return from plan assets, net	(21)	3
Exchange differences	(2)	(92)
Contributions from plan participants	(25)	(16)
Employee contributions	(1)	(1)
Benefits paid	27	2
<b>As of December 31</b>	<b>\$ (653)</b>	<b>\$ (607)</b>



The primary actuarial assumptions were as follows:

	December 31,	
	2017	2016
Mexico:		
Inflation rate	6.77%	3.50%
Wage increase rate	4.50%	4.50%
Future wage increase	3.50%	3.50%
Medical inflation rate	6.50%	6.50%
Discount rate:		
Mexico	7.25%	7.75%
Canada	3.40%	3.99%
Austria	2.00%	2.00%
United States	2.86%	2.99%
Germany	1.26%	1.68%
Poland	3.20%	3.10%

The sensitivity analysis of the main assumptions for defined benefit obligations discount rate were as follows:

Impact on defined benefit obligations			
	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rate	+1%	Decreases by \$(20)	Increases by \$24

#### Pension benefit assets

Plan assets are comprised of the following:

	2017	2016
Equity instruments	\$ 229	\$ 212
Short and long-term fixed-income securities	424	395
	<b>\$ 653</b>	<b>\$ 607</b>

## 17. STOCKHOLDERS' EQUITY

At December 31, 2017 and December 31, 2016, the fixed, capital stock of \$ 6,604 and \$ 6,607, respectively, was represented by 3,079 and 3,081 million registered common shares, "Class I" of the Series "A", without face value, fully subscribed and paid, respectively.

At December 31, 2017 and 2016, the shares was represented as follows:

Stockholder	Number of shares	
	(In millions)	Amount
ALFA	\$2,318	\$4,971
FORD	168	360
Public	595	1,276
<b>Balances as of December 31, 2016</b>	<b>\$3,081</b>	<b>\$6,607</b>
Repurchases of shares	(2)	(3)
<b>Balances as of December 31, 2017</b>	<b>\$3,079</b>	<b>\$6,604</b>

The movement in outstanding shares for the year was as follows:

Number of shares (In millions)	
Shares as of January 1, 2016	3,081
Movements of the year	-
<b>Shares as of December 31, 2016</b>	<b>3,081</b>
Repurchases of shares	(2)
<b>Shares as of December 31, 2017</b>	<b>3,079</b>

During the year 2016, there were no movements in outstanding shares. In 2017 there were repurchases of shares for \$2.

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock. At December 31, 2017 and 2016, the legal reserve amounted to \$174, which is included in retained earnings.

Dividends paid in 2017 and 2016 were \$3,163 (1.02 per share) and \$1,755 (\$0.59 per share), which fully arise from the Net Tax Profit Account (CUFIN).

Dividends paid are not subject to income tax if paid from the CUFIN. Any dividends paid in excess of this account will cause a tax equivalent to 42.86% if they are paid in 2017. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years or, if applicable, against the flat tax of the period. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. At December 31, 2017, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to \$3,113 and \$9,923, respectively.

In accordance with the Mexican Income Tax Law becoming effective on January 1, 2014, a 10% tax on income generated starting 2014 on dividends paid to foreign residents and Mexican individuals when these correspond to taxable income. It also establishes that for fiscal years 2001 to 2013, the net tax on profits will be determined as established in the Income Tax Law effective in the corresponding fiscal year.

The incentive is applicable provided that 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 profits distributed, which corresponds to the year such amounts are distributed as follows:

Year of distribution of dividend or profit	Percentage of application to the amount of dividend or profit distributed.
2017	1%
2018	2%
2019 onwards	5%

The tax credit will be used against the additional 10% income tax that the entity must withhold and pay.

To apply the tax credit, the Company must meet the following requirements:

- Must identify in its accounts the corresponding accounting records to earnings or dividends generated in 2014, 2015 and 2016 and the respective distributions.
- Present in the notes to the financial statements information for the period in which profits were generated, dividends were reinvested or distributed.

Entities distributing dividends or profits in respect of shares placed among the investing public should inform brokerage firms, credit institutions, investment firms, the people who carry out the distribution of shares of investment companies, or any other intermediary, the necessary details so that these brokers can make the corresponding withholding. For the years ended December 31, 2017 and 2016, the Company generated taxable income of \$3,691 and \$5,410, which may be subject to this withholding.

In the case of a capital reduction, Mexican tax law establishes that any excess of stockholders' equity over capital contributions be given the same tax treatment as applicable to dividends.

The movements in other reserves for 2017 and 2016 are presented below:

	Effect of foreign currency translation	Effect of derivative instruments designated as cash flow hedges	Total
As of January 1, 2016	\$ 2,573	\$ (329)	\$ 2,244
Losses in fair value	-	(9)	(9)
Gain in conversion of foreign entities	5,486	-	5,486
<b>As of December 31, 2016</b>	<b>8,059</b>	<b>(338)</b>	<b>7,721</b>
Gains in fair value			
Gain in conversion of foreign entities	942	-	942
<b>As of December 31, de 2017</b>	<b>\$ 9,001</b>	<b>\$ (338)</b>	<b>\$ 8,663</b>



## 18. SHARE BASED PAYMENTS

Nemak has a compensation scheme referenced to the value of Alfa's shares for senior executives of Nemak and its subsidiaries. According to the terms of the plan, eligible executives will receive a cash payment conditional on the achievement of certain quantitative and qualitative metrics based on the following financial measures:

- Improved share price
- Improvement in net income
- Permanence of the executives in the Company

The bonus will be paid in cash over the next five years, i.e. 20% each year at the average price per share in pesos at the end of each year. The average price of the share in Mexican Pesos in 2017 and 2016 was \$21.21 and \$26.73, respectively.

Short and long-term liability consists of the following:

	December 31,	
	2017	2016
Short term	\$ 11	\$ 11
Long term	20	20
<b>Total carrying amount</b>	<b>\$ 31</b>	<b>\$ 31</b>

## 19. EXPENSES CLASSIFIED BY NATURE

The total cost of sales, selling and administrative expenses, classified by nature, were as follows:

	December 31,	
	2017	2016
Raw materials	\$ (31,156)	\$ (31,815)
Maquila (production outsourcing)	(7,597)	(6,537)
Employee benefit expenses (Note 22)	(14,717)	(12,181)
Personnel expenses	(2,007)	(2,048)
Maintenance	(4,147)	(4,094)
Depreciation and amortization	(6,320)	(5,872)
Freight charges	(935)	(868)
Advertising expenses	(44)	(21)
Consumption of energy and fuel	(3,582)	(2,905)
Travel expenses	(294)	(324)
Operating leases	(522)	(411)
Technical assistance, professional fees and administrative services	(2,903)	(675)
Other	(3,406)	(2,551)
<b>Total</b>	<b>\$ (77,630)</b>	<b>\$ (70,302)</b>

## 20. OTHER EXPENSES, NET

	2017	2016
Loss on sale of property, plant and equipment	\$ (53)	\$ (4)
Impairment of property, plant and equipment	(211)	(293)
Other	130	39
<b>Total other (expenses) income, net</b>	<b>\$ (134)</b>	<b>\$ (258)</b>

## 21. FINANCIAL RESULTS, NET

	2017	2016
Financial income:		
Interest income in short-term bank deposits	\$ 18	\$ 8
Intercompany financial income	50	34
Other financial income <sup>1</sup>	349	11
<b>Total financial income</b>	<b>\$ 417</b>	<b>\$ 53</b>
Financial expenses:		
Interest expense on bank loans	\$ (1,469)	\$ (1,235)
Other financial expenses <sup>(2)</sup>	(73)	(22)
<b>Total Financial expense</b>	<b>\$ (1,542)</b>	<b>\$ (1,257)</b>
Exchange fluctuation gain (loss), net:		
Exchange fluctuation gain	\$ 4,926	\$ 14,604
Exchange fluctuation loss	(5,701)	(14,839)
<b>Total exchange fluctuation loss, net</b>	<b>\$ (775)</b>	<b>\$ (235)</b>
<b>Financial results, net</b>	<b>\$ (1,900)</b>	<b>\$ (1,439)</b>

<sup>1</sup> Mainly includes interest on plan assets and other items.

<sup>2</sup> Mainly includes the financial cost of employee benefits.

## 22. EMPLOYEE BENEFIT EXPENSES

	2017	2016
Salaries, wages and benefits	\$ 12,070	\$ 9,890
Contributions to social security	2,094	1,817
Employee pension benefits (Note 16)	91	155
Other contributions	462	319
<b>Total</b>	<b>\$ 14,717</b>	<b>\$ 12,181</b>

## 23. INCOME TAXES

The Company is subject to income tax, whose rate is 30% in Mexico. The statutory income tax rates applicable to the main foreign subsidiaries were as follows:

	2017	2016
Austria	25.0%	25.0%
Brazil	34.0%	34.0%
China	25.0%	25.0%
Germany	30.0%	30.0%
Hungary	19.0%	19.0%
Poland	19.0%	19.0%
Slovakia	21.0%	22.0%
Spain	28.0%	25.0%
Turkey	20.0%	20.0%
United States <sup>(1)</sup>	35.0%	35.0%

<sup>(1)</sup> On December 22, 2017, the U.S. Federal government enacted substantial changes to its existing tax law ("H.R. 1", originally known as the "Tax Cuts and Jobs Act", or the "Act"). Although most provisions of the Act, including the reduction of the corporate tax rate to 21%, are effective beginning on January 1, 2018, IFRS requires entities to recognize the effect of tax law changes in the period of enactment within deferred taxes. The Company determined that the effect derived from the change in tax rates recognized in the consolidated statement of income for 2017 was US\$7.

a) Income tax recognized in the consolidated statement of income:

	2017	2016
Current tax:		
Current income tax of the period	\$ (1,650)	\$ (1,114)
Adjustment with respect to prior years	(23)	(10)
<b>Total current tax</b>	<b>(1,673)</b>	<b>(1,124)</b>
Deferred tax:		
Origin and reversal of temporary differences	189	(766)
<b>Total deferred tax</b>	<b>189</b>	<b>(766)</b>
<b>Income tax expensed</b>	<b>\$ (1,484)</b>	<b>\$ (1,890)</b>



b) The reconciliation between the statutory and effective income tax rates was as follows:

	2017	2016
Income before taxes	\$ 5,175	\$ 7,300
Equity in losses of associates recognized through the equity method	(60)	(55)
Income before interests in associates	5,115	7,245
Statutory rate	30%	30%
Taxes at statutory rate	(1,535)	(2,174)
(Add) less tax effect on:		
Inflation adjustments	(389)	(188)
Non-deductible expenses	234	150
Non-taxable exchange effects	228	295
Other	(22)	27
<b>Total income tax expense</b>	<b>\$ (1,484)</b>	<b>\$ (1,890)</b>
<b>Effective rate</b>	<b>29%</b>	<b>26%</b>

c) The detail of the deferred income tax asset and liability is as follows:

	<i>(Asset) liability December 31,</i>	
	2017	2016
Inventories	\$ 47	\$ 9
Property, plant and equipment	(895)	-
Intangible assets	(11)	59
Asset valuation reserve	2	8
Valuation of derivative instruments	25	34
Provisions	122	567
Tax loss carryforwards	1,509	1,538
Other temporary differences, net	203	561
<b>Deferred tax asset</b>	<b>1,002</b>	<b>2,776</b>
Inventories	(3)	-
Property, plant and equipment	(2,751)	(3,870)
Intangible assets	(1,388)	(1,464)
Debt issuance costs	(75)	(64)
Asset valuation reserve	(10)	(10)
Provisions	617	-
Tax loss carryforwards	158	-
Other temporary differences, net	106	-
<b>Deferred tax liability</b>	<b>\$ (3,346)</b>	<b>\$ (5,408)</b>

Tax losses as of December 31, 2017 expire in the following years:

Expiration year	Amount
2018	\$ 257
2019	16
2020	160
2021	151
2022	126
2023	166
2024 and thereafter	3,321
No maturity	663
	<b>\$ 4,860</b>

d) The tax charge/(credit) related to comprehensive income is as follows:

	2017			2016		
	Before taxes	Tax charged/(credited)	After taxes	Before taxes	Tax charged/(credited)	After taxes
Translation effect of foreign entities	\$ 879	-	\$ 879	\$ 5,486	-	\$ 5,486
Remeasurements of obligations for employee benefits	(40)	9	(31)	(73)	18	(55)
Effect of derivative financial instruments contracted as cash flow hedge	96	(33)	63	74	(28)	46
<b>Other comprehensive income items</b>	<b>\$ 935</b>	<b>(24)</b>	<b>\$911</b>	<b>\$ 5,487</b>	<b>(10)</b>	<b>\$ 5,477</b>

## 24. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties during the years ended December 31, 2017 and 2016, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2017							
Loans with related parties							
	Accounts receivable	Amount	Interest	Currency	Maturity date MM/DD/YYYY	Interest rate	Accounts payable
Alfa	\$ -	\$ 688	\$ 74	MXP	08/16/2019	4.98%	\$ -
Affiliates	19	-	-				34
Associates	56	-	41		08/16/2019	8.50%	-
Ford	2,025	-	-				-
<b>Total</b>	<b>\$ 2,100</b>	<b>\$ 688</b>	<b>\$ 115</b>				<b>\$ 34</b>

December 31, 2017							
Loans with related parties							
	Accounts receivable	Amount	Interest	Currency	Maturity date MM/DD/YYYY	Interest rate	Accounts payable
Alfa	\$ -	\$ 720	\$ 69	MXP	08/18/2018	4.42%	\$ -
Affiliates	8	-	-				54
Associates	-	-	43	EUR	08/04/2018	6.00%	-
Ford	2,260	-	-				-
<b>Total</b>	<b>\$ 2,268</b>	<b>\$ 720</b>	<b>\$ 112</b>				<b>\$ 54</b>

Sales revenues and other related parties:

Year ended December 31, 2017			
	Finished goods	Interest	Other
Alfa	\$ -	\$ 37	\$ -
Ford	22,936	-	-
Associates	-	-	250
<b>Total</b>	<b>\$ 22,936</b>	<b>\$ 37</b>	<b>\$ 250</b>



*Year ended December 31, 2016*

	Finished goods	Interest	Other
Alfa	\$ -	\$ 32	\$ -
Ford	24,380	-	-
Associates	-	-	198
<b>Total</b>	<b>\$ 24,380</b>	<b>\$ 32</b>	<b>\$ 198</b>

Cost of sales and other expenses with related parties:

*Year ended December 31, 2017*

	Administrative services	Other costs and expenses	Dividends paid
Alfa	\$ -	\$ -	\$2,380
Affiliates	63	-	-
Associates	-	246	-
Ford	-	-	172
<b>Total</b>	<b>\$ 63</b>	<b>\$ 246</b>	<b>\$ 2,552</b>

*Year ended December 31, 2017*

	Administrative services	Other costs and expenses	Dividends paid
Alfa	\$ -	\$ -	\$ 1,321
Affiliates	73	194	-
Associates	-	196	-
Ford	-	-	95
<b>Total</b>	<b>\$ 73</b>	<b>\$ 390</b>	<b>\$ 1,416</b>

For the years ended December 31, 2017 and 2016, wages and benefits received by senior management of the Company were \$123 and \$131, respectively, an amount comprising base salary and other benefits associated with the Company's share based payment plans.

## 25. SEGMENT FINANCIAL INFORMATION

Segment information is presented consistently with the internal reporting provided to the chief executive officer who is the highest authority in operational decision-making, resource allocation and assessment of operating segment performance.

The Company manages and evaluates its operation through five primary operating segments, which are:

- North America; in which Mexican, Canadian and United States operations are grouped.
- Europe operations include the plants in Germany, Spain, Hungary, Czech Republic, Austria, Poland, Slovakia, Russia and Turkey.
- The operating segments that fail to comply with the limit established by the standard itself to be reported separately, such as Asia (including plants in China and India), South America (including plants in Brazil and Argentina), and other less significant operations, are added and shown under the "rest of the world".

The transactions between operating segments are performed at market value and the accounting policies with which the financial information by segments is prepared, are consistent with those described in Note 3.

The Company evaluates the performance of each of the operating segments based on income before financial results, income taxes, depreciation and amortization ("EBITDA"), considering that this indicator is a good metric to evaluate operating performance and the ability to meet principal and interest obligations with respect to indebtedness, and the ability to fund capital expenditures and working capital requirements. Nevertheless, EBITDA is not a measure of financial performance under IFRS and should not be considered as an alternative to net income as a measure of operating performance or cash flows as a measure of liquidity.

The Company has defined the Adjusted EBITDA by also adjusting for the impacts of asset impairment.

Following is the condensed financial information of these operating segments:

*For the year ended December 31, 2017*

	North America	Europe	Rest of the world	Eliminations	Total
Statement of income					
Income by segment	\$ 47,906	\$ 30,110	\$ 8,218	\$ (1,455)	\$ 84,779
Inter-segment income	(930)	(494)	(31)	1,455	-
<b>Income from external customers</b>	<b>\$ 46,976</b>	<b>\$ 29,616</b>	<b>\$ 8,187</b>	<b>\$ -</b>	<b>\$ 84,779</b>
EBITDA					
Operating income	\$ 4,543	\$ 2,454	\$ 18	\$ -	\$ 7,015
Depreciation and amortization	3,699	1,923	698	-	6,320
Impairment	68	36	107	-	211
<b>Adjusted EBITDA</b>	<b>\$ 8,310</b>	<b>\$ 4,413</b>	<b>\$ 823</b>	<b>\$ -</b>	<b>\$ 13,546</b>
Capital investments (Capex)	\$ 3,838	\$ 3,837	\$ 604	\$ -	\$ 8,279

*For the year ended December 31, 2016*

	North America	Europe	Rest of the world	Eliminations	Total
Statement of income					
Income by segment	\$ 46,793	\$ 26,816	\$ 6,707	\$ (1,072)	\$ 79,244
Inter-segment income	(695)	(328)	(49)	\$ 1,072	-
<b>Income from external customers</b>	<b>\$ 46,098</b>	<b>\$ 26,488</b>	<b>\$ 6,658</b>	<b>\$ -</b>	<b>\$ 79,244</b>
EBITDA					
Operating income	\$ 5,882	\$ 2,776	\$ 26	\$ -	\$ 8,684
Depreciation and amortization	3,682	1,610	581	-	5,873
Impairment	289	3	-	-	292
<b>Adjusted EBITDA</b>	<b>\$ 9,853</b>	<b>\$ 4,389</b>	<b>\$ 607</b>	<b>\$ -</b>	<b>\$ 14,849</b>
Capital investments (Capex)	\$ 4,919	\$ 4,321	\$ 924	\$ -	\$ 10,164

The reconciliation between “Adjusted EBITDA” and profit before tax is as follows:

	2017	2016
Adjusted EBITDA	\$ 13,546	\$ 14,849
Depreciation and amortization	(6,320)	(5,873)
Impairment	(211)	(292)
Operating income	7,015	8,684
Financial results, net	(1,900)	(1,439)
Equity in associates	60	55
<b>Income before taxes</b>	<b>\$ 5,175</b>	<b>\$ 7,300</b>

*For the year ended December 31, 2017*

	Property, plant and equipment	Goodwill	Intangible assets
North America	\$ 26,262	\$ 2,312	\$ 3,414
Europe	20,679	3,945	2,218
Rest of the World	5,333	-	893
<b>Total</b>	<b>\$ 52,274</b>	<b>\$ 6,257</b>	<b>\$ 6,525</b>

*For the year ended December 31, 2016*

	Property, plant and equipment	Goodwill	Intangible assets
North America	\$ 27,582	\$ 2,455	\$ 3,116
Europe	16,929	3,629	1,967
Rest of the World	5,583	-	890
<b>Total</b>	<b>\$ 50,094</b>	<b>\$ 6,084</b>	<b>\$ 5,973</b>

Nemak's clients are automotive companies, known as OEMs. The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 29% and 29%, General Motors 22% and 28% and Fiat-Chrysler 11% and 11%, in 2017 and 2016, respectively.



## 26. COMMITMENTS AND CONTINGENCIES

In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, As of December 31, 2017, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would damage significantly its individual or overall results of operations or financial position.

As of December 31, 2017 and 2016, the Company had the following contingencies:

- a. Nemark México, S.A. received from the Canada Revenue Agency (CRA) the claim for a tax credit for refunds of Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) for an approximate total amount, including interest, for US\$82. The CRA alleges that Nemark delivered certain assets in Canada that were subject to GST and HST. However, the Company filed an objection to the CRA's Audit Division arguing that its clients acted as importers in Canada and that Nemark delivered the goods to them outside of such country. As of the date of the consolidated financial statements, the Company cannot predict the outcome of this claim; however, management considers that it has the arguments to obtain a favorable result, thus it has not recognized any provision in the statement of financial position.
- b. The Company leases various plant and machinery under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	<i>December 31,</i>	
	2017	2016
Within 1 year	\$ 247	\$ 981
After 1 year but not exceeding 5 years	434	105
After 5 years	21	160
<b>Total</b>	<b>\$ 702</b>	<b>\$ 1,246</b>

## 27. SUBSEQUENT EVENTS

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2017 and through January 31, 2018, and except for the matter mentioned in the following paragraph, no additional subsequent events has been identified:

On January 11, 2018, the Company issued Senior Notes on the Irish Stock Exchange and to qualified institutional investors in the amount of US\$500, through a private offering under Rule 144A and Regulation S of the Securities Exchange Act. The Senior Notes accrue an annual coupon of 4.750%, maturing in 7 years. The proceeds were obtained on January 23, 2018 and were mainly used to prepay the Senior Notes USD 2023.

## 28. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

On January 31, 2018, the issuance of the accompanying consolidated financial statements was authorized by Armando Tamez Martínez, Chief Executive Officer and Alberto Sada Medina, Chief Financial Officer.

These consolidated financial statements are subject to the approval of the Company's shareholders' meeting.

For more information visit us at:

<http://www.nemak.com>  
<http://investors.nemak.com>

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## Stock Exchange and Symbol

**Nemak S.A.B. de C.V.**

trades on the Bolsa Mexicana de valores (BMV) under the symbol Nemak.





