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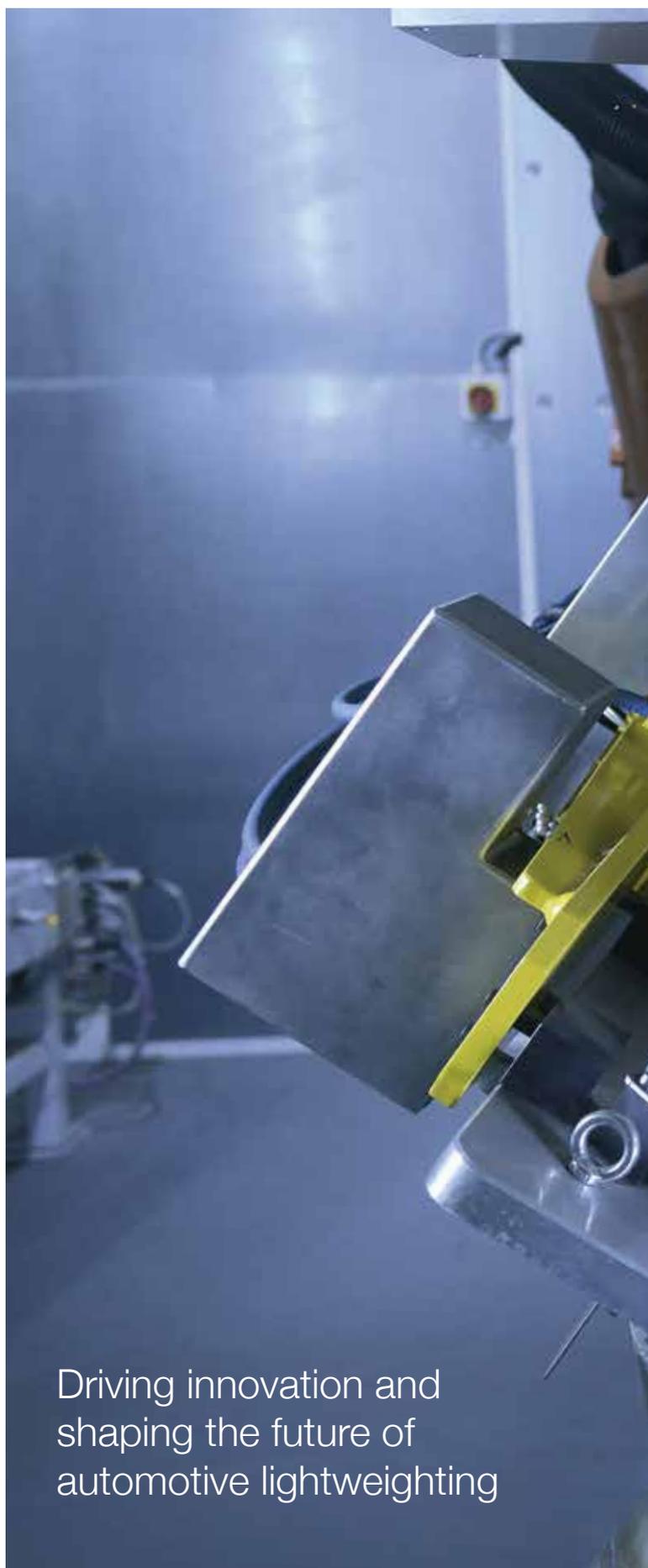
Nemak is a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain and body structure applications.

As of 2016, the company employed more than 21,000 people at 36 facilities worldwide and generated revenues of US\$4.3 billion.

For more information about Nemak, visit [www.nemak.com](http://www.nemak.com)

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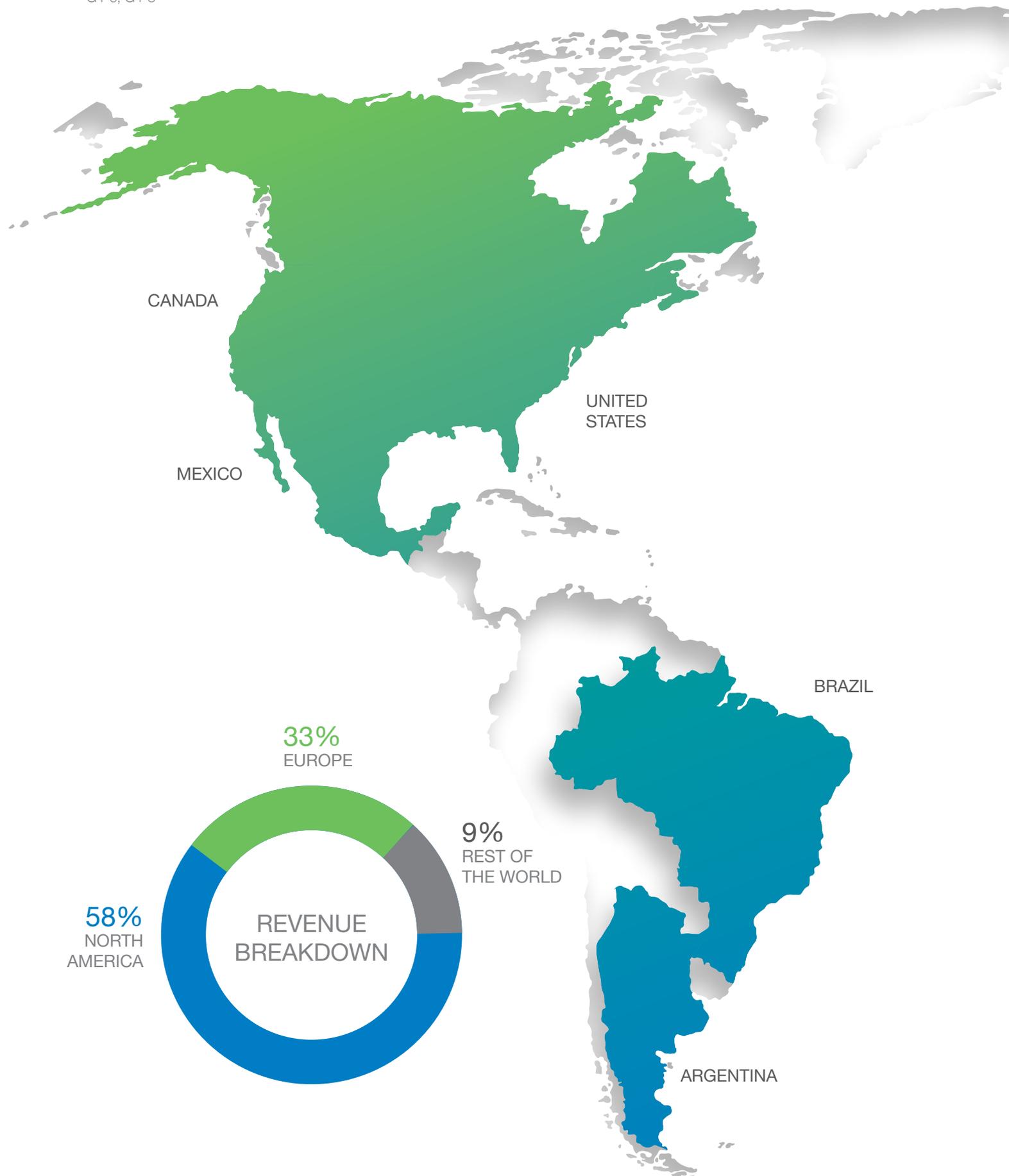


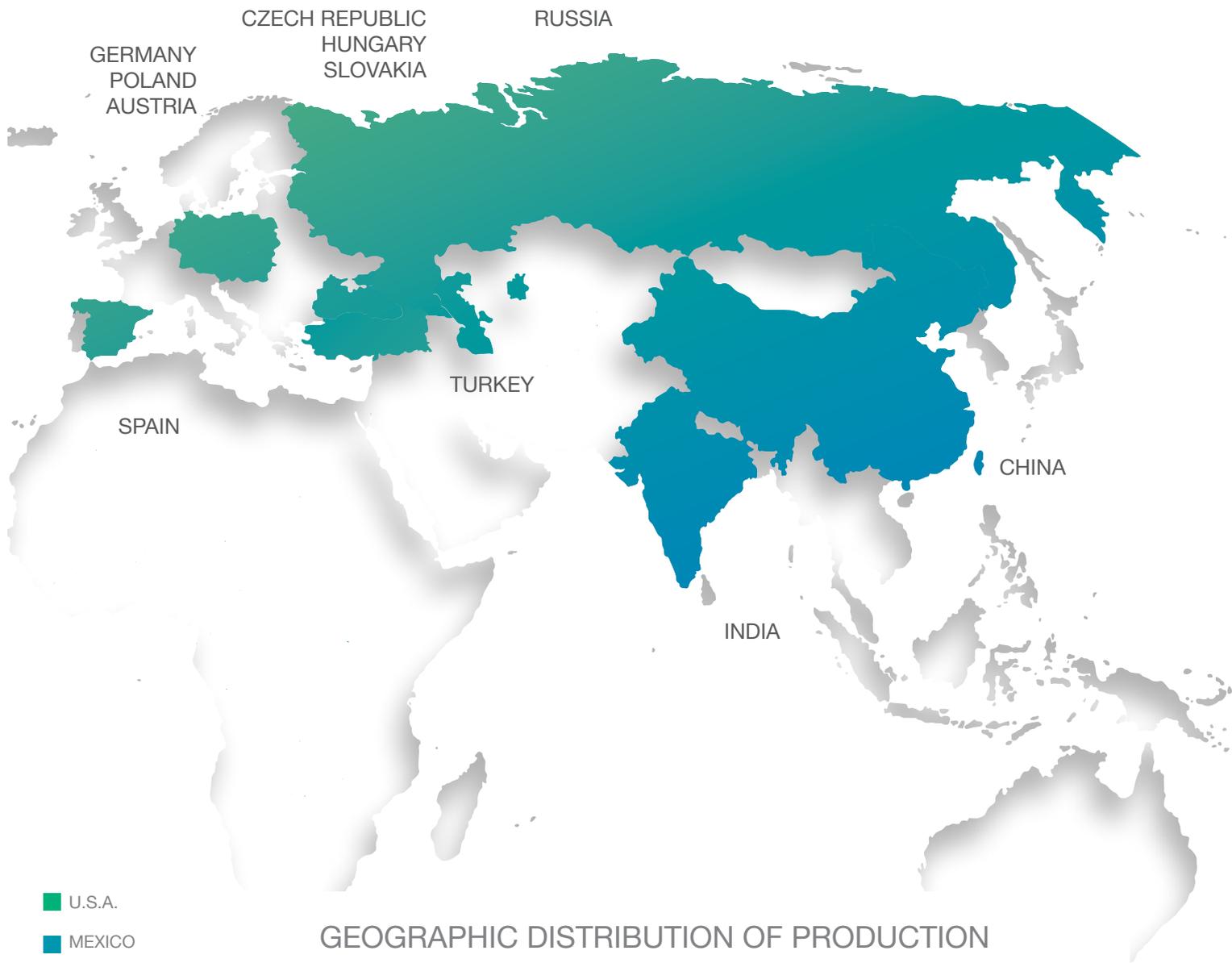
Driving innovation and  
shaping the future of  
automotive lightweighting



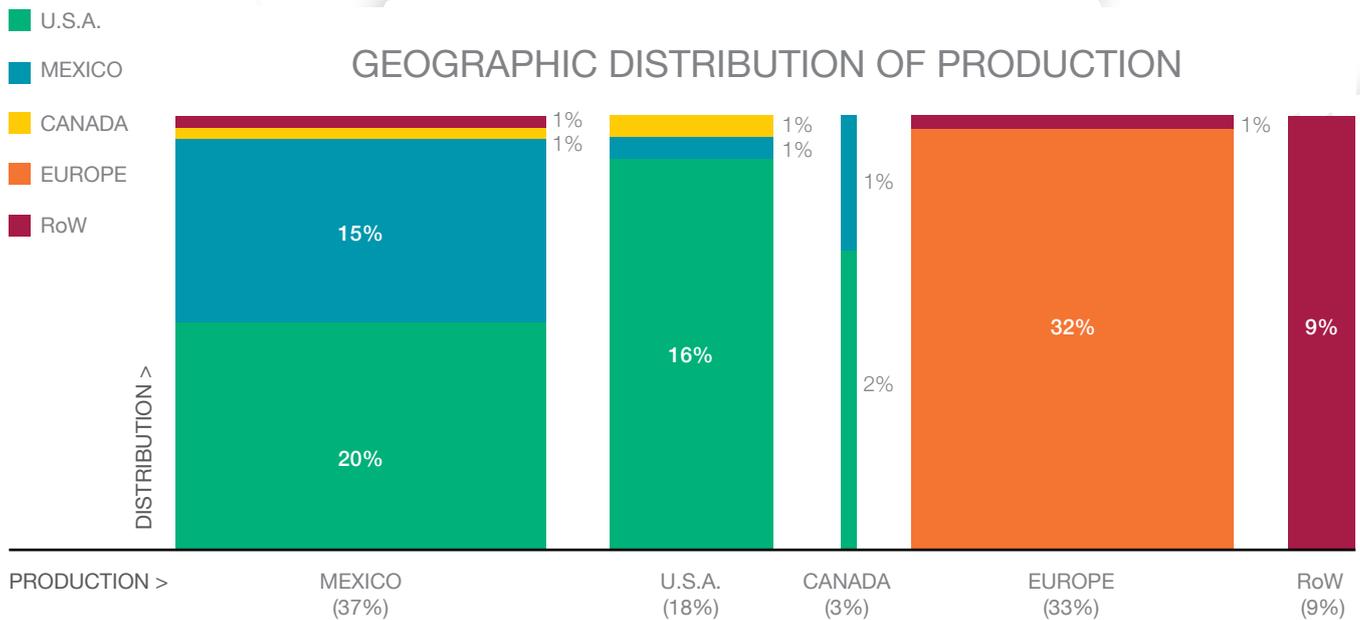
# Nemak at a glance

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### GEOGRAPHIC DISTRIBUTION OF PRODUCTION



# Product portfolio

G4-4

## Powertrain and structural components



## Electric vehicles

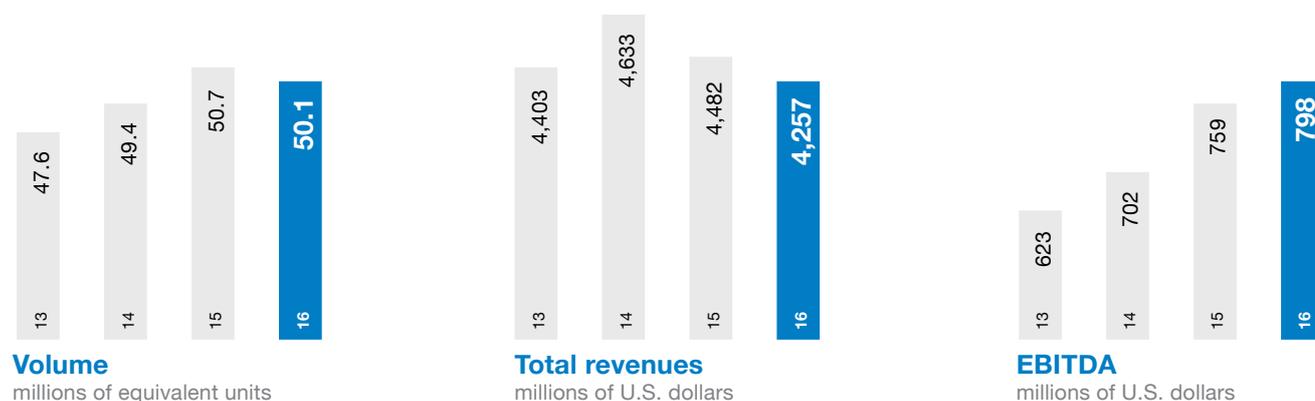


# Financial highlights

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Expressed in millions of U.S. dollars	2016	2015	Change%
Volume (million equivalent units)	50.1	50.7	(1.2)
Total revenues	4,257	4,482	(5.0)
Gross profit	748	743	0.7
Sales & administrative expenses	(267)	(277)	(3.6)
Other (expenses) income net	(12)	3	NA
Income from operations	469	469	0.0
Interest expenses	(67)	(74)	(9.5)
Interest income	3	3	0.0
Foreign exchange loss	(11)	(11)	0.0
Financing expenses net	(75)	(82)	(8.5)
Participation in associates results	3	3	0.0
Income tax	(105)	(99)	6.1
Net income	292	291	0.3
EBITDA <sup>1</sup>	798	759	5.1
CAPEX	541	460	17.6
Net debt	1,262	1,210	4.3

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



# Letter to shareholders

G4-1

## Dear shareholders:

In 2016, we continued to strengthen our leading position in lightweighting solutions, delivering solid financial results and pushing the boundaries of innovation to help our customers meet ever-higher standards for vehicle efficiency and performance. We advanced with capacity expansions supporting production programs across our regions, including the ramp-up of new plants dedicated to structural components in Slovakia, Poland, and Mexico. Moreover, we extended our global footprint with the successful acquisition of Cevher Döküm, a supplier of complex aluminum automotive components based in Izmir, Turkey.

We saw healthy industry performance in most of our markets. Light vehicle sales in the U.S. reached a new record of 17.6 million units, supported by favorable credit conditions, low unemployment, and low gasoline prices. Meanwhile, our customers' vehicle production in North America increased

2.3%. In Europe, vehicle sales increased 3.6% from 2015, with increased demand in Western Europe more than compensating for lower vehicle sales in Russia. Our customers captured market share in the region, enabling them to increase production 2.8%. Brazil experienced macroeconomic headwinds for the second consecutive year, which in turn kept a damper on the industry. In contrast, favorable macroeconomic conditions combined with tax incentives to drive industry performance in Asia, as sales and production volumes there grew in the mid-single-digit range.

In 2016, our revenues decreased 5% to US\$4.3 billion mainly due to lower aluminum prices and volume effects. Sales volume this year was 50.1 million equivalent units, a 1.2% decrease from 2015.

EBITDA for the year was US\$798 million, up 5% from last year, mainly driven by an improved sales mix and solid operational performance in all our regions.



**US\$798 M**  
EBITDA in 2016

**Armando Garza Sada**  
Chairman of the Board

**Armando Tamez**  
CEO

In 2016, net income increased compared to 2015, reaching US\$292 million

Meanwhile, net income increased slightly compared to 2015, reaching US\$292 million. Earnings per share in 2016 were Ps 1.76<sup>1</sup>. During the year, we paid US\$92 million in dividends to our shareholders.

Capital expenditures excluding acquisitions totaled US\$541 million for 2016, US\$81 million more than in 2015. Turning to our balance sheet, net debt increased by US\$51 million to US\$1.3 billion at the end of the year mainly due to the investments highlighted above and our acquisition in Turkey. As of December 31st, 2016, our net debt-to-EBITDA ratio was 1.6. During the year, all three major rating agencies—*Fitch*, *Moody's*, and *Standard & Poor's*—raised their outlook on Nemak to “Positive” from “Stable” while maintaining our debt rated one notch below investment grade.

We continued advancing our technology roadmap to reinforce our foundation for growth in powertrain as well as our new structural and electric vehicle components businesses. Among the highlights were further progress in top R&D priorities—including projects to develop new high-temperature aluminum alloys for use in advanced cylinder heads and new heat treatment methods for engine blocks—and the signing of new contracts to produce battery housings for premium hybrid vehicle platforms, representing a milestone in the development of this high-potential product line.

In recognition of our contributions to the development of new eco-efficient technologies in our industry, we won Mexico's National Technology and Innovation Award in the categories of Process Innovation and Product Innovation; we were also recognized by BMW Group as one of its most innovative global suppliers.

<sup>1</sup> Based on 3,080,747,324 shares.



## We successfully completed the acquisition of Cevher Döküm, marking an important milestone in our global footprint strategy

Additionally, we received several awards for quality and performance, including: Ford's World Excellence Award; the General Motors Supplier Quality Award; and the Volvo Cars Quality Excellence award, among others.

We were awarded new contracts worth a total of approximately US\$875 million in annual revenues, more than 60% of which represented incremental programs. These included new contracts to produce cylinder heads, engine blocks, transmission cases, structural components, and electric vehicle components.

We continued to focus investment on three main areas: capacity expansions supporting new production programs in cylinder heads and engine blocks; driving our vertical integration strategy via increased in-house machining; and scaling up our new structural components business.

In November, we successfully completed our acquisition in Turkey, further strengthening our talent base and our relationships with premium OEMs in Europe. We are confident that this acquisition will create value and advance our growth plans in the region.

We completed the construction of two new facilities in Monterrey, Mexico: a high-pressure die casting (HPDC) plant for manufacturing blocks, transmission cases, and structural components; and a dedicated machining facility. We will continue to ramp up both facilities throughout 2017. We also invested in two plants in Europe—one new facility in Slovakia, and expanded HPDC operations in Poland—where we will begin series production of structural components in 2017.

As part of our commitment to a more sustainable automotive industry and world, we continued efforts to promote responsible use of aluminum and foundry sand—the primary materials we employ in our manufacturing process—and to reduce water consumption and emissions. Additionally, we supported community-based initiatives benefiting a variety of stakeholders across our regions including schools, hospitals, and cultural institutions.

We continued reporting our sustainability performance in line with the Global Reporting Initiative (GRI) guidelines. To this end, we conducted a materiality determination process, identifying a set of material sustainability aspects for Nemak's stakeholders such



as energy efficiency, climate change and emissions strategy, responsibility on materials, and health and safety, among others. These efforts also enabled us to make further progress in the development of a long-term strategy to address sustainability-related priorities in our industry.

During the year, we conducted a deep analysis of trends shaping the future of the automotive industry and revised our strategic framework looking ahead to the next decade. Through this process, we identified three main growth pillars for Nematik: one, maximize our core powertrain business; two, secure a leading position in complex structural components; and three, leverage our existing technological capabilities to capture share in electric vehicle components.

In parallel to our planning exercise, we worked to redefine our corporate brand, aligning it to our strategy and setting a positioning that clearly conveys our purpose and contributions to our stakeholders. To express our new positioning, we made changes to our visual identity; additionally, our brand now proudly carries a tagline that summarizes our positioning: Innovative Lightweighting.

We have made sustained progress towards our company's goals in 2016 thanks to all of you—our investors, customers, employees, suppliers, and members of the communities where we operate. With your continued support, we are confident that we will remain well-positioned to drive leading-edge sustainable mobility solutions into the future.

*San Pedro, Garza García, N.L. Mexico. February 17, 2017.*

  
**Armando Garza Sada**  
Chairman of the Board

  
**Armando Tamez**  
CEO



# Lightweighting trends

With governments around the world moving to implement more stringent CO<sub>2</sub> emissions and fuel economy regulations, OEMs and their suppliers are driving an accelerating shift towards lighter materials and energy-efficient mobility.

One of the industry's important levers for meeting these mandates is to increase aluminum content per vehicle. Choosing aluminum over heavier, traditional materials such as iron and steel yields average weight savings of approximately 40% on a per-component basis. Over the years, NemaK has ridden the aluminum lightweighting trend to become a leading player in its powertrain segment composed of cylinder heads, engine blocks, and transmission cases. And the company is currently scaling up a new structural components division, which represents a high-growth opportunity as OEMs pursue further weight reduction in the structure of vehicles.

NemaK maintains an overarching focus on advanced components requiring sophisticated design, casting, and mass production processes. The company's best-in-class technological capabilities underpin its engagement in products ranging from cylinder heads and engine blocks for high-performance applications to large structural components such as longitudinal members and b-pillars. Moreover, NemaK deploys a variety of high value-added services—including design simulation, 3-D prototyping, and secondary processes such as heat treatment—to ensure benchmark quality and performance at competitive cost and the lowest possible weight across its global footprint.

While government regulations have been the main catalyst of lightweighting up until now, vehicle electrification is expected to make an increasingly significant contribution over the medium- and long-term. Automakers are turning to aluminum as a

material of choice in new electric vehicle platforms, driven in part by the need to reduce weight to maximize battery range and durability. In particular, NemaK is targeting new opportunities in e-drive and e-motor applications and battery housings to grow its electric vehicle components business.

According to industry experts, lightweighting is expected to account for 200 and 400 kg in vehicle weight savings to be realized by 2025 in the U.S. and Europe, respectively. These savings represent between 10% and 15% of the total weight of the vehicle. NemaK is well-positioned to continue leveraging its core competitive advantages—including its expertise in aluminum casting engineering and its global footprint—to capitalize on this trend and to reinforce its position as a strategic partner to OEMs in the development of sustainable mobility solutions.

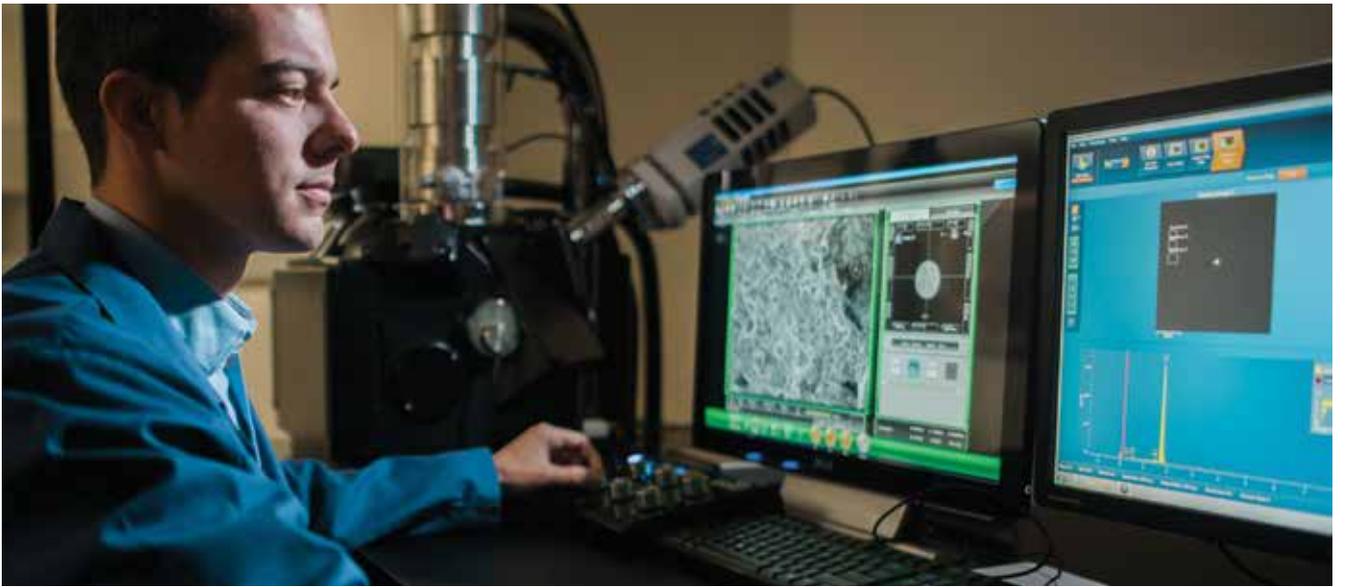
## US\$270 M

Approximate value of current sales backlog in structural and electric vehicle components in terms of annual revenues

**40%** Average weight savings derived from use of aluminum automotive components

**23%** EU emission reduction target for 2021 vs. 2014





# Innovation

In order to continue raising the bar for efficiency in the next generation of vehicles, automakers are turning to materials that offer weight savings while at the same time delivering improved performance. NemaK pushes the boundaries of technology and process innovation to help its customers meet and exceed these requirements, driving best-in-class lightweighting solutions. Moreover, with a full range of engineering and design capabilities—including casting simulation, in-house 3-D printing, production-like prototypes, performance testing, and machining—NemaK is able to offer rapid-response services to its customers at all stages of the development and production cycles.

NemaK's innovation infrastructure represents a key competitive advantage, bolstering sales and value creation across its product categories. In recent years, NemaK has leveraged its casting expertise to develop and ramp up important new programs to produce cylinder heads and engine blocks with superior mechanical properties, further supporting profitability. These programs have featured process innovations designed to deliver emission and weight reduction, increased engine efficiency, eco-efficiency improvements, design flexibility, and increased material strength, among other benefits.

In 2016, NemaK continued advancing its technology roadmap to reinforce its foundation for growth in its established powertrain business as well as its new structural and electric vehicle components

businesses. Among the highlights were further progress in top R&D priorities—including projects to develop new high-temperature aluminum alloys for use in advanced cylinder heads and new heat treatment methods for engine blocks—and the signing of new contracts to produce battery housings for premium hybrid vehicle platforms, representing a milestone in the development of this high-potential product line.

With the automotive industry entering a period of unprecedented change and opportunity driven by growing demand for sustainable mobility solutions, NemaK's deep technical and innovation capabilities will remain critical to its efforts to further strengthen its market position in the coming years.

**>40** in-house innovations brought to series production since 2009

**>20** active R&D projects

**>9 M** engine blocks and cylinder heads produced using NemaK's proprietary technology in 2016

# Structural components

In recent years, global automakers have made an unprecedented push to produce lighter and therefore more efficient vehicles. Aluminum has been a key enabler of these efforts on the back of its weight advantage, taking a progressively larger share of vehicle content from perennial favorites such as iron and steel. This trend has been further supported by advances in casting technologies, which have made it possible for automakers to look beyond traditional targets such as driveline and transmission systems to achieve weight savings. Today, structural components integrating the body and chassis of the vehicle represent one of the most promising lightweighting opportunities still to be tapped. With a world-class

**25%** Expected contribution of aluminum cast structural components to weight reduction projected in new light vehicles by 2025

**US\$10-15 B**  
Expected size of total market for aluminum structural components by 2025

**5** Nemak facilities supporting the production of structural components

engineering team and state-of-the-art technology infrastructure dedicated to structural components, Nemak is poised to capture significant growth in this emerging segment.

According to industry estimates, the size of the total market for aluminum structural components will increase from approximately US\$4 billion, its current level, to US\$10 to US\$15 billion by 2025. Aluminum structural components are expected to account for approximately 25% of the total weight reduction projected for new light vehicles over this period.

In 2016, Nemak took major steps forward in aluminum structural components, scaling up the business line's first program launch and simultaneously advancing according to plan on test production runs with other programs. Moreover, it continued laying the groundwork for future growth, investing in the construction of greenfield production facilities in Mexico and Slovakia as well as the ramp-up of a new facility in Germany dedicated to performing high value-added secondary processes and its structural components plant in Poland.

Nemak is focused on developing and manufacturing medium- and large-sized structural components which require advanced casting expertise as well as secondary processes such as heat treatment, straightening, coating, and joining techniques. These components include shock towers, longitudinal members, cross members, and support brackets, among others.

Most of Nemak's programs to produce structural components are scheduled to launch and ramp up in the next 12 to 24 months.





# Powertrain components

Powertrain enhancements have been at the heart of industry efforts to meet growing demand for vehicles that are more energy-efficient. Over the years, Nematik has leveraged its expertise in aluminum casting technologies and its global footprint to become a trusted partner to automakers looking to reduce the weight of engine components—and therefore bring down emissions—without sacrificing power or performance. Nematik’s powertrain business centers on the largest and most complex components in the engine, including: cylinder heads, engine blocks, and transmission cases.

To date, cylinder heads and engine blocks have been the main anchors of Nematik’s business, as increasing aluminum penetration in these products has created a progressively larger market for the company to tap into. Today, more than 98% of new light vehicles contain aluminum cylinder heads; meanwhile, engine blocks still have significant room to grow, with aluminum penetration in these components expected to rise from 68%, their current level, to approximately 75% by 2020.

**52%** of revenues come from cylinder heads

**34%** of revenues come from engine blocks

**32%** share of engine block market still made in iron, which represents a growth opportunity for Nematik

Parallel to the lightweighting trend, engines in new vehicles have continued getting more complex with automakers moving to integrate greater horsepower and turbo capabilities. This, in turn, has caused demand for powertrain components requiring more advanced mechanical properties, and therefore higher value-added castings, to increase. Nematik has been well-positioned to capitalize on this opportunity across its powertrain portfolio to drive growth and profitability thanks in part to its cutting-edge technological capabilities. Key recent milestones have included its development of best-in-class solutions to support the production of engine blocks for high-performance applications; cylinder heads in downsized turbo engines; and transmission cases in high-gear applications, among others.

Nematik’s powertrain business also continues to be a catalyst for the expansion of its global footprint. In recent years, the company has made significant investments to expand capacity to support launches of new engine block programs in Europe and Asia. And in 2016, it acquired Cevher Döküm Sanayii A.Ş., a supplier of complex powertrain components—including cylinder heads and transmission cases—to premium automakers in Europe. The main benefits of this transaction included access to incremental production capacity and a highly skilled and experienced workforce.

High value-added secondary processes, particularly machining, represent another key pillar of Nematik’s powertrain strategy. By increasing the share of castings it machines in-house, Nematik aims to reap quality benefits and to reduce working capital and logistics costs, thereby raising margins. This year, Nematik made investments to increase its in-house machining capacity across its regions.

# Talent development

Nemak strives to promote a culture based on collaboration, trust, and respect to drive excellence. Customers expect more from Nemak than ever before, counting on it to serve as an end-to-end provider as well as a go-to source of expertise on technologies and processes underpinning the next generation of light vehicles. Nemak creates and implements targeted development and training initiatives to position its people for success, helping them anticipate customer needs and deliver best-in-class service. Moreover, it is committed to supporting knowledge-sharing across its regions, regularly convening multidisciplinary teams of experts to develop solutions that create value for the overall company.

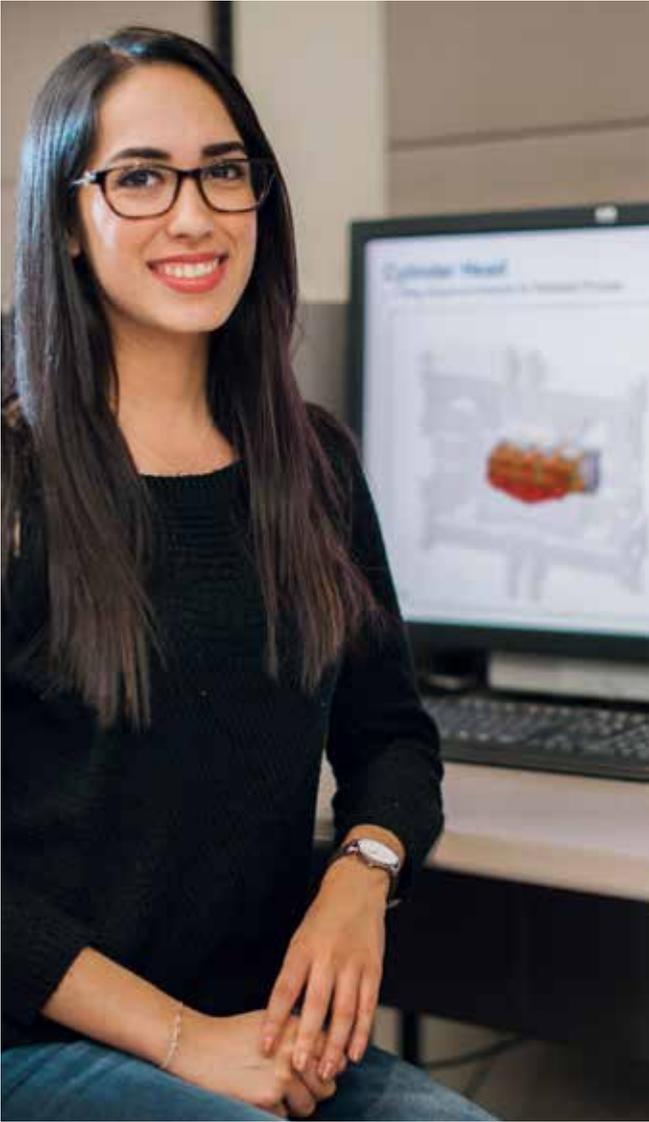
**US\$4.9 M** invested  
in employee training in 2016

**87%** of our employees received  
feedback on their strengths and  
opportunities for improvement

One of Nemak's top priorities is to leverage organizational structures and processes to reinforce its talent base and enhance performance. To this end, Nemak is building new, highly specialized engineering teams dedicated to high-impact projects. In 2016, these efforts focused on fostering collaboration among Product Development Centers and plants in the ramp-up phase of new global production programs.

With an eye on serving the evolving needs of its business, the company has also continued working to strengthen its talent pipeline for new and more experienced employees alike. Key milestones from 2016 included the development of succession plans for strategic leadership positions; the introduction of new in-house training programs for managers; and the launch of internship programs targeting young, high-potential candidates in North America and Europe.

In addition to benefiting from a variety of hands-on learning opportunities, Nemak employees gain access to a global network of colleagues making a difference at the front line of technological innovation in the automotive industry. Nemak seeks to create optimal conditions for its people to drive knowledge creation and leverage best practices to support the company's vision for sustainable growth.





# Sustainability

Nemak continuously seeks to raise the bar on its sustainability performance, working towards a greener automotive world. Through innovation and sustainable processes, we help the industry make further strides in improving fuel efficiency and in reducing CO<sub>2</sub> emissions in order to meet regulatory targets.

In 2016, we closely monitored our stakeholders' needs to ensure we were able to provide them with timely and accurate information on sustainability-related issues.

This year, we continued following the "Core" option of the Global Reporting Initiative's (GRI) protocol and methodology guidelines. In order to comply with them, we carried out a materiality determination process to determine the high-priority matters stated by our stakeholders, and to set a sustainability agenda for the coming years.

The materiality process comprises the analysis of our five main stakeholder groups: our communities; employees; clients and suppliers; investors; and regulatory agencies and non-governmental organizations (NGOs).

We identified 12 material aspects for Nemak:

## Material Aspects

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Energy efficiency

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Climate change and emissions strategy

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Environmental management

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Water management

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Responsibility on materials

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Responsible criteria for product development

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Labor practices

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Health and safety

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Relationship with NGOs and regulatory agencies

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Relations with clients and suppliers

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Relations with shareholders

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Wealth distribution

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These insights drove our actions towards a more sustainable operation, setting the groundwork for a better understanding of the challenges that our industry faces in the short and long term.



## OUR PEOPLE AND STAKEHOLDERS

*Material aspects: Relations with NGOs and regulatory agencies, Relations with clients and suppliers, Relations with shareholders, Wealth distribution.*

Nemak's sustainability agenda is underlined by a commitment to forge mutually beneficial relationships with all of our stakeholders. We participate in over 55 trade associations, and in more than 20% of them, representatives of our company hold leadership positions. We also work with non-governmental organizations through joint initiatives and fundraising, and maintain good relationships with the governments of the areas in which we operate by complying with all applicable laws and regulations. No significant fines were imposed on Nemak in 2016.

### Our employees

In 2016, we invested nearly US\$4.9 million in training of our employees, almost US\$1.7 million in sports, recreation and family development, and over US\$4.7 million in health and nutrition programs. These investments represent an increase of more than 30% compared to 2015.

Given the importance of maintaining a safe working environment, training in safety in our operations and facilities was a top priority. This included implementing programs such as Safety Month, and daily safety meetings. We also invested in new

technologies and equipment, such as the Intellex Safety Software in Nemak Canada, which enables electronic reporting and tracking of all near misses, first-aid cases, incidents, safety recommendations and investigations.

The benefits given to our employees vary by operating site, but they include much more than what is required by law, such as additional help with paying for especially serious or costly illnesses and with development and education programs. In 2016, we granted 519 education scholarships and benefited 2,411 students through direct support to local schools. As part of our commitment to human rights, we respect our employees' freedom of association, we do not hire any underage individuals, and we pay men and women the same salary under otherwise equal circumstances. We support the UN Global Compact through our parent company, ALFA, and some of our facilities adhere to other initiatives, such as the Ontario Human Rights Act in Canada, ensuring that every decision taken regarding our employees wellbeing covers their right to dignified work.

The performance evaluation is an essential part of our people's development. Through programs such as the Modelo Integral de Gestión de Talento (Integral Model of Talent Management), and others, 87% of our employees received feedback regarding their strengths and opportunities for improvement in their current positions.



### Our value chain

Another essential part of our company is our value chain, built thanks to the stakeholders we are proud to call our clients and our suppliers. Examples of our work with them include advising on compliance with environmental regulations, and a program we started in 2015 in partnership with ALFA aimed at identifying and building upon our suppliers' social responsibility and human rights practices. In 2016, we gave priority to local suppliers which met applicable regulations and quality requirements, with the aim of supporting local economic growth.

We would like to highlight that this year we made progress towards getting our entire supply chain to sign our Suppliers Code of Conduct. This is a big step forward in meeting our commitment to help them develop even more sustainable processes.

This year we submitted our first CDP report (Carbon Disclosure Project), continuing our efforts to deliver improvements in our emissions reduction programs and initiatives. This shows our commitment to building not only essential lightweight parts for vehicle engines, but to doing so responsibly and in harmony with our planet.

### Our communities

We strive to learn from the diversity of the people we work with around the globe. We see this as a competitive advantage and an opportunity to grow in an organic way. The communities that embrace us and grant us license to operate are key to achieving this goal.

All of our plants around the world carry out at least one activity involving work with their communities. For example, in 2016 Nemak Győr started developing a strategy on community engagement, covering specific aims and actions that benefit potential future employees and their families as well as promote STEM-oriented training and education programs at the high school, vocational, and college levels.

In 2016, investment in infrastructure and quality-of-life improvements in and around communities where we operate totaled approximately US\$145,000. Also, more than 265 employees participated in volunteering actions, investing close to 13,200 man-hours of their time. Through activities such as blood donations, visits to nursing homes and support for local fire and police departments, Nemak's employees were able to actively contribute to the well-being of their towns and cities.

We also supported 68 social assistance institutions, and had 90 agreements with universities to boost alumni potential. More than 360 students had internships in our facilities and we supported 56 schools through donations.



## CARING FOR THE ENVIRONMENT FOR A LIGHTER FUTURE

*Material aspects: Environmental management, materials responsibility, energy eco-efficiency, water management, climate change and emissions strategy.*

At Nematik, we express our commitment to the well-being of our people and the communities where we operate. We continuously strive to improve our environmental performance and to provide a safe and healthy workplace, thereby creating value for all our stakeholders and contributing to a more sustainable future.

In order to execute our vision of becoming a world leader in the automotive industry, we worked on aligning our everyday operations and behaviors to our HSE Statement launched in 2016.

Our HSE statement principles are:

- Ensure the health and safety of our people at all times.
- Comply with all applicable HSE laws and regulations.
- Integrate all HSE aspects of sustainability as key part of our business operations.
- Demonstrate responsible environmental practices such as recycling, reducing energy and water consumption and emission control.
- Achieve continuous improvement in all our HSE practices.

In 2016, our investments dedicated to environmental care were as follows:

	2016 (US\$M)	2015 (US\$M)
Waste reduction and disposal	2.7	6.6
Waste disposal		5.2
Emissions reduction	3.1	6.8
Remediation and prevention costs	0.9	0.1
Environmental management	0.1	0.9
Environmental actions	1.6	0.8
<b>Total</b>	<b>9.4</b>	<b>16.1</b>

\* The programs and initiatives regarding waste reduction and disposal and emissions reductions in 2015 continued to be implemented during 2016. This is why a decrease in these two areas is shown in the table.

Nematik's plants throughout the world choose varied approaches to embrace their responsibility to protect the environment. Annually, all of our sites carry out an identification and evaluation of the direct and indirect impacts that their activities, products and services may have and control over the environment. Each and every one of these impacts are considered when setting goals and KPIs for the coming year, with the target of minimizing or eliminating them.

We enforce our environmental sustainability efforts by ensuring compliance with nationally and internationally recognized standards that, in every case go above what the law requires. Two examples of these are the ISO 14001 standard on environmental



**90%** average recycling rate for leftover sand and aluminum

management and ISO 5001 standard on energy management, which are already helping us at Nematik to reduce our environmental impact in all of our operating sites.

One of our main lines of action aimed at protecting our environment consists of making responsible use of the materials we employ in our manufacturing processes. We work towards using recycled materials –and recycling internally– as much as possible. In 2016, we recycled an average of over 90% of our leftover sand and aluminum, with some plants reaching a 100% recycling rate.

We also work on initiatives to improve our energy efficiency. In 2016, 99% of our energy requirements were filled by natural gas, the cleanest fuel today. Our energy consumption was as follows:

Energy source	Direct consumption 2016		Indirect consumption 2016	
	%	GJ (x106)	%	GJ (x106)
Natural gas	99	12.15		
LGP	.5	0.06		
Fuel oil #6 H.V.	.5	0.06		
Electricity				4.066
<b>Total</b>		<b>12.27</b>		<b>4.06</b>

We also strive to reduce our carbon footprint by investing in cutting-edge technologies and establishing accurate parameters of improvement of our performance. The emissions of Nematik's operations in 2016 were as follows:

	2016 Ton
Direct emissions (ton CO <sub>2</sub> e x 10 <sup>6</sup> )	.69
Indirect emissions (ton CO <sub>2</sub> e x 10 <sup>6</sup> )	.53
<b>Other emissions</b>	<b>2016 Ton</b>
NOx	416
SOx	20
Persistent organic pollutants (POP)	57
Volatile organic compounds (VOC)	158.4
Hazardous air pollutants (HAP)	8.72
Other standard categories of air emissions identified in relevant regulations	84.7
Particulate matter (PM)	13,681

\* This is the first time we report these emissions, advancing our commitment to make our operations more efficient.

In 2016, we monitored our water consumption and worked on several initiatives to improve the management of our water resources. These initiatives ranged from the use of waterless sanitary installations, to deep improvements in our water treatment processes. We treated nearly 500 thousand m<sup>3</sup> of water in 2016 alone.

Our goal for the future is to keep finding ways to integrate best environmental practices in our operation and ensure that Nematik can create sustainable value while respecting and caring for our world.

# Operating summary

G4-2

The global automotive industry had a strong year in 2016, with Europe posting solid growth and the U.S. holding steady at historically high levels of light vehicle sales. These tailwinds notwithstanding, Nematik volumes declined slightly, combining with lower aluminum prices to bring revenues down 5% in 2015.

However, Nematik delivered 5% EBITDA growth compared to 2015 mainly due to an improved sales mix of higher value-added products and strong operational performance, with Europe and Rest of World as the top-performing regions. EBITDA per equivalent unit reached US\$15.90, up from US\$15.00 in 2015.

Regarding strategic matters, Nematik primarily focused investment on supporting the ramp-up of new production programs as well as further enhancing its technological capabilities.

Key milestones included the construction of new production plants in Europe and North America with dedicated high-pressure die casting capacity for structural and electric vehicle components; continued expansion of its in-house machining capacity, driving incremental margin growth; and the acquisition of a supplier of complex aluminum automotive components based in Izmir, Turkey. Nematik won new programs across its business lines worth approximately US\$875 million in annual revenues, further strengthening its competitive position as well as its growth prospects.

## North America

In 2016, healthy macroeconomic conditions in the U.S.—including low gasoline prices and favorable credit conditions—helped push light vehicle sales to a new all-time record high of 17.6 million units, up slightly from 2015. In turn, North America production grew 2% in the period.



Nemak revenues in the region decreased 10% compared to 2015 mainly due to lower volumes and lower aluminum prices. Increased sales of higher value-added products were insufficient to offset decreased sales from small-car applications—in particular, the downscale of FCA’s mid-size sedan lines represented a headwind for Nemak’s operations in the region.

Despite the reduction in revenues, Nemak achieved a 5.3% EBITDA increase in the same period mainly due to better operational performance, favorable mix, the positive impact of metal lag during the first half of the year, and currency effects.

#### Europe

During 2016, new light vehicle sales in Europe were 19.8 million units, a 5% increase over 2015. Vehicle production in Europe increased 3% over 2015, as growth in Western Europe more than offset weakness in Eastern Europe.

Revenues and EBITDA increased 3.1% and 12.9%, respectively, compared to 2015. The region achieved higher volumes and a better sales mix, which helped to more than offset lower aluminum prices and the devaluation of the euro compared to the U.S. dollar. These results were mainly driven by the ramp-up of new programs to produce cylinder heads and engine blocks for high-performance applications. Moreover, with the acquisition in Turkey, Nemak better positioned itself to support upcoming product ramp-ups in the region.

#### Rest of World

In 2016, revenues in RoW increased 2.3% compared to 2015 mainly due to higher volumes and better product mix in Asia, which more than offset a weak performance in South America. Profitability was mainly driven by the ramp-up of incremental programs to produce cylinder heads and engine blocks in Asia. EBITDA in RoW increased US\$12 million in 2016 compared to 2015 mainly due to higher profitability in Asia.



# Board of Directors

G4-34, G4-38

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

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

Board Member of Nemak since April 1999. Chairman of the Boards of Alpek and Nemak. Member of the Boards of Cemex, Femsa, Frisa Industrias, Grupo Lamosa, Liverpool, Proeza and ITESM. Board Member of the Consejo Mexicano de Negocios.

## **Álvaro Fernández Garza**<sup>3</sup>

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

Board Member of Nemak since March 2010. Co-Chairman of the Board of Axtel. Member of the Boards of ALFA, Alpek, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, Universidad de Monterrey (UDEM), Georgetown University (Latin American Board) and Museo de Arte Contemporáneo de Monterrey.

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

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

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

## **Robert J. Fascetti**<sup>2</sup>

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

Board Member of Nemak since December 2005. He has more than 26 years of powertrain and product development experience at Ford Motor Company ("Ford").

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

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

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

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

### **Investor**

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

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

### **Independent investor and consultant**

Board Member of Nemak 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 Nemak 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 Proyectos, S. A. de C. V.**

Board Member of Nemak since June 2015. Board Member of Pronto Proyectos, and Constructora e Inmobiliaria Malsa.

## **Adrián G. Sada Cueva**<sup>1</sup>

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

Board Member of Nemak since June 2015. Member of the Boards of Vitro, Comegua, Club Industrial de Monterrey, Grupo Financiero Banorte, and CAINTRA Nuevo León.

## **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

G4-34, G4-38



**Armando Tamez**  
CEO



**Napoleon Cantu**  
BU Co-Director Mexico



**Knut Bentin**  
BU Co-Director Mexico



**Klaus Lellig**  
BU Director Europe



**Luis Peña**  
BU Director U.S.A., Canada & South America



**Ernesto Saenz**  
BU Director Asia



**Jose Carlos Pons**  
VP of Business Development



**Markus Nolte**  
VP of Commercial



**Dietrich Kahn**  
VP of Manufacturing and Product Development



**Marc Winterhalter**  
VP of Purchasing



**Alberto Sada**  
CFO



**Marco Landeros**  
VP of Human Resources

# Corporate governance

G4-38, 42, 47, 49 and 58

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. (BMV) 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 June 2016 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 83.92% during 2016.

**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

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# Management's Discussion and Analysis of Results

The following report should be considered in conjunction with the Letter to Shareholders (Pages 6-9) and the Audited Financial Statements (Pages 36-96). Unless otherwise indicated, figures are stated in millions of nominal Mexican pesos (Ps) from 2016 and 2015. Percentage changes are shown in nominal terms.

The financial information included in this MD&A corresponds to the last two years (2016 and 2015) and has been adapted to comply with the International Financial Reporting Standards (IFRS).

Monterrey, N.L., Mexico. February 17, 2017.

## Economic Environment

During 2016, the world economy grew an estimated 3.1%, slightly lower than the 3.2% reported in 2015. This was a reflection of lower growth rates in some developed countries, like the U.S. and the United Kingdom as well as other emerging markets, including China and some in Latin America, like Brazil and Mexico<sup>a</sup>. There was continued volatility in the financial markets and in oil prices. In December, the U.S. Federal Reserve Bank (the "FED") raised interest rates for a second time in several years, from 0.50% to 0.75%<sup>b</sup>, which contributed to the appreciation of the U.S. Dollar vis-à-vis most currencies, including the Mexican Peso.

In the political arena, a movement towards increased economic protectionism took place in 2016, beginning with the United Kingdom's vote in favor of leaving the European Union in a referendum held towards the middle of the year. This trend continued in the U.S. with the presidential election in November, following a campaign which featured extensive public discussion on a variety of tax and trade-related issues including the potential cancellation or renegotiation of the Trans-Pacific Partnership and the North American Free Trade Agreement as well as the imposition of new taxes on certain imported goods, such as automobiles.

In the following paragraphs, further information is provided about the behavior of Gross Domestic Product ("GDP") and other economic indicators in Mexico, which are key to better understanding Nematik's 2016 results.

Mexico's GDP grew by 2.3% (estimated) in 2016, a slightly lower figure than the 2.5% observed in 2015<sup>c</sup>. Consumer inflation was 3.36% in 2016, higher than the 2.1% figure recorded in 2015<sup>d</sup>. The strength of the U.S. Dollar caused the Mexican peso to suffer an annual nominal depreciation of 19.54% in 2016, as compared to the depreciation of 17.0% experienced in 2015<sup>e</sup>. In real terms, the annual average undervaluation of the Mexican peso with respect to the U.S. dollar amounted to 27.6% in 2016, compared to the 14.8% of 2015<sup>f</sup>.

With respect to the interest rates in Mexico, the Tasa de Interés Intercambiaria de Equilibrio ("TIIE") was at 6.42% in nominal terms at the end of 2016, and 3.69% at the end of 2015<sup>g</sup>. Mexico's central bank raised interest rates five times during the year, going from 3.25% to 5.75% as a response to the increase in rates made by the FED, and as an emergency measure to reduce pressures on the peso-dollar exchange rate.

Insofar as international interest rates are concerned, the annual average for nominal 3-month LIBOR rate in U.S. dollars was 0.81% in 2016, higher than the 0.43% average rate observed in 2015<sup>h</sup>.

## Results

Total Revenues amounted to \$79,244 Ps in 2016, up 11.8% from the \$70,891 Ps 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 volume 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 Ps in 2016, a 10.5% increase compared to the \$59,143 Ps 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 Ps, 12.8% higher than the \$4,393 Ps 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 Ps, a 17.4% increase over the \$7,398 Ps reported in 2015. In turn, EBITDA (Operating Income plus Depreciation and Amortization, plus/minus other non cash charges) was \$14,849 Ps, 23.6% higher than the \$ 12,006 Ps reported in 2015.

Net Financing Expenses amounted to \$1,439 Ps in 2016, up 11.3% from the \$1,293 Ps 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 Ps in 2016, 21.8% higher than the \$1,552 Ps 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 Ps, up 17.6% compared to the \$4,601 Ps 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 Ps in 2016, up 39% compared to the \$7,314 Ps 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 Ps, up 26% from the \$20,820 Ps 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" 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.

a and b = International Monetary Fund - Report Oct. 2016

c and d = Instituto Nacional de Estadística,  
Geografía e Informática de México (INEGI)

e and f = Banco de México (Fixed Exchange Rate)

g = Banco de México (interest rates)

h = Wall Street Journal (Libor statistics)

# Independent Auditors' Report

Monterrey, N.L. February 17, 2017

**To the Shareholders and Directors of:  
Nemak, S. A. B. de C. V. and subsidiaries**

## **Opinion**

We have audited the consolidated financial statements of Nemak, S. A. B. de C. V. and subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2016 and 2015 and the related consolidated statements of income, of comprehensive income, of changes in stockholders' equity and of cash flows for the years then ended, and the explanatory notes to the consolidated financial statements, which include a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2016 and 2015, and its financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS").

## **Basis for Opinion**

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

## **Key Audit Matters**

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

## Key audit matter

### Goodwill impairment assessment

As described in Note 3.k.a), the Note 5.1.a) and Note 12 to the consolidated financial statements, the Company performs annual impairment assessment on the goodwill balance.

We have focused on this matter due to the importance of the balance thereof at December 31, 2016 totals Ps5,837 million and because the impairment testing involves applying significant management judgments in determining: i) the company's cash generating units ("CGU") and ii) the assumptions and premises related to assessment of the recovery value of said CGUs.

In particular, we focused on the following significant assumptions that the Company considered when assessed the goodwill: estimation of future projections, growth rates, gross margins and discount rates used.

## How our audit addressed the key audit matter

As part of our audit, we assessed future cash flows projections prepared by Management and the processes used to prepare them. In particular, we assessed whether all relevant CGUs were identified and the internal processes were carried out by Management to make projections, including timely oversight and analysis by those charged with Governance, and if the projections are consistent with budgets approved by them.

Due to the significant judgments used in the valuation models for the determination of recovery values, and with the support of our valuation experts, we questioned the premises and criteria used by Management in such models, following procedures set down below:

- We verified that the methods applied to the determination of the recovery values of the assets correspond to used and recognized methodologies to value assets of similar characteristics.
- We challenged the financial projections, including terminal value, matching them to the performance and historical trends of the Company, obtaining Management's explanations variations.
- We compared actual results for the current year with the figures budgeted for prior year, to determine whether any of the assumptions included in the projections could be considered very optimistic.
- We compared the most relevant valuation assumptions (applied discount rate, betas, EBITDA multiples, sale multiples, among others) against those commonly used and accepted for assets of these characteristics for the industry in which the Company operates.

We discussed with Management the sensitivity calculations for all CGUs and evaluated the extent to which the assumptions would need to be modified for impairment to be required. Moreover, we discussed with Management the probability of those changes being made.

With respect to the significant judgment to group CGUs, we analyzed and considered the following aspects:

- Understanding of the workings of the commercial and sales strategy area
- Understanding the production allocation
- Analysis of the operating cash flows and indebtedness policies
- Analysis of the legal structure.

## Evaluation of the estimation and recoverability of the deferred income tax asset

As described in Note 3.m), Note 5.1.b) and Note 16 to the consolidated financial statements, the Company recorded a deferred tax asset arising from tax losses and therefore Management performed a recoverability assessment thereof prior to recognizing it in its financial statements.

We have focused on this line item in our audit due to the importance of the balance of the deferred tax asset arising from tax losses at December 31, 2016 (Ps1,538 million) and because the estimate of its recoverable value involves the application of significant judgments to determine expected future income, future projections, as well as tax results by the Company's Management.

In particular, we focused our audit efforts on the items mentioned in the previous key matter.

As part of our audit, we evaluated the projections used to determine the recovery of deferred income tax asset of tax losses. We compared these projections with those used to determine the recoverable value of the aforementioned goodwill, over which we apply procedures similar to those indicated above.

With the support of experts, we also evaluated and considered the projected tax results prepared by Management, as well as the processes used to elaborate them by applying the above procedures to them. We also challenge, with the support of our tax experts, the assumptions used by Management in the tax projections.

We compared the actual results of the current year with the budgeted figures of the previous year for the current year, to consider whether any assumptions included in the projections could be considered very optimistic.

Likewise, as discussed above, we discussed sensitivity calculations with Management and assessed the extent to which assumptions would need to be modified to require an adjustment.

## Other Information

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

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

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

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

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

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

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

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

## Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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.

The engagement partner on the audit resulting in this independent auditor's report is Ricardo Noriega Navarro.

PricewaterhouseCoopers, S.C.



**C.P.C. Ricardo Noriega Navarro**

Audit Partner

# Consolidated Statements of Financial Position

At December 31, 2016 and 2015  
Millions of Mexican pesos

	Note	December 31,	
		2016	2015
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	6	Ps 2,661	Ps 1,793
Restricted cash	7	474	323
Trade and other receivables, net	8	11,581	10,720
Inventories	9	11,784	9,667
Available for sale assets		40	-
Advanced payments		367	277
<b>Total current assets</b>		<b>26,907</b>	<b>22,780</b>
Non-current assets:			
Property, plant and equipment	11	50,094	38,263
Goodwill and intangible assets, net	12	12,057	9,216
Deferred income tax	16	1,520	1,321
Other non-current receivables	8, 26	720	-
Other non-current assets	13	595	439
<b>Total non-current assets</b>		<b>64,986</b>	<b>49,238</b>
<b>Total assets</b>		<b>Ps 91,893</b>	<b>Ps 72,018</b>

	<b>Note</b>	<i>December 31,</i>	
		<b>2016</b>	<b>2015</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Current liabilities:			
Current debt	15	Ps 3,699	Ps 952
Trade and other payables	14	18,894	16,515
Current income tax liabilities		549	311
Other liabilities	17	542	993
<b>Total current liabilities</b>		<b>23,684</b>	<b>18,771</b>
Non-current liabilities:			
Non-current debt	15	25,310	21,758
Employee benefits	18	1,058	779
Deferred income tax	16	4,152	2,765
Other non-current liabilities	17	618	6
<b>Total non-current liabilities</b>		<b>31,138</b>	<b>25,308</b>
<b>Total liabilities</b>		<b>54,822</b>	<b>44,079</b>
<b>Equity</b>			
Controlling interest:			
Capital stock	19	6,607	6,607
Share premium	19	10,434	10,443
Retained earnings	19	12,309	8,645
Other reserves	19	7,721	2,244
<b>Total equity</b>		<b>37,071</b>	<b>27,939</b>
<b>Total liabilities and equity</b>		<b>Ps 91,893</b>	<b>Ps 72,018</b>

The accompanying notes are an integral part of these 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, 2016 and 2015  
Millions of Mexican pesos

	Note	2016	2015
Revenue		Ps 79,244	Ps 70,891
Cost of sales	21	(65,345)	(59,143)
Gross profit		13,899	11,748
Administrative and selling expenses	21	(4,957)	(4,393)
Other (expenses), revenues net	22	(258)	43
Operating profit		8,684	7,398
Financial income	23	14,657	6,245
Financial expense	23	(16,096)	(7,538)
Financial result, net		(1,439)	(1,293)
Share of gain of associates	13	55	48
Profit before income tax		7,300	6,153
Income tax	25	(1,890)	(1,552)
<b>Net consolidated profit</b>		<b>Ps 5,410</b>	<b>Ps 4,601</b>
Profit attributable to:			
Controlling interest		Ps 5,410	Ps 4,599
Non-controlling interest	3 b)	-	2
		<b>Ps 5,410</b>	<b>Ps 4,601</b>
<b>Earnings per basic and diluted share, in pesos</b>		<b>Ps 1.76</b>	<b>Ps 1.65</b>
Weighted average of outstanding shares (millions)	19	3,081	2,781

The accompanying notes are an integral part of these 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, 2016 and 2015  
Millions of Mexican pesos

	Note	2016	2015
Net consolidated profit	Ps	5,410	Ps 4,601
Other comprehensive income for the year, net of tax:			
Items that will not be reclassified to profit or loss:			
Remeasurement of obligations for employee benefits	18	(55)	(10)
Items that will be reclassified to profit or loss:			
Effect of derivative financial instruments designated as cash flow hedges	10	46	(248)
Effect of translation of foreign entities	19	5,486	1,390
Total other comprehensive income for the year		5,477	1,132
Total comprehensive income for the year	Ps	10,887	Ps 5,733
Attributable to:			
Controlling interest	Ps	10,887	Ps 5,732
Non-controlling interest	3 b)	-	1
Total comprehensive income for the year	Ps	10,887	Ps 5,733

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

  
**Armando Tamez Martínez**  
Chief Executive Officer

  
**Alberto Sada Medina**  
Chief Financial Officer

# Consolidated Statements of Changes in Equity

For the years ended December 31, 2016 and 2015  
Millions of Mexican pesos

	Note	Capital stock	Share premium	Retained earnings
Balances at January 1, 2015		Ps 874	Ps -	Ps 19,505
Transactions with shareholders:				
Dividends declared	19	-	-	(1,253)
Increase of capital stock	19	14,196	-	(14,196)
Merger with GIALFA	19	55	-	-
Capital distribution	19	(9,544)	-	-
Initial public offering	19	1,026	10,443	-
		5,733	10,443	(15,449)
Acquisition of non-controlling interest	3b	-	-	-
Net profit		-	-	4,599
Other items of comprehensive income for the year		-	-	(10)
Total comprehensive income for the year		-	-	4,589
Balances at December 31, 2015		6,607	10,443	8,645
Transactions with shareholders:				
Dividends declared	19	-	-	(1,755)
Initial public offering	19	-	(9)	9
		-	(9)	(1,746)
Net profit		-	-	5,410
Other items of comprehensive income for the year		-	-	-
Total comprehensive income for the year		-	-	5,410
Balances at December 31, 2016		Ps 6,607	Ps 10,434	Ps 12,309

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

  
**Armando Tamez Martínez**  
Chief Executive Officer

  
**Alberto Sada Medina**  
Chief Financial Officer

Other reserves		Total controlling interest		Non-controlling interest		Total equity	
Ps	1,101	Ps	21,480	Ps	18	Ps	21,498
	-		(1,253)		-		(1,253)
	-		-		-		-
	-		55		-		55
	-		(9,544)		-		(9,544)
	-		11,469		-		11,469
	-		727		-		727
	-				(19)		(19)
	-		4,599		2		4,601
	1,143		1,133		(1)		1,132
	1,143		5,732		1		5,733
	2,244		27,939		-		27,939
	-		(1,755)		-		(1,755)
	-		-		-		-
	-		(1,755)		-		(1,755)
	-		5,410		-		5,410
	5,477		5,477		-		5,477
	5,477		10,887		-		10,887
Ps	7,721	Ps	37,071	Ps	-	Ps	37,071

# Consolidated Statements of Cash Flows

At December 31, 2016 and 2015  
Millions of Mexican pesos

	Note	2016	2015
<b>Cash flows from operating activities</b>			
Profit before income tax		Ps 7,300	Ps 6,153
Depreciation and amortization	11, 12	5,872	4,609
Costs associated with seniority premiums and pension plan		97	57
Loss on sale of property, plant and equipment	22	4	12
Impairment of property, plant and equipment		293	-
Effect of changes in the fair value of derivative financial		-	617
Exchange gain (loss), net		230	(452)
Interest paid		1,117	1,105
Other, net		(28)	(59)
Increase in trade and other receivables		1,229	(2,193)
Increase in inventory		(548)	(748)
Increase in accounts payable		(1,361)	2,687
Income tax paid		(1,380)	(1,563)
<b>Net cash generated from operating activities</b>		<b>12,825</b>	<b>10,225</b>
<b>Cash flows from investing activities</b>			
Interest received		11	15
Acquisition of property, plant and equipment	11	(6,896)	(6,265)
Acquisition of intangible assets	12	(1,972)	(988)
Dividends received		21	-
Restricted cash		(1)	(22)
Business acquisition, net of cash received	2a	(56)	-
Other assets		29	22
<b>Net cash used in investing activities</b>		<b>(8,864)</b>	<b>(7,238)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings or debt	15	10,994	20,907
Payments of borrowings or debt	15	(11,960)	(21,075)
Interest paid		(1,112)	(1,115)
Derivative financial instruments paid	10	-	(1,743)
Capital stock contributed, net of issuance costs of Ps428 in 2015	19	(9)	11,469
Capital distribution	19	-	(9,544)
Acquisition of non-controlling interest	3b	-	(2)
Dividends paid		(1,755)	(1,253)
<b>Cash used in financing activities</b>		<b>(3,842)</b>	<b>(2,356)</b>
Increase in cash and cash equivalents		119	631
Foreign exchange in cash and cash equivalents		749	185
Cash and cash equivalents at beginning of year	6	1,793	977
<b>Cash and cash equivalents at end of year</b>	<b>6</b>	<b>Ps 2,661</b>	<b>Ps 1,793</b>

Transactions not requiring cash flow

In 2016, the main transaction not requiring cash flow corresponds to the debt assumed in the acquisition of a business, as explained in Note 2a.

In 2015, the main transaction not requiring cash flow corresponds to capitalization of the restatement of capital stock and retained earnings. See Notes 2b and 2c.

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

  
**Armando Tamez Martínez**  
Chief Executive Officer

  
**Alberto Sada Medina**  
Chief Financial Officer

# Notes to the Consolidated Financial Statements

At December 31, 2016 and 2015  
Millions of Mexican pesos

## Note 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 that specializes in the production of complex aluminum components for the automotive industry, such as cylinder heads, engine blocks, transmission parts, structural parts and other components. Nemak’s principal executive offices are located at Libramiento Arco Vial Km. 3.8, Col. Centro in García, Nuevo León, México.

References made to the holding company Nemak, S. A. B. de C. V. as an individual legal entity will be referred to as “Nemak SAB”.

Nemak SAB is a public corporation and its shares are traded on the Mexican Stock Exchange, S. A. B. de C. V. (“BMV” for its acronym in Spanish). The Company is 75.24% owned by Alfa, S. A. B. de C. V., 5.45% owned by Ford Motor Company and the remaining by a group of Mexican and foreign investors through the BMV. Alfa has the power to control the Company’s affairs and policies.

In the following notes to the financial statements pesos or “Ps” refers to Millions of Mexican pesos. On the other hand, “US\$” or dollars, refers to millions of US dollars. Information in millions of euros are referred as “EUR” or Euros.

Certain figures included in this financial statements and its notes have been rounded for ease of presentation. Also, certain other amounts that appear in this financial statements and its notes may not sum due to rounding.

## Note 2 - Significant Events:

### 2016

#### a. Acquisition of Cevher Döküm

On November 1, 2016, Nemak acquired total share 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 small trading entity. This acquisition is included in the Europe segment (See Note 27).

At December 31, 2016, the Company is in the process of concluding the purchase price allocation at the fair values of the assets acquired, due to the fact that it is reviewing the valuation conducted by independent experts. Said analysis is expected to conclude within a twelve-month period, as from the acquisition date.

The opening balances of the business acquired are as follows:

Item	Carrying Value
Current assets	Ps. 366
Property, plant and equipment	1,287
Intangible assets and other non-current assets	26
Current liabilities	(747)
Debt	(603)
Deferred tax	(80)
Other non-current liabilities	(192)
Carrying value of the business acquired	Ps. 56
Purchase consideration	56
Goodwill	Ps. -

The purchase consideration for the business totaled Ps56 (EUR 2.5) in cash.

No contingent liability has arisen from this acquisition that would require posting. Moreover, there are no contingent compensation agreements in place. Nematik is not liable for the environmental liabilities, except for those arising on or after the acquisition date.

Costs related to the acquisition amounted Ps15 and were recorded in the statement of income, in the other expenses, net caption.

Additionally, the entity changed its business name to Nematik Izmir Döküm Sanayii, A. S.

Revenue contributed by former Cevher assets included in the consolidated statement of income since the acquisition date through December 31, 2016 amounted to Ps182 and a net loss of Ps36.

## 2015

### b. Capital stock increase and change of legal name

On May 27, 2015 in a General Extraordinary Shareholders' meeting was approved:

- Modify the shares structure by the conversion of our Series B, Series A-1 and Series B-1 shares into Series A common shares of capital stock, with no par value.
- Remove the par value of one Mexican peso of each share, issuing new shares without par value and replacing the outstanding shares at this date.
- Increase the Capital stock from Ps874 to Ps15,070 through the capitalization of retained earnings. See Note 19.
- Change in the legal name from Tenedora Nematik, S. A. de C. V. to Nematik, S. A. de C. V.

### c. Merger with GIALFA

On May 28, 2015, the Company held a general extraordinary shareholders' meeting at which they approved the merger by absorption with its affiliate Grupo Gialfa, S. A. de C. V. (Gialfa) subsisting Nematik, S. A. de C. V. (formerly Tenedora Nematik, S. A. de C. V.). Since Gialfa and Nematik, S. A. de C. V. are controlled by ALFA, the merger was accounted as a transaction between companies under common control, therefore, the net assets of Gialfa were accounted by Nematik, S. A. de C. V. at book value according to the historical consolidated financial information of ALFA (cost based in the predecessor accounting method), resulting in an increase in capital stock of Ps55 and the acquisition of tax attributes of Gialfa. As a result, the book value of the net assets merged into Nematik, S. A. de C. V. is equal to that ALFA had in its consolidated financial statements and no goodwill or fair value adjustments were recognized. See Note 19.

### d. Capital distribution

On June 5, 2015, Nematik, S. A. de C. V. held a general extraordinary shareholders' meeting at which they approved the decrease of capital stock by a distribution to the shareholders in Ps10,838 without affecting the proportion of shares that each shareholder owns, resulting in an increase in accounts payable to shareholders by the same amount. In accordance with the current tax laws, the decrease generated no income tax (ISR).

On November 20, 2015, the Nematik SAB held a general extraordinary shareholders' meeting at which was agreed to amend the resolution of the shareholders meeting of June 5, 2015 to adjust the Capital distribution amount from the previously agreed value to the actual amount distributed to the shareholders of Ps9,544, and canceling the difference payable to the shareholders at the date of the amendment. See Note 19.

**e. Initial Public Offering**

During the month of July, 2015, Nemak, S. A. de C. V. carried out an initial public offering of shares (“IPO”) in Mexico and a private offering of shares in international markets (together “Global Offering”) as follows:

- On June 15, 2015, Nemak, S. A. de C. V. had an Ordinary and Extraordinary General shareholders meeting in which was approved amongst other corporate activities the following: the issuance of the capital stock, a change in the legal regime to Sociedad Anónima Bursátil de Capital Variable, the latter, was subject to the placement of the new shares, a change to the bylaws, the appointment of the new board of directors, the establishment of the audit and corporate practices committee, appointment of committee members, amongst others.
- On July 1, 2015 Nemak, SAB, carried out the Global Offering which corresponded to the issuance of 537,600,000 shares at an offer price of 20.00 pesos, such offering included an overallotment option of up to an additional 80,640,000 shares. The total amount of the offer was Ps10,752.
- On July 29, 2015, following up on the Global Offering, the underwriters, both in Mexico and abroad, agreed to exercise the overallotment option. The total amount of the greenshoe reached to Ps1,145 which corresponded to 57,232,845 shares at the offering price of 20.00 pesos each.

Based on the above, the total amount the Company received as a result of the Global Offering was Ps11,469, net of the issuance costs of Ps428. Subsequent to the Global Offering the fully subscribed and paid capital stock of Nemak, is represented by a total of 3,080,747,324 Series A shares. See Note 19.

**f. Payment of Peso Bond**

In December 2015, the Company prepaid the total of the Peso Bond “Nemak -07” of Ps3,500. See Note 15. Consistent with this prepayment, the “Cross Currency Swap” derivatives which had been linked to this bond, was early terminated in its entirety. See Note 10 d.

**g. Contracted debt**

During December 2015, the Company obtained two new loans, the first being a five year term in the amount of US\$300 (Ps5,162) which was used to prepay the total amount of the Peso Bond “Nemak -07” of Ps3,500; the second was a 10 year term in the amount of US\$200(Ps3,441) used to pay substantially all of the Company’s short term debt. See Note 15.

**h. Construction of two new plants in México**

During 2015, the Company started the construction of two production units in the same location where are the plants near Monterrey, México. The first of these units will increase the current capacity for machining services for pieces produced by the Company. The second plant will be dedicated to produce pieces by using the technology “High Pressure Die Casting”, which is already used in other plants of the Company. It is noteworthy that the new structural components which Nemak will produce soon, will be produced with this technology. The Company will start operation of its new plants in 2017, with a total investment of approximately US\$287(Ps4,900). At December 31, 2016 and 2015 the Company has disbursed Ps1,070 and Ps1,686, respectively, related to the construction of this plants, recorded as construction in progress.

**Note 3 - Summary of significant accounting policies:**

The accompanying consolidated financial statements and notes were authorized for issuance on February 17, 2017 by officials with the legal power to sign the basic financial statements and accompanying notes.

The following are the most significant accounting policies followed by Nemak 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 Nemak 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 force 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 statement of income and for financial assets available for sale.

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.

Nemak's consolidated financial statements are presented in millions of Mexican Pesos.

## **b. Consolidation**

### **i. Subsidiaries**

The subsidiaries are all the entities over which the Company has the power to govern the financial and operating policies of the entity. 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. Where the Company's participation in subsidiaries is less than 100%, the share attributed to outside shareholders is reflected recorded as non-controlling interest.

Subsidiaries are consolidated in full from the date on which control is transferred to the Company and up to the date it loses that control.

The method of accounting used by the Company for business combinations is the acquisition method. The Company defines any business combination as a transaction through which it acquires control of a business, based on which it has the power to manage the activities relevant to the group of assets and liabilities of such business in order to provide a return in the form of dividends, less costs or other economic benefits directly related to investors.

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 acquisition-related costs are recognized as expenses when incurred.

Goodwill is initially measured as the 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.

The Company uses the business combination accounting by applying the method of the predecessor in an entity under common control. The predecessor method consists in the incorporation of values in books of the acquired entity, which includes the goodwill recorded at a consolidated level with respect to the acquired entity. Any difference between the consideration paid by the Company and the value in books of net acquired assets at the subsidiary level are recorded in equity.

Transactions and intercompany balances and unrealized gains on transactions between Nemak 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.

At December 31, 2016, the subsidiaries that are included in the consolidated financial statements of Nemak were as follows:

	Country <sup>(1)</sup>	Ownership percentage (%) <sup>(2)</sup>	Functional currency
Nemak, S. A. B. de C. V. (Holding)	Mexico		US dollar
Nemak México, S. A.	Mexico	100	US dollar
Modellbau Schönheide GMBH	Germany	100	Euro
Corporativo Nemak, S. A. de C. V. (administrative services)	Mexico	100	Mexican peso
Nemak Canadá, S. A. de C. V. (sub-holding)	Mexico	100	Mexican peso
Nemak of Canada Corporation	Canada	100	Canadian dollar
Nemak Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nemak Automotive, S. A. de C. V.	Mexico	100	Mexican peso
Camem International Trading, Inc.	USA	100	US dollar
Nemak Europe GmbH	Germany	100	Euro
Nemak Exterior, S. L. (sub-holding)	Spain	100	Euro
Nemak Dillingen GmbH	Germany	100	Euro
Nemak Dillingen Casting GmbH & Co KG	Germany	100	Euro
Nemak Wernigerode GmbH	Germany	100	Euro
Nemak Wernigerode GmbH & Co KG	Germany	100	Euro
Nemak Linz GmbH	Austria	100	Euro
Nemak Győr Kft	Hungary	100	Euro
Nemak Poland Sp. z. o. o.	Poland	100	Euro
Nemak Slovakia, S. r. o.	Slovakia	100	Euro
Nemak Czech Republic, S. r. o.	Czech Republic	100	Euro
Nemak Spain, S. L.	Spain	100	Euro
Nemak Rus, L. L. C.	Russia	100	Russian ruble
Nemak Pilsting., GmbH	Germany	100	Euro
Nemak Alumínio do Brasil Ltda.	Brazil	100	Brazilian real
Nemak Argentina, S. R. L.	Argentina	100	Argentine peso
Nemak Nanjing Aluminum Foundry Co., Ltd.	China	100	Renminbi yuan
Nemak Chongqing Automotive Components, Co., Ltd.	China	100	Renminbi yuan
Nemak Aluminum Casting India Private, Ltd	India	100	Indian rupee
Nemre Insurance, PTE LTD	Singapore	100	US dollar
Nemak Commercial Services, Inc.	USA	100	US dollar
Nemak USA, Inc.	USA	100	US dollar
Nemak Automotive Castings, Inc.	USA	100	US 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
Nemak Izmir Döküm Sanavii A Ş. <sup>(3)</sup>	Turkey	100	Euro
Nemak Izmir Dis Ticaret 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 Nemak SAB share ownership percentages as of December 31, 2016 and 2015, except for the entities constituted in 2015 and Modellbau Schönheide GmbH who became 100% subsidiary of Nemak SAB during 2015.

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

At December 31, 2016 and 2015, 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, i.e., an increase or decrease in the percentage of control, is recorded in 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. The cumulative movements after acquisition are adjusted against the carrying amount of the investment. 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, which is the Company's presentation currency.

#### 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 differences on non-monetary assets, such as investments classified as available for sale, are included in other comprehensive income.

The exchange differences of monetary assets classified as financial instruments at fair value with changes in income are recorded in the statement of income as part of the fair value gains or losses.

### iii. Consolidation of foreign subsidiaries

*Incorporation of subsidiaries whose functional currency is different from their recording 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 revenue, 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 differences in exchange arising in the translation from the recording currency to the functional currency were recognized as income or expense in the income statement in the period they arose.

*Incorporation of subsidiaries whose functional currency is different from their presentation currency.*

The results and financial position of all Nemak 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 balance sheet date.
- The equity of each balance sheet presented is 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
- All the resulting exchange differences are recognized in comprehensive income.

The goodwill and adjustments to fair value arising at the date of acquisition of a foreign operation so as to measure them at fair value, are recognized as assets and liabilities of the foreign entity and translated at the exchange rate at the closing date. Exchange differences arising are recognized in other comprehensive income.

Listed below are the principal exchange rates in the various translation processes:

Country	Functional currency	Local currency to Mexican pesos			
		Closing exchange rate at December 31, 2016	rate at December 31, 2015	Average exchange rate at December 31, 2016	rate at December 31, 2015
Canada	Canadian dollar	15.41	12.39	14.21	12.41
USA	US dollar	20.66	17.21	20.54	17.01
Brazil	Brazilian real	6.35	4.34	6.21	4.29
Argentina	Argentine peso	1.30	1.33	1.30	1.52
Czech Republic	Euro	21.80	18.70	21.80	18.09
Germany	Euro	21.80	18.70	21.80	18.09
Austria	Euro	21.80	18.70	21.80	18.09
Hungary	Euro	21.80	18.70	21.80	18.09
Poland	Euro	21.80	18.70	21.80	18.09
Slovakia	Euro	21.80	18.70	21.80	18.09
Spain	Euro	21.80	18.70	21.80	18.09
China	Renminbi yuan	2.98	2.65	2.98	2.62
India	Indian rupee	0.30	0.26	0.30	0.25
Russia	Russian ruble	0.34	0.24	0.33	0.24
Singapore	US dollar	20.66	17.21	20.54	17.01
Turkey	Euro	21.80	18.70	21.80	18.09

**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. Bank overdrafts are presented as current liabilities within other 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 balance sheet 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. 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, 2016 and 2015, the Company had no such investments.

**iv. Financial assets available for sale**

Financial assets available for sale 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 balance sheet date.

Financial assets available for sale 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 instruments classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement.

*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 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 balance sheet 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.

The calculation of the accounts receivable impairment is described in Note 8.

#### 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. In the case of equity financial instruments, a significant or prolonged reduction in its fair value below its cost is also considered objective evidence of impairment. At December 31, 2016 and 2015, the Company has no debt financial instruments classified as available for sale.

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 accounts and recorded in the income statement. Impairment losses recognized in the income statement related to equity financial instruments are not reversed through the 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.

#### g. 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 balance sheet 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. When there is no market quote, they are determined based on valuation techniques in the financial sphere.

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.

During 2015, the Company decided to cancel the hedge accounting of its derivative financial instruments, as a result of which, at December 31, 2016 and 2015, the Company has no derivative financial instruments classified as fair value hedges, cash flow hedges or net investment hedges.

#### h. Inventories

Inventories are stated at the lower of cost and 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 equity corresponding to raw material purchases that qualify as cash flow hedges

#### i. 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.

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 average useful lives of assets families are as follows:

Buildings and constructions	33 to 50 years
Machinery and equipment	10 to 14 years
Transportation equipment	4 to 8 years
Furniture and office equipment	6 to 10 years
Other fixed 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.

General and specific borrowing costs related to the acquisition, construction or production of qualifying assets, which necessarily require a substantial period to be ready prior to their use or sale (9 months), 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.

If the carrying value is greater than the estimated recovery value, a decrease in value is recorded in the value in books of an asset and it is immediately recorded at its recovery value.

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that there are signs of impairment. Impairment losses are recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount.

The residual value, useful lives and depreciation method 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.

#### **j. Leasing**

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 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.

#### **k. Intangible assets**

Intangible assets are recognized in the balance sheet 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 December 31, 2016 and 2015, 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
Customer relationships and others	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.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the operating segments, which is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

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

**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. Intangible assets acquired in a business combination**

When an intangible asset is acquired in a business combination, it is recorded at fair value at the acquisition date. Subsequently, the intangible assets acquired in a business combination, such as: brands, client relations, intellectual property rights, non-competition agreements, among others, are recorded at cost less the accumulated amortization and the accumulated amount of impairment losses.

**d. Other customer relationships**

The Company has recognized certain relationships with customers corresponding to the costs incurred to obtain the new contracts with certain OEMs (Original Equipment Manufacturers) and which will be applied to income over the lifetime of said contracts, which varies from 5 to 9 years. The amortization method used is based on the volume of units produced. At December 31, 2016, the Company recorded a charge of Ps2 for this item. There were no amortizations during 2015.

**I. 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 of disposal 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.

**m. Income tax**

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

The income tax reflected in the consolidated income statement represents the tax incurred in the year, and the effects of deferred income tax determined in each subsidiary using the asset and liability method, applying the rate established by the enacted legislation or substantially enacted at the balance sheet date where the Company operate and generate taxable income. The applicable rates are applied to the total of the temporary differences resulting from comparing the accounting and tax bases of assets and liabilities in accordance with the years in which the deferred tax asset is realized or deferred tax liability is expected to be settled, considering when applicable, any tax loss carry forwards expected to be recoverable. The effect of a change in tax rates is recognized in the income of the period in which the rate change is substantially enacted.

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 Nematik 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.

**n. Employee benefits****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 when they are due.

**Defined benefit plans:****i. Pension 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 balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet 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 that are denominated in the currency in which the benefits will be paid, and have maturities that approximate the terms of the pension liability.

Remeasurements from adjustments and changes in actuarial assumptions are recognized directly in equity in other items of the 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. Other post-employment 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 "Provisions, Contingent Liabilities and Contingent Assets" 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. Any benefits to be paid more than 12 months after the balance sheet date are discounted to 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. Nematik recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

**v. Employee participation in profits 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.

**o. 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. At December 31, 2016 and 2015, the Company has not any provision.

**p. Share-based payments**

ALFA (holding company) has compensation plans are 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 include among other things, compliance with certain metrics such as the level of profit achieved, remaining in the Company for up to 5 years, etc. 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 under 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.

**q. Capital stock**

Nemak's common shares are classified as capital stock within equity. Incremental costs directly attributable to the issuance of new shares are included in equity as a deduction from the consideration received, net of tax. The capital stock includes the effect of inflation recorded up to December 31, 1997.

**r. Comprehensive income**

Comprehensive income is composed of net income plus other capital reserves, net of taxes, which comprise the effects of the translation of foreign subsidiaries, the effects of derivative financial instruments for cash flow hedging, remeasurement of obligations for employee benefits, the effects of changes 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 equity and which do not constitute capital contributions, reductions or distributions.

**s. Segment reporting**

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.

**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.

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.

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.

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.

**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 shareholders of the parent by the weighted average number of common shares outstanding during the year. At December 31, 2016 and 2015 there are no dilutive effects from financial instruments potentially convertible into shares.

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

The following accounting policies were adopted by the Company beginning January 1, 2016 and did not have a material impact on the Company:

- Annual improvements to the IFRS - cycle 2012-2014.
- Initiative of disclosures - Amendments to IAS 1.

The adoption of these changes had no impact in the current period or any previous periods and it is not likely to affect future periods.

#### x. New accounting pronouncements

A new number of standards, amendments and interpretations to the accounting policies have been published, which are not effective for reporting periods at December 31, 2016, and have not been adopted in advance by the Company. The Company's assessment of the effects of these new standards and interpretations are detailed below:

IFRS 9 "Financial instruments", addresses the classification, measurement and recognition of financial assets and liabilities and introduces new rules for hedge accounting. In July 2014, the IASB made additional changes to the classification and measurement rules and also introduced a new impairment model. These last changes now comprise the entire new financial instruments standard. Following the approved changes, the Company no longer expects any impact from the new rules of classification, measurement and decrease of its financial assets or liabilities. There will be no impact on the Company's accounting from financial liabilities, since the new requirements only affect financial liabilities at fair value through income and the Company has no such liabilities. The new hedge rules pair up the Company's hedge accounting and risk management. As a general rule, the hedge accounting will be much easier to apply since the standard introduces an approach based on principles. The new standard introduces extensive disclosure requirements and changes in presentation, which will continue to be assessed by the Company. The new impairment model is a model of expected credit losses; therefore, it would result in advance recognition of credit losses. The Company continues assessing how its hedge agreements and impairment provisions are affected by the new rules. The standard is effective for the periods beginning on or after January 1, 2018. Early adoption is allowed.

IFRS 15 "Revenue from contracts with customers", is a new standard issued by the IASB for revenue recognition. This standard replaces IAS 18 "Revenues", IAS 11 "Construction contracts", as well as the interpretations to the aforementioned standards. The new standard is based on the fact that revenue should be recorded when the control over the good or different service is transferred to the customer, so that this control notion replaces the existing notion of risks and benefits.

The standard allows for a complete retrospective approach and a modified retrospective approach for its adoption. The Company is assessing which of the two approaches it can use and to date, it considers that the modified retrospective approach might be used for adoption. Under this approach the entities will recognize adjustments from the effect of initial application (January 1, 2018) in retained earnings in the financial statements at December 2018 without restating comparative periods, by applying the new rules to contracts effective as of January 1, 2018 or those that even when held in prior years continue to be effective at the date of initial application.

For disclosure purposes in the financial statements at 2018, the amounts of affected items must be disclosed, considering the application of the current revenue standard, as well as an explanation of the reason for the significant changes made.

Management is assessing the new standard and has identified probable impacts, mainly in the automotive and telecommunication sectors. The most relevant issues being assessed by Management are mentioned below:

- Depending on the contractual agreement, contracts that are currently considered as separate might have to be combined.
- The Company will have to identify, in customer contracts, the promises of goods and services qualifying as different compliance obligations and compliance obligations might arise additional to those currently considered, or vice versa, which may result in changes at the time of the revenue recognition. Upon the distribution of revenues among each compliance obligation not previously identified, based on their related fair value, the amount of revenues to be recorded for each compliance obligation might also change, which could change the time of recognition of the compliance obligation, even though there is no change in the total amount of revenues per contract.

- The impact of the price structures included in the long-term contracts is currently under evaluation. In said structures, the prices of the parts are gradually decreased over the years, and can qualify as a material discount right requiring recognition from the moment of the first sale of parts, thus representing a change in revenue recognition. However, Management considers that the price structures involving decreases over the years is justified by greater efficiencies and cost cuts achieved, and therefore, forms part of the fair value of the price of parts, as a result of which, this item might represent no significant impact.
- With the new Agent and Principal guidelines, presentation of certain revenue could be gross rather than net.
- In the case of goods and services that under the new standard do not qualify as compliance obligations that may be separated, the costs to comply with the contract, such as production costs associated with these goods and services, may have to be capitalized instead of recognized as expenses when incurred.
- The Company is assessing if in any of the cases the time of revenue recognition might change from “at a point in time”, to “through time”, in case all standard conditions are met, when dealing with the manufacturing of goods without any alternative use for other customer, when there is a collection right for the work done.
- The guide of amendments to contracts can affect the manner by which they are recorded in the books of account. An analysis is currently underway to evaluate whether or not some of the amendments should be recognized, taking into account an accumulated adjustment rather than being prospective.
- At present, certain payments are made to customers, which Management is evaluating, to determining whether or not they qualify as costs under the new guidelines, to obtain a contract.

IFRS 16 “Leases”. The IASB issued in January 2016 a new standard for lease accounting. This standard will replace current standard IAS 17, which classifies leases into financial and operating. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred, and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for “right of use” in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is shown in an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses relative to leases previously recognized as operating leases.

The standard is effective for periods beginning on or after January 1, 2019. In this stage, the Company has no plans to adopt the standard in advance.

At December 31, 2016, the Company is in the process of evaluating the impact of this new standard on its financial statements. The efforts made with regard to implementation of this standard is considerable.

There are no other additional standards, amendments, or interpretations issued but not effective that might have a significant impact on the Company.

## Note 4 - Financial risk management:

### 4.1 Financial risk factors

The Company's activities expose it to various financial risks: market risk (including foreign exchange risk, interest rate risk on cash flows and interest rate risk on fair value), credit risk, liquidity risk, and risks of supplies and products. The Company's risk management plan considers the unpredictability of the financial markets and seeks to minimize the potential negative effects on the financial performance of the Company. The Company utilizes derivative financial instruments to hedge certain risk exposures.

The objective is to protect the financial health of the business taking into account the volatility associated with exchange rates and interest rates. Additionally, due to the nature of the industries in which it participates, the Company has entered into derivative hedges of raw material prices.

ALFA (the holding company) has a Risk Management Committee, which is formed by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer of ALFA and a Financial Executive of ALFA who acts as technical secretary. The Committee oversees derivatives transactions proposed by the Company in which the maximum possible loss exceeds US\$1. This Committee supports both the Executive Director and the Chairman of the Company.

All new derivative transactions that the Company proposes to make, and the renewal of existing derivatives, require approval by both the Company and ALFA in accordance with the following schedule of authorizations:

	Possible Maximum Loss US\$	
	Individual transactions	Annual cumulative transactions
Nemak's CEO	1	5
ALFA's Risk Management Committee	30	100
Finance Committee from Alfa's Board of Directors	100	300
ALFA's Board of Directors	>100	>300

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

#### a. Market risk

##### i. Exchange rate risk

The Company operates internationally and is exposed to foreign exchange risk, primarily related to the currencies other than the functional currency in which its subsidiaries operate, as described in Note 3. The Company is exposed to foreign exchange risk arising from future commercial transactions in assets and liabilities in foreign currencies and investments abroad.

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 their results. Nemak estimates that approximately 56% of its sales are U.S.dollar denominated and 35% in Euro, either because they come from products that are exported from Mexico or because they come from products that are manufactured and sold abroad, or because even if sold in Mexico the price of such products are set based on international prices in foreign currencies such as the U.S. dollar or the Euro.

Usually, a peso depreciation would result in an increase in the operating margin and a peso appreciation would result in a decrease in operating margin, each case, when is measured in pesos. However, although this correlation factor has appeared on several occasions in the recent past, there is no assurance that it will be repeated if the exchange rates between the Mexican peso and other currencies fluctuate again.

The Company has participated in operations with derivative financial instruments on exchange rates for the purpose of controlling the total comprehensive cost of its financing and the volatility associated with exchange rates. Additionally, it is important to note the high "dollarization" and "eurization" of the Nemak's revenues, providing a natural hedge against its obligations in dollars and euros with respect to the level of income of such currencies. Based on the overall exchange rate exposure at December 31, 2016 and 2015, a 5% increase /decrease in the exchange rate MXN/USD, holding all other variables constant, would result in an effect on the income statement by Ps5 and Ps23, respectively.

The risk management policy of the Company is to cover no more than the following percentages with respect to the projected exposure:

	Current year	Prior year
Interest rates	90	90
Commodities	90	90
Energy costs	65	65
Exchange rate for operating transactions	70	70
Exchange rate for financial transactions	90	90

The Company has certain investments in foreign operations, whose net assets are exposed to the risk of foreign currency translation. The currency exposure arising from the net assets of the Company's foreign operations are frequently managed through borrowings denominated in the relevant foreign currency.

#### ii. Interest rate and cash flow risk

Loans at floating rates expose the Company to interest rate risk on cash flows that are partially offset by cash held at floating rates. Loans at fixed rates expose the Company to interest rate risk at fair value.

During 2016 and 2015, floating rate loans are mainly denominated in U.S. dollars. At December 31, 2016, 40% of financing are denominated at fix rate, and 60% at floating rate. See Note 15.

At December 31, 2016 and 2015 if the interest rates on floating rate loans were increased/decreased by 10%, interest expense would increase/decrease by Ps10 and Ps10, respectively.

#### b. 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 wholesale customers are rated independent, these are the ratings used. 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. The use of credit risk is monitored regularly.

During 2016 and 2015, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

The impairment provision for doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for doubtful accounts, significant estimates have to be made. Nematik 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.

#### c. Liquidity risk

Projected cash flows are determined at each operating entity 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, as well as keeping some flexibility through available committed and uncommitted 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 invests those funds in overnight deposits whose maturities or liquidity allow flexibility to meet the cash needs of the Company. At December 31, 2016 and 2015, the Company had cash and cash equivalents of Ps2,661 and Ps1,793, respectively, which are considered sufficient to adequately manage liquidity risk.

The following table analyzes the derivative and non-derivative, grouped according to their maturity, from the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are required to understand the timing of the Company's cash flows.

The amounts disclosed in the table are contractual undiscounted cash flows.

	Less than 3 months	From 3 months to 1 year	From 1 year to 2 years	From 2 years to 5 years	More than 5 years
<b>December 31, 2016</b>					
Trade and other accounts payable	Ps 17,544	Ps 1,836	Ps -	Ps -	Ps -
Bank loans	1,788	1,992	5,625	5,767	3,735
Senior Notes	284	568	568	1,421	11,184
Notes payables	3	12	10	66	12
Financial leases	7	29	29	81	56

	Less than 3 months	From 3 months to 1 year	From 1 year to 2 years	From 2 years to 5 years	More than 5 years
<b>December 31, 2015</b>					
Trade and other accounts payable	Ps 16,236	Ps 1,222	Ps -	Ps -	Ps -
Bank loans	420	577	1,676	9,370	3,463
Senior Notes	118	355	473	1,446	9,602
Notes payables	2	6	6	31	32
Financial leases	4	13	15	34	130

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

At December 31, 2016 and 2015, the Company has uncommitted short term credit lines unused for more than US\$867 (Ps17,916) and US\$629 (Ps10,823), respectively. Additionally, at December 31, 2016 and 2015, Nemak has committed medium-term credit lines of US\$349 (Ps7,212) and US\$302 (Ps5,196), respectively.

#### d. Price risk of raw materials and derivatives

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 established agreements with its clients, whereby the variations of aluminum prices are transferred at 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 Company to buy aluminum, which could negatively impact its business, financial position and the results of its operations.

The Company uses large volumes of natural gas in their production processes. This consumption has been growing as the volume of their end products increase. In order to mitigate exposure to the price of this material, the Company makes from time to time, some natural gas hedging using derivative instruments. At December 31, 2016 and 2015, the Company does not have derivative financial instruments to hedge these risks. See Note 10.

Based on the exposure of aluminum price at December 31, 2016 and 2015, a hypothetical increase (decrease) of 10% applied at fair value and maintaining all other variables constant, such as exchange rates, the increase (decrease) would result in an impact at December 31, 2016 and 2015 in the income statement of Ps0 and Ps2, respectively.

#### 4.2 Equity risk management

The Company's objectives when managing equity are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and benefits to other interested parties, as well as maintain an optimal capital structure so as to reduce the cost of capital.

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

Nemak monitors equity based on the degree of leverage. This percentage is calculated by dividing total liabilities by total equity.

The financial ratio of total liabilities/total equity was 1.50 and 1.58, at December 31, 2016 and 2015, respectively.

### 4.3 Fair value estimation

The following is an analysis of financial instruments measured by the fair value valuation method. The three different levels used 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; quoted prices for identical or similar instruments in inactive markets, and valuations using models where all significant data are observable in active markets.
- Level 3: Valuations made through techniques wherein one or more of their significant data inputs are unobservable.

#### Level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is considered active if quoted prices are clearly and regularly available from a stock exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regular market transactions at arm-length conditions. The trading price used for financial assets held by the Company is the current bid price.

#### Level 2

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data when available and rely as little as possible on estimates specific to the Company. If all significant inputs required to measure an instrument at fair value are observable, the instrument is classified at Level 2.

The fair values represent a mathematical approximation of their market value at the date of measurement. The market value estimate consists in considering the future rates corresponding to the underlying asset. These future rates are obtained from observable market curves of related sources (such as, but not exclusively, CMAI, OPIS). These estimates are generally confirmed with valuations of considerations issued by each instrument.

#### Level 3

If one or more of the significant inputs is not based on observable market data, the instrument is classified at Level 3.

Specific valuation techniques used to value financial instruments include:

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

The financial assets included within this level are only the financial assets available for sale, which correspond to investment in shares of companies that are not listed in an active market; therefore, the fair value may not be reliably determined.

At December 31, 2016 and 2015, there are financial assets available for sale in the level 3 classification, totaling Ps71 and Ps70, respectively. The following table shows the movements in Level 3 instruments:

	Financial assets available for sale	
Final balance at January 1, 2015 (Note 14)	Ps	70
Exchange difference		-
Final balance at December 31, 2015 (Note 14)		70
Exchange difference		1
Final balance at December 31, <b>2016</b> (Note 14)	Ps	71

At December 31, 2016 and 2015, the Company shows no financial assets or financial liabilities measured at fair value and therefore, there are no financial assets or liabilities classified in Levels 1 and 2.

There are no transfers between Levels for the periods reported on.

## Note 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.

### 5.1 Critical accounting estimates and judgments

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

The Company uses significant judgment to group its UGES, on the basis of aspects such as operation of the commercial area and sales strategy, production allocation, the analysis of operating flows and policies on indebtedness and the analysis of the legal structure.

The identification and measurement of impairment to goodwill involves the estimation of fair values. These estimates and assumptions could have a significant impact on whether or not an impairment charge is recognized and also the magnitude of any such charge. The Company performs valuation analyses with the assistance of third parties and considers relevant internal data, as well as other market information that is publicly available.

Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected future cash flows (including timing), discount rates reflecting the inherent risk in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. Inherent in these estimates and assumptions is a certain level of risk, which the Company believes has considered in their valuations. Nevertheless, if future actual results differ from estimates, a possible impairment charge may be recognized in future periods related to the write-down of the carrying value of other intangibles in addition to the amounts recognized previously. See Note 12.

#### b. Income tax

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

As part of the preparation processes of the financial statements, the Company is required to calculate income tax. This process involves estimating the real exposure of the current tax, as well as evaluating the temporary differences resulting from treating items differently, such as impairment of trade accounts receivable, deferred assets, inventories, property, plant and equipment, accumulated expenses and tax loss carryforwards, for tax and accounting purposes.

These differences result in deferred tax assets and liabilities included within the statement of financial position. The Company then evaluates the probability to recover its deferred tax assets. The Company recognizes deferred tax assets for all deductible temporary differences, insofar as there is a probability that the entity has future tax benefits against which to apply these deductible temporary differences. The most recent projections of available profits are used to determine future tax benefits.

#### c. Pension benefits

The present value of the pensions obligations depend on several factors that are determined on an actuarial basis using a variety of assumption. Assumptions used in the determination of the net cost (income) for pensions, includes the discount rate. Any change in these assumptions will have an impact on the carrying value of pension obligations. See Note 18.

The Company determines the adequate discount rate at each year end. This interest rate should be used to determine the present value of cash outflows required to settle expected future pension obligations. In determining the appropriate discount rate, the Company considers the discounted interest rate in conformity with IAS 19 "Employee benefits" denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based, partly on current market conditions.

#### d. Commitments and contingencies

The Company makes judgments regarding the measurement and recognition of provisions and the exposures to contingent liabilities related to pending litigations or other pending complaints subject to negotiation of settlement, mediation, arbitration or regulation of the government, as well as other contingent liabilities. The Company makes judgments to assess the probability of a pending complaint to be effective or to result in the recognition of a liability, as well as to quantify the possible settlement range. Due to the uncertainty inherent to this assessment process, actual losses may be different to the originally estimated provision.

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.

#### 5.2 Critical judgments in applying the entity's accounting policies

##### a. Revenue recognition

The Company has recognized revenue amounting to Ps79,244 and Ps70,891, for the sale of products to OEM's during 2016 and 2015, respectively. The buyer has the right to return the goods if they are dissatisfied. The Company believes that, based on past experience with similar sales, the rate of returned products will not exceed 3% of revenue. The Company has, therefore, recognized revenue on these transactions with a corresponding provision for estimated returns. If the estimate changes by 1%, the revenue would have been reduced/increased by Ps792 and Ps709, during 2016 and 2015, respectively.

### Note 6 - Cash and cash equivalents:

Cash and cash equivalents consist of the following:

		December 31,		2015
		2016		
Cash at bank and in hand	Ps	2,115	Ps	1,270
Short-term bank deposits		546		523
Total cash and cash equivalents	Ps	2,661	Ps	1,793

For purposes of the cash flow statement the cash and cash equivalents include the following items:

		December 31,		2015
		2016		
Cash and cash equivalents	Ps	2,661	Ps	1,793
Bank overdrafts (Note 17)		-		(1)
Cash and cash equivalents at end of year	Ps	2,661	Ps	1,792

### Note 7 - Restricted cash

The value of restricted cash and cash equivalents is composed as follows:

		December 31,		2015
		2016		
Current <sup>1</sup>	Ps	474	Ps	323
Non-current (Note 13)		12		10
Restricted cash	Ps	486	Ps	333

<sup>1</sup> The Company has certain legal disputes with the Brazilian tax authorities. The main dispute is related to the application of certain criteria and other minor contingencies related to labor and social security issues. In this process, the company made deposits by the amounts in dispute and is waiting for a final decision to their claims. The amounts mentioned above are Ps474 in 2016 and Ps323 in 2015. See Note 28b.

## Note 8 - Trade and other receivables, net:

	December 31,	
	2016	2015
<b>Current:</b>		
Trade receivables	Ps 5,071	Ps 4,304
Receivables from related parties (Note 26)	3,100	3,407
Value-added tax and other taxes	2,997	2,811
Sundry debtors	465	231
Provision for impairment	(52)	(33)
	Ps 11,581	Ps 10,720
<b>Non-current:</b>		
Non-current related parties receivables (Note 26)	Ps 720	Ps -

Customers and other accounts receivable include past-due balances of Ps1,774 and Ps1,014 at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, there are impaired accounts receivable of (Ps52) and (Ps33), which have been provisioned in their entirety.

The analysis by age of the balances due from customers and other receivables not covered by impairment provisions is as follows:

	December 31	
	2016	2015
1 to 30 days	Ps 1,091	Ps 638
31 to 90 days	438	141
91 to 180 days	138	100
More than 180 days	107	135
Total	Ps 1,774	Ps 1,014

Movements in the provision for impairment of customers and other receivables are analyzed as follows:

	2016	2015
Initial balance (January 1)	Ps (33)	Ps (28)
Provision for impairment of customers and other receivables	(51)	(34)
Receivables written off during the year	27	18
Unused amounts reversed	5	11
Final balance (December 31)	Ps (52)	Ps (33)

Increases in the provision for impairment of customers and other receivables are recorded in the statement of income under sales expenses.

At December 31, 2016 and 2015, the maximum risk of accounts receivable is their carrying value.

## Note 9 - Inventories:

	December 31,	
	2016	2015
Raw material and other consumables	Ps 8,278	Ps 7,026
Production in process	1,589	1,416
Finished goods	1,917	1,225
	Ps 11,784	Ps 9,667

The cost of inventories recorded in income and included in cost of sales amounted to Ps65,345 and Ps59,143, for 2016 and 2015, respectively.

In the years ended on December 31, 2016 and 2015, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of Ps4 and Ps26, respectively.

At December 31, 2016 and 2015, there were no inventories provided in guarantee.

## Note 10 - Financial Instruments:

### a. Financial instruments by category

	At December 31, 2016								
	Receivables and liabilities at amortized cost	Financial assets and liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total				
<b>Financial assets:</b>									
Cash and cash equivalents	Ps 2,661	Ps -	Ps -	Ps -	Ps 2,661				
Restricted cash	486	-	-	-	486				
Trade and other accounts receivable	12,301	-	-	-	12,301				
Financial assets available for sale	-	-	71	-	71				
	Ps 15,448	Ps -	Ps 71	Ps -	Ps 15,519				
<b>Financial liabilities:</b>									
Debt	Ps 29,009	Ps -	Ps -	Ps -	Ps 29,009				
Trade and other payables	18,894	-	-	-	18,894				
	Ps 47,903	Ps -	Ps -	Ps -	Ps 47,903				
	At December 31, 2015								
	Receivables and liabilities at amortized cost	Financial assets and liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total				
<b>Financial assets:</b>									
Cash and cash equivalents	Ps 1,793	Ps -	Ps -	Ps -	Ps 1,793				
Restricted cash	333	-	-	-	333				
Trade and other accounts receivable	10,720	-	-	-	10,720				
Advanced payments	277	-	-	-	277				
Financial assets available for sale	-	-	70	-	70				
	Ps 13,113	Ps -	Ps 70	Ps -	Ps 13,183				
<b>Financial liabilities:</b>									
Debt	Ps 22,710	Ps -	Ps -	Ps -	Ps 22,710				
Trade and other payables	16,515	-	-	-	16,515				
	Ps 39,225	Ps -	Ps -	Ps -	Ps 39,225				

**b. Credit quality of financial assets**

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	December 31,	
	2016	2015
Trade and other receivables and related parties		
Counterparties with external credit rating		
"A+"	Ps 248	Ps 218
"A"	20	16
"A-"	620	48
"BBB+"	3,472	243
"BBB"	2,054	87
"BBB-"	532	2,088
"BB+"	238	-
"BB"	1,179	332
"BB-"	-	740
Other categories	31	10
	8,394	3,782
Counterparties without external credit rating		
"Type Y clients"	3,239	6,971
Total unimpaired accounts receivable	Ps 11,633	Ps 10,753
Cash and cash equivalents		
"A+"	Ps 18	Ps 28
"A"	123	217
"A-"	1,063	47
"BBB+"	207	128
"BBB"	566	592
"BBB-"	33	5
"BB+"	6	93
Other categories	645	683
	Ps 2,661	Ps 1,793

Group Y - clients/current related parties (more than 6 months) without noncompliance in the past.

**c. Fair value of financial assets and liabilities**

The amounts of cash and cash equivalents, restricted cash, trade and other receivables, other current assets, suppliers and other payables, outstanding debt, provisions and other current liabilities approximate their fair value due to their short maturity. The carrying value of these accounts represents the expected cash flow.

The carrying value and estimated fair value of financial assets and financial liabilities carried at amortized cost are as follows:

	At December 31, 2016		At December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets:</b>				
Non-current accounts receivable	Ps 720	Ps 653	Ps -	Ps -
<b>Financial liabilities:</b>				
Bank loans	15,776	15,760	13,611	13,652
Peso Bond and other liabilities	11,380	11,256	8,876	8,930

The estimated fair values were determined based on discounted cash flows and these fair values are considered Level 3. These fair values do not consider the current portion of financial assets and liabilities, since the current portion approximates its fair value.

#### d. Derivative financial instruments

The effectiveness of derivative financial instruments designated as hedges is measured periodically. At December 31, 2016 and 2015, the Company has no derivative financial instruments operation contracted.

Notional amounts related to derivative financial instruments reflect the contracted reference volume; however they do not reflect the amounts at risk with respect to future cash flows. The amounts at risk are generally limited to the unrealized profit or loss from the market valuation of such instruments, which may vary according to changes in the market value of the underlying, its volatility and the credit quality of the counterparties.

At December 31, 2016, the principal obligations which the Company was subject to, depend on the type of contract and the conditions established in each one of the derivative financial instruments in force at this date.

Trading derivatives are classified as current assets or liabilities. The fair value of hedges 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.

During the last quarter of the year 2015, the following changes to the company's derivative financial instruments occurred:

#### a. Cancellation of Cross Currency Swap MXN / USD:

In December 2015, the Company paid in advance the total of its Peso Bond amounting to Ps3,500. Consistent with this prepayment, it also fully canceled the "Cross Currency Swap" which converted via derivatives, the loan from MXN to USD. The "Cross Currency Swap" was acquired as a hedging transaction at an average exchange rate of Ps12.30, therefore Ps3,500 were converted to US\$285 (Ps4,904).

The cancellation of the derivative resulted in an cash outflow of US\$83 (Ps1,412), amount recorded in the statement of income; however, it should be noted that the exchange rate MXN / USD at the time of completion was Ps17.01, so Ps3,500 equivalent at that time to US\$206 (Ps3,504). These derivatives were designated as fair value hedges. See Note 2.

#### b. Cancellation of Cross Currency Swap EUR-USD:

In November 2015, the Company terminated in advance a trading derivative that had contracted since 2012 in order to increase exposure to the EUR, given the growing activities in that region. The transaction was agreed at a level of exchange of US\$1.25 per euro. The instrument had a remaining balance of €41 and final maturity in 2016. At the time of cancellation, the exchange rate USD / EURO was approximately 1.06 resulting in a cash redemption value in favor of Nematik of US\$5.3 (Ps89). This effect was recorded in the statement of income.

#### c. Cancellation of natural gas derivative:

In December 2015, Nematik early terminated a hedge operation on approximately 40% of its volume of consumption of energy for its operations in North America that had been contracted for the period 2016-2020. The early cancellation was decided in anticipation of further declines in the price of this commodity. The termination of these hedges resulted in a cash outflow for Nematik of US\$27.7 (Ps476). At 31 December 2015, the balance in accumulated other comprehensive income related to this coverage is Ps329. This amount will be reclassified to income statement as the forecasted transaction were to take place.

## Note 11 - Property, plant and equipment:

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment
<b>Year ended December 31, 2015</b>				
Opening balance	Ps 971	Ps 5,734	Ps 20,607	Ps 51
Exchange differences	104	635	2,435	6
Additions	174	6	3	0
Disposals and write downs	(5)	(1)	(66)	(0)
Depreciation charge for the year	-	(319)	(3,612)	(32)
Transfers	2	546	4,319	36
	Ps 1,246	Ps 6,601	Ps 23,687	Ps 61
At December 31, 2015				
Cost	Ps 1,246	Ps10,379	Ps 52,842	Ps 266
Accumulated depreciation	-	(3,778)	(29,155)	(205)
Net carrying value at December 31, 2015	Ps 1,246	Ps 6,601	Ps 23,687	Ps 61
<b>Year ended December 31, 2016</b>				
Opening balance	Ps 1,246	Ps 6,601	Ps 23,687	Ps 61
Exchange differences	264	1,346	4,689	13
Additions	-	(3)	1,193	0
Additions due to business acquisitions	132	129	825	7
Disposals and write downs	-	(1)	(901)	(0)
Depreciation charge for the year	-	(402)	(4,545)	(28)
Transfers	34	495	4,550	21
	Ps 1,676	Ps 8,165	Ps 29,498	Ps 74
At December 31, <b>2016</b>				
Cost	Ps 1,676	Ps13,564	Ps 69,308	Ps 339
Accumulated depreciation	-	(5,399)	(39,810)	(265)
Net carrying value at December 31, <b>2016</b>	Ps 1,676	Ps 8,165	Ps 29,498	Ps 74

Of the total depreciation expense of Ps4,873 and Ps3,932, were charged to cost of sales, Ps2 and Ps1, to selling expenses and Ps264 and Ps178, to administrative expenses in 2016 and 2015, respectively.

At December 31, 2016 and 2015 there were no pledged property, plant and equipment.

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

	December 31,	
	2016	2015
Cost - capitalized financial lease	Ps 464	Ps 414
Accumulated depreciation	(225)	(174)
Carrying value, net	Ps 239	Ps 240

The Company has entered into various non-cancellable capital lease agreements as lessee. The lease terms are between 5 and 20 years, and the ownership of the assets lies with the Company.

The other fixed assets are integrated by spare parts, land improvements and other fixed assets.

Furniture and office equipment		Construction in progress	Other fixed assets	Total			
Ps	370	Ps	4,272	Ps	530	Ps	32,535
	46		342		3		3,572
	1		6,129		32		6,344
	(0)		-		(7)		(79)
	(146)		-		-		(4,108)
	176		(5,195)		117		0
Ps	446	Ps	5,548	Ps	675	Ps	38,263
Ps	1,433	Ps	5,548	Ps	675	Ps	72,388
	(987)		-		-		(34,125)
Ps	446	Ps	5,548	Ps	675	Ps	38,263
Ps	446	Ps	5,548	Ps	675	Ps	38,263
	98		1,036		116		7,563
	14		8,110		18		9,332
	6		124		(0)		1,223
	(1)		(6)		4		(905)
	(164)		-		-		(5,139)
	247		(5,480)		(110)		(243)
Ps	646	Ps	9,332	Ps	703	Ps	50,094
Ps	2,012	Ps	9,332	Ps	703	Ps	96,934
	(1,366)		-		-		(46,840)
Ps	646	Ps	9,332	Ps	703	Ps	50,094

## Note 12 - Goodwill and intangible assets, net:

Cost	Development costs	Customer relationships	Software and licenses	Trademarks and patents	Goodwill	Total
At January 1, 2016	Ps 4,448	Ps 2,023	Ps 515	Ps 93	Ps 5,187	Ps 12,265
Exchange differences	1,615	121	103	19	649	2,507
Additions	851	921	169	0	0	1,942
Disposals	(3)	(45)	(53)	0	0	(101)
At December 31, <b>2016</b>	Ps 6,911	Ps 3,020	Ps 734	Ps 112	Ps 5,837	Ps 16,613
At January 1, 2015	Ps 3,078	Ps 1,171	Ps 665	Ps 80	Ps 4,764	Ps 9,758
Exchange differences	404	290	(169)	13	423	961
Additions	966	562	22	-	-	1,550
Disposals	0	0	(3)	-	-	(3)
At December 31, 2015	Ps 4,448	Ps 2,023	Ps 515	Ps 93	Ps 5,187	Ps 12,266
Accumulated amortization						
At January 1, 2016	Ps (1,901)	Ps (606)	Ps (450)	Ps (93)	Ps 0	Ps (3,050)
Amortizations	(505)	(111)	(146)	0	0	(762)
Disposals	1	0	28	0	0	29
Exchange differences	(524)	(108)	(122)	(19)	0	(773)
At December 31, <b>2016</b>	Ps (2,929)	Ps (825)	Ps (690)	Ps (112)	Ps 0	Ps (4,556)
At January 1, 2015	(1,256)	(508)	(381)	(80)	-	(2,225)
Amortizations	(388)	(63)	(48)	-	-	(499)
Disposals	0	0	3	-	-	3
Exchange differences	(257)	(35)	(24)	(13)	-	(329)
At December 31, 2015	Ps (1,901)	Ps (606)	Ps (450)	Ps (93)	Ps -	Ps (3,050)
Net carrying value						
Cost	Ps 6,911	Ps 3,020	Ps 734	Ps 112	Ps 5,837	Ps 16,613
Accumulated amortization	(2,929)	(825)	(690)	(112)	0	(4,556)
At December 31, <b>2016</b>	Ps 3,982	Ps 2,195	Ps 44	Ps 0	Ps 5,837	Ps 12,057
Cost	Ps 4,448	Ps 2,023	Ps 515	Ps 93	Ps 5,187	Ps 12,266
Accumulated amortization	(1,901)	(606)	(450)	(93)	-	(3,050)
At December 31, 2015	Ps 2,547	Ps 1,417	Ps 65	Ps 0	Ps 5,187	Ps 9,216

Of the total amortization expense, Ps521 and Ps351, were charged to cost of sales, Ps205 and Ps143, to administrative expenses, Ps7 and Ps5 to selling expenses, in 2016 and 2015, respectively.

Research expenses incurred and recorded in the results of 2016 and 2015 were Ps11 Ps4, respectively.

### Effect of the change in accounting policy

At December 31, 2015, costs incurred to obtain new contracts with certain OEMs were shown in the other non-current assets line item in the statement of financial position. At December 31, 2016, as a result of the analysis conducted by Management, it is concluded that classification as an intangible asset (other relationships with customers) best reflects the economic substance of the transaction. The retrospective effects of said changes in accounting policies have an effect only on the statement of financial position, as shown below:

	Previously reported	Reclassified balance
Goodwill and intangible assets	Ps 8,032	Ps 9,216
Other non-current assets	Ps 1,240	Ps 56

Additionally, Note 13 to these consolidated financial statements was modified due to aforementioned reclassification.

*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 acquiree are assigned to those units or groups of units, as follows:

	North America	Europe	Rest of the world	Total
Closing balance January 1, 2015	Ps 2,196	Ps 1,966	Ps 602	Ps 4,764
Exchange differences	20	121	48	189
Closing balance December 31, 2015	Ps 2,216	Ps 2,087	Ps 650	Ps 4,953
Exchange differences	398	371	115	884
Closing balance December 31, <b>2016</b>	Ps 2,614	Ps 2,458	Ps 765	Ps 5,837

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 fair value less costs of disposal in 2016 were as follows:

	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%

The key assumptions used in calculating the fair value less costs of disposal in 2015 were as follows:

	North America	Europe	Rest of the world
Estimated gross margin	18.99%	15.16%	5.42%
Growth rate	1.50%	1.50%	2.40%
Discount rate	9.62%	9.62%	9.40%

With regard to the calculation of the fair value of the cash generating units, the Company considers that a possible change in the key assumptions used, would not cause the carrying value to materially exceed their value in use.

**Note 13 - Other non-current assets:**

	At December 31,	
	2016	2015
Restricted cash	Ps 12	Ps 10
Available for sale financial assets <sup>(1)</sup>	71	70
Investment in associates	415	303
Other assets	97	56
Total other non-current assets	Ps 595	Ps 439

<sup>(1)</sup> Available for sale financial assets are investment in shares of companies not listed on the market (See Note 4.3). No impairment loss was recognized as of December 31, 2016 and 2015.

The accumulated summarized financial information for associates of the group accounted for by the equity method, not considered material, is as follows:

		2016		2015
Comprehensive income, equal to net profit	Ps	55	Ps	48

There are no contingent liabilities related to the investment of the group in the associates.

## Note 14 - Trade and other payables:

		At December 31,	
		2016	2015
Suppliers	Ps	15,006	Ps 11,992
Advance from customers		505	687
Other taxes and social security benefits		779	682
Related parties (Note 26)		54	50
Other accounts and accumulated expenses payables		2,550	3,104
	Ps	18,894	Ps 16,515

## Note 15 - Debt:

		At December 31,	
		2016	2015
Current:			
Bank loans <sup>(1)</sup>	Ps	1,788	Ps 228
Current portion of non-current debt		1,634	725
Notes payable <sup>(1)</sup>		277	-
Current debt	Ps	3,699	Ps 952
Non-current:			
Unsecured bank loans	Ps	16,443	Ps 13,566
Financial lease		203	197
Other:			
In foreign currency:			
USD Bond		10,194	8,644
Related parties :			
In local currency:			
Other		104	76
		26,944	22,483
Less: current portion of non-current debt		(1,634)	(725)
Non-current debt	Ps	25,310	Ps 21,758

<sup>(1)</sup> At December 31, 2016 and 2015, short-term bank loans and notes payable bore interest at an average rate of 3.84% and 3.72%, respectively.

The fair value of current bank loans and notes payable approximate their carrying value, since the discount effect is immaterial.

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

Description	Currency	Contractual value <sup>(4)</sup>	Costs of debt issuance	Interest payable	Balance at december 31, 2016	Balance at december 31, 2015	Inception date DD/MM/AAAA	Maturity date DD/MM/AAAA	Interest rate
Club Deal (Citi) <sup>(1)</sup>	USD	4,449	(22)	9	4,436	Ps 4,073	02/12/2013	02/12/2018	2.34%
Club Deal-(Citi) <sup>(1)</sup>	EUR	869	(5)	1	865	814	02/12/2013	02/12/2018	1.50%
Club Deal-(BBVA) <sup>(2)</sup>	USD	5,203	(27)	14	5,190	4,316	13/11/2015	13/11/2020	2.07%
Club Deal-(BBVA) <sup>(2)</sup>	EUR	978	(5)	2	975	835	13/11/2015	13/11/2020	1.25%
Bancomext LP	USD	2,477	(9)	3	2,471	2,062	23/12/2015	23/12/2025	3.39%
Nafin LP	USD	1,653	(7)	1	1,647	1,376	29/12/2015	29/12/2025	3.40%
Unicredit Turkey	EUR	741		0	741	-	28/12/2016	28/12/2019	1.25%
Brazil	BRL	76		15	91	88	31/01/2015	15/01/2025	8.50%
Modellbau	EUR	27			27	-	30/04/2009	30/09/2017	1.82%
Other									
Unsecured bank loans		16,473	(75)	45	16,442	13,564			
Senior Notes <sup>(3)</sup>	USD	10,123	(137)	209	10,195	9,644	28/02/2013	28/02/2023	5.50%
Financial lease:									
EUA	USD	1	-	-	1	4	01/01/2013	01/09/2017	10.64%
China	RMB	200	-	-	200	190	06/09/2006	28/02/2023	6.45%
Russia	RUR	2	-	-	2	2	01/08/2014	30/04/2018	4.05%
Total financial lease		203	-	-	203	196			
Other liabilities		104	-	-	104	77			
<b>Total</b>		<b>26,903</b>	<b>(212)</b>	<b>254</b>	<b>26,944</b>	<b>22,483</b>			
Less: current portion									
Of non-current debt					(1,634)	(725)			
Non current debt					Ps 25,310	Ps 21,758			

<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%

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

At December 31, 2016, the annual maturities of non-current debt are as follows:

	2017	2018	2019	2020 onwards	Total
Bank loans <sup>1</sup>	Ps 1,585	Ps 5,473	Ps 3,138	Ps 6,279	Ps 16,475
Senior Notes <sup>2</sup>	-	-	-	10,123	10,123
Other loans	13	8	15	67	102
Financial lease	30	29	29	115	203
	Ps 1,628	Ps 5,510	Ps 2,449	Ps 16,585	Ps 26,903

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

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

Covenants:

Most existing bank debt agreements contain restrictions for the Company, primarily with respect to compliance with certain financial ratios, including:

- Interest coverage ratio: which is defined as profit before financial result, income taxes, depreciation and amortization (EBITDA<sup>1</sup>) 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.
- Leveraging ratio, defined at any point of its determination, as a result of dividing the consolidated net debt at said date by the consolidated EBITDA<sup>1</sup> for the preceding four quarters.

<sup>(1)</sup> As defined in Note 27.

Additionally to the aforementioned agreements, there are commitments related to the Senior Notes issued in February 2013, 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 times.

During 2016 and 2015, the financial ratios mentioned above were calculated in accordance with the formulas established in the effective debt agreements.

At December 31, 2016 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 applicable.
- Incur additional indebtedness.
- Pay dividends (only applicable to Nematik, 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, 2016 and 2015 there are no assets pledged as collateral for any of the subsidiaries, except for:

1. Some assets, pledged as collateral in a long-term debt granted by a Brazilian government entity to promote investment ("BNDES"). At December 31, 2016 the outstanding balance and the value of the pledged assets are approximately US\$ 6.1 (Ps125.3) and US\$3.9 (Ps67.1), respectively.
2. Various minor loans to finance equipment acquisitions in several subsidiaries with liens accumulated by approximately US\$0.6 (Ps11.8).

Significant debt transactions in 2016:

- a. New financing. During December 2016, the Company completed its refinancing of the debt of its subsidiary, Nematik 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. Nematik 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.

Significant debt transactions in 2015:

- a. A bank facility amounting to US\$300 (Ps5,162) with a group of banks (BBVA Bancomer as agent bank) with a final maturity of 5 years and average life of 3.6 years. Interests will be payable quarterly at a variable interest rate of Libor+1.25% (effective interest rate 2.1%). Proceeds of this loan were used to prepay all of the unsecured Peso Bond "Nematik -07" by Ps3,500 that would expire at the end of 2017.
- b. Financing amounting to US\$200 (Ps3,441), with two banks (Bancomext and Nacional Financiera) with a total term of 10 years and average life of 7.9 years. Interests will be payables quarterly at a variable interest rate of Libor+2.8% (effective interest rate 3.5%). Resources were used to prepay substantially all short-term debt of the Company.
- c. The Company increased its midterm committed credit lines in US\$110, from US\$192 (Ps3,304) at end of 2014 to US\$302 (Ps5,196) at the end of 2015. The total amount of these revolving committed lines matures during December 2018. At December 31, 2016, the committed credit lines were totally available.

The financial lease liabilities are effectively protected as the rights to the leased asset revert to the lessor in the event of default.

	December 31,	
	2016	2015
Obligation for financial leases - minimal payments, gross		
- Less than 1 year	Ps 30	Ps 70
- More than 1 year and less than 5 years	148	103
- More than 5 years	96	99
Future finance charges on financial lease liabilities	(71)	(75)
Present value of liabilities from financial lease	Ps 203	Ps 197

The present value of finance lease liabilities is analyzed as follows:

	December 31,	
	2016	2015
Less than 1 year	Ps 17	Ps 29
More than 1 year and less than 5 years	101	72
More than 5 years	85	96
	Ps 203	Ps 197

## Note 16 - Deferred taxes:

The analysis of the deferred tax asset and deferred tax liability is as follows:

	December 31,	
	2016	2015
Deferred tax asset:		
- To be recovered in more than 12 months	Ps 1,000	Ps 840
- To be recovered within 12 months	520	481
	1,520	1,321
Deferred tax liability:		
- To be covered in more than 12 months	(4,732)	(2,852)
- To be covered within 12 months	580	86
	(4,152)	(2,765)
Deferred tax liabilities, net	Ps (2,632)	Ps (1,444)

The gross movement in the deferred income tax liabilities account is as follows:

	2016	2015
At January 1	Ps (1,444)	Ps (783)
Exchange differences	(412)	(115)
Charge to income statement	(766)	(659)
Tax related to components of other comprehensive income	(10)	113
At December 31	Ps (2,632)	Ps (1,444)

The analysis of the deferred income tax assets and liabilities was as follows:

	Assets (liabilities) December 31,			
	2016		2015	
Inventories	Ps	9	Ps	36
Intangible assets		59		52
Reserve for valuation of assets		8		9
Valuation of derivative financial instruments		34		35
Liability provisions		567		483
Tax loss carryforwards		1,538		1,531
Other temporary differences, net		561		574
Deferred tax asset		2,776		2,720
Property, plant and equipment		(3,870)		(3,423)
Intangible assets		(1,464)		(804)
Cost of debt issuance		(64)		(68)
Reserve for valuation of assets		(10)		(2)
Other temporary differences, net		-		133
Deferred tax liabilities		(5,408)		(4,164)
Deferred tax liabilities, net	Ps	(2,632)	Ps	(1,444)

Changes in the temporary differences during the year are shown below:

	Balance at December 31, 2015		(Charged) credited to the income statement		(Charged) credited to the comprehensive income		Balance at December 31, 2016	
Inventories	Ps	36	Ps	(27)	Ps	-	Ps	9
Intangible assets		52		7		-		59
Reserve for valuation of assets		9		(1)		-		8
Valuation of derivative financial instruments		35		9		(10)		34
Liability provisions		483		84		-		567
Tax loss carryforwards		1,531		7		-		1,538
Other temporary differences, net		574		(13)		-		561
Deferred tax asset		2,720		66		(10)		2,776
Property, plant and equipment		(3,423)		(447)		-		(3,870)
Intangible assets		(804)		(660)		-		(1,464)
Cost of debt issuance		(68)		4		-		(64)
Reserve for valuation of assets		(2)		(8)		-		(10)
Other temporary differences, net		133		(133)		-		-
Deferred tax liabilities		(4,164)		(1,244)		-		(5,408)
Deferred tax liabilities, net	Ps	(1,444)	Ps	(1,178)	Ps	(10)	Ps	(2,632)

	Balance at December 31, 2014	(Charged) credited to the income statement	(Charged) credited to the comprehensive income	Balance at December 31, 2015
Inventories	Ps 26	Ps 10	Ps -	Ps 36
Intangible assets	56	(4)	-	52
Reserve for valuation of assets	17	(8)	-	9
Valuation of derivative financial instruments	230	(82)	(113)	35
Liability provisions	863	(380)	-	483
Tax loss carryforwards	1,366	165	-	1,531
Other temporary differences, net	207	368	-	574
Deferred tax asset	2,764	69	(113)	2,720
Property, plant and equipment	(2,927)	(496)	-	(3,423)
Intangible assets	(602)	(202)	-	(804)
Cost of debt issuance	(59)	(9)	-	(68)
Reserve for valuation of assets	(3)	1	-	(2)
Other temporary differences, net	44	89	-	133
Deferred tax liabilities	Ps (3,547)	Ps (617)	Ps -	Ps (4,164)
Deferred tax liabilities, net	Ps (783)	Ps (548)	Ps (113)	Ps (1,444)

Deferred income tax asset is recorded as tax loss carryforwards when the realization of the related tax benefits through future taxable profits is probable.

Tax losses at December 31, 2016 expire in the following years:

Year of maturity	Amount
2017	Ps 398
2018	20
2019	62
2020	87
2021	102
2022	565
2023	554
2024 and onwards	3,135
No expiration date	25
	Ps5,128

#### Optional regime for company groups in Mexico (Incorporation Regime)

Derived from the elimination of tax consolidation in Mexico, Nematik SAB and its Mexican subsidiaries chose to join the optional Regime for groups of companies from 2014.

In general terms, the Regime is to group companies that have the option of deferring a portion of its corporate income tax (ISR) payments, which becomes due in three years. The deferral percentage is calculated by a factor that is determined by the amount of tax profit and losses that have obtained the Group companies during the fiscal year.

To be taxed under this system, the integrative legal entity, which holds one or more companies, must hold directly or indirectly 80% or more of the shares with voting rights of one or more of the legal entities called integrated.

In June 2015 as a result of the IPO, Nematik SAB and its Mexican subsidiaries ceased to be considered as integrated companies.

In terms of the Income Tax Law, a company that ceases to be integrated must disincorporate of this Regime on the date of the assumption occurs and pays within one month the amount of the deferred income tax.

The effects of the divestiture of the incorporation Regime in 2015 were as follows:

##### a. Income tax prepayments 2015

Considering that at the date of the divestitures referred to in this report, there were no guidelines in the Income Tax Law to establish how companies should pay the deferred Income tax prepayments, Nematik SAB and its Mexican subsidiaries paid the deferred payment of accumulated and historical in July 2015; the payment made was Ps97.

Deferred income tax from January to June was paid together with the July ISR prepayments, on August 17, 2015.

**Note 17 - Other liabilities:**

	December 31,			
	2016		2015	
Current:				
Other taxes and withholdings	Ps	371	Ps	670
Deferred income <sup>1</sup>		-		51
Employees' profit sharing payable		139		138
Share-based employee benefits (Note 20)		31		54
Bank overdrafts		-		1
Other		-		79
<b>Total other liabilities</b>	<b>Ps</b>	<b>541</b>	<b>Ps</b>	<b>993</b>
Non-current:				
Other	Ps	618	Ps	6
<b>Total</b>	<b>Ps</b>	<b>618</b>	<b>Ps</b>	<b>6</b>

<sup>1</sup> At December 31, 2015, it includes Ps51 current deferred income, received from the cancellation of energy supply contracts from the supplier.

**Note 18 - Employee benefits:**

The valuation of employee benefits for retirement plans covers approximately 83% of workers in 2016 and 82% in 2015, and is based primarily on their years of service, current age and estimated salary at retirement date.

The principal subsidiaries of the Company have established funds for the payment of retirement benefits through irrevocable trusts.

The employee benefit obligations recognized in the statement of financial position, by country, are shown below:

	December 31,			
	2016		2015	
Mexico	Ps	323	Ps	247
United States		42		39
Canada		151		114
Poland		122		81
Austria		246		191
Germany		99		72
Others		75		35
<b>Total</b>	<b>Ps</b>	<b>1,058</b>	<b>Ps</b>	<b>779</b>

Following is a summary of the main financial information of such employee benefits:

	December 31,	
	2016	2015
Liabilities in the balance sheet for:		
Pension benefits	Ps 897	Ps 662
Post-employment medical benefits	161	117
Liabilities in the balance sheet	1,058	779
Charge in the income statements for:		
Pension benefits	(186)	(124)
Post-employment medical benefits	(9)	(7)
	(195)	(131)
Remeasurements recognized in the statement of other comprehensive income for the period		
Pension benefits	Ps (61)	Ps (18)
Post-employment medical benefits	(12)	6
	(73)	(12)
Cumulative remeasurements recognized in other comprehensive income	Ps (186)	Ps (113)

#### *Pension benefits*

The Company operates defined benefit pension plans based on employees' pensionable remuneration and length of service. Most plans are externally funded. Plan assets are held in trusts, foundations or similar entities, governed by local regulations and practice in each country, as is the nature of the relationship between the Company and the respective trustees (or equivalent).

Amounts recognized in the balance sheet are determined as follows:

	December 31,	
	2016	2015
Present value of defined benefit obligations	Ps 1,504	Ps 1,154
Fair value of plan assets	(607)	(492)
Liabilities in balance sheet	Ps 897	Ps 662

The movement in the defined benefit obligation during the year was as follows:

	2016		2015	
At January 1	Ps 1,154	Ps 1,041		
Current service cost	127	79		
Interest cost	47	39		
Employee contributions	1	1		
Remeasurements:				
Financial actuarial losses/(gains)	58	14		
Benefits paid	(34)	(55)		
Exchange differences	151	35		
At December 31	Ps 1,504	Ps 1,154		

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

		2016		2015
At January 1	Ps	(492)	Ps	(475)
Interest Income		(11)		(14)
Remeasurements - expected return on plan assets, excluding interest income		3		4
Exchange differences		(92)		(14)
Employer contributions		(16)		(13)
Employee contributions		(1)		(1)
Benefits paid		2		21
At December 31	Ps	(607)	Ps	(492)

Amounts recorded in the statement of income are as follows:

		2016		2015
Current service cost	Ps	(127)	Ps	(79)
Financial costs, net		(36)		(25)
Effect from reduction or settlement		(23)		(20)
Total included in personal costs	Ps	(186)	Ps	(124)

The principal ranges of actuarial assumptions were as follows:

	December 31, 2016	2015
Mexico		
Inflation rate	3.50%	4.25%
Salary increase rate	4.50%	5.25%
Future salary increase	3.50%	4.25%
Medical inflation rate	6.50%	7.50%
Discount rate:		
Mexico	7.75%	6.75%
Canada	3.99%	3.99%
Austria	2.00%	2.00%

The average life of defined benefit obligations is of 18 and 18 years at December 31, 2016 and 2015, respectively.

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

	Effect in defined benefit obligations		
	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rates	1.0%	Decreases by Ps17	Increases by Ps20

#### *Post-employment medical benefits*

The Company operates post-employment medical benefits schemes mainly in Mexico and Canada. The method of accounting, assumptions and the frequency of valuations are similar to those used for defined benefit pension schemes. Most of these plans are not being funded.

Amounts recognized in the balance sheet are determined as follows:

		December 31, 2016		2015
Present value of obligations equal to liabilities in balance sheet	Ps	161	Ps	117

The movements of defined benefit obligations are as follows:

	2016		2015	
At January 1	Ps	117	Ps	124
Current service cost		4		3
Interest cost		5		4
Financial actuarial losses/(gains)		12		(10)
Employee contributions		4		-
Exchange differences		31		(2)
Benefits paid		(8)		(2)
At December 31	Ps	161	Ps	117

Amounts recorded in the statement of income are as follows:

	2016		2015	
Current service cost	Ps	(4)	Ps	(3)
Interest cost		(5)		(4)
Total included in personal costs	Ps	(9)	Ps	(7)

## Note 19 - Equity:

At December 31, 2016 and 2015, the nominal capital stock, subscribed and paid-in of Ps6,607, was represented by 3,081 million of common, nominative shares, "Class I" of Series "A", with no par value, entirely subscribed and paid.

At December 31, 2016 and 2015, the shares was represented as follows:

Shareholder	Number of shares (in millions)	Amount
ALFA	2,318	Ps 4,971
FORD	168	360
Public float	595	1,276
	3,081	Ps 6,607

The movement in the capital stock during the year, are detailed as follow:

	Note	Capital stock	Share premium
Balance as of January 1, 2015		Ps 874	Ps -
Increase of capital stock	2b	14,196	-
Merger with GIALFA	2c	55	-
Capital distribution	2d	(9,544)	-
Initial Public Offering		1,026	10,871
IPO Issuance costs	2e	-	(428)
Movement of the year		5,733	10,443
Balance as of December 31, 2015		Ps 6,607	Ps 10,443
IPO Issuance costs		-	(9)
Movement of the year		-	(9)
Balance as of December 31, <b>2016</b>		Ps 6,607	Ps 10,434

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

	Note	Number of shares (in millions)
Shares at January 1, 2015		871
Split effect <sup>1</sup>		1,616
Result of the share split		2,486
Shares issued in IPO	2e	538
Shares issued in overallotment	2e	57
<b>Shares at December 31, 2015 and 2016</b>		<b>3,081</b>

At December 31, 2015, the weighted average of shares outstanding was 2,781.

During the year 2016, there were no movements in outstanding shares.

<sup>1</sup> In an Ordinary and Extraordinary shareholders meeting on June 15, 2015, a share split at a ratio of approximately 2.8561 Shares for every existing share (the "Share Split") was approved. Due to the above, the split effects were considered retrospectively in the weighted average of outstanding shares from 2014.

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, 2016 and 2015, the legal reserve amounted to Ps174, which is included in retained earnings.

The dividends paid in 2016 and 2015 were Ps1,755 (Ps0.59 per share) and Ps1,253 (Ps0.48 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, 2016, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to Ps6,040 and Ps9,294, respectively.

In October 2013 the Chamber of Senators and Deputies approved the issuance of a new Income Tax Law (LISR), which became effective on January 1, 2014. Among other aspects, this law establishes a tax of 10% for profits generated as from 2014 on dividends paid to foreign residents and Mexican individuals. It is also established that for fiscal years 2001 to 2013, the net tax profit will be determined under the LISR terms effective in the corresponding fiscal year. In November 2015, an article of temporary duration by which a fiscal incentive is given to individuals residing in Mexico that are subject to additional payment of 10% on dividends or profits distributed are issued.

The incentive is applicable provided that such dividends or profits were generated in 2014, 2015, 2016 and are reinvested in the legal entity that generated such profits, and consists of a tax credit equal to the amount obtained by applying the dividend or utility is distributed, which corresponds to year percentage distribution as follows:

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

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

- The entity must identify in its accounts the corresponding accounting records to earnings or dividends generated in 2014, 2015 and 2016 records and the respective distributions.
- Present in the notes to the financial statements analytical information for the period in which profits were generated, dividends were reinvested or distributed.
- For corporations whose shares are not traded on the Mexican Stock Exchange and implement this incentive should choose to audit their financial statements for tax purposes in terms of Article 32-A of the Tax Code of the Federation.

Entities distributing dividends or profits in respect of shares placed among the investing public should inform brokerage firms, credit institutions, investment operators, the people who carry out the distribution of shares of investment companies, or any other intermediary market, the exercises from which the dividends so that these brokers carry the corresponding withholding. For the year ended at 31 December 2016, the company generated profit of Ps5,410 (Ps4,599 in 2015) which may be subject to this incentive.

In the case of a capital reduction, the procedures established by the Income Tax Law establishes to give to any excess of stockholders' equity over the capital contributions, the same tax treatment as applicable to dividends.

The movements in cumulative other comprehensive income for 2016 and 2015 are presented below:

	Effect of cash flow hedge derivatives instruments		Effect from foreign currency translation		Total
At January 1, 2015	Ps	(81)	Ps	1,182	Ps 1,101
Losses on fair value		(248)		-	(248)
Gains on translation of foreign entities		-		1,391	1,391
At December 31, 2015		(329)		2,573	2,244
Losses on fair value		(9)		-	(9)
Gains on translation of foreign entities		-		5,486	5,486
At December 31, <b>2016</b>	Ps	(338)	Ps	8,059	Ps 7,721

#### *Foreign currency translation*

The foreign exchange differences arising from the translation of financial statements of foreign subsidiaries are recorded.

#### *Effect of derivative financial instruments*

At December 31, 2016 and 2015, the effect of derivative financial instruments contracted as cash-flow hedging represents the early cancellation of a gas hedging operation conducted by the Company in December 2015. Said accumulated effect is shown in other comprehensive income for Ps283 and Ps329 at December 31, 2016 and 2015, respectively. Said amounts will be reclassified to the statement of income as the predicted transactions is carried out, as set out in Note 4.1 d.

## Note 20 - Share based payments:

The Company has a compensation scheme referenced to the value of ALFA's shares for senior executives of ALFA 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 program consists of determining a number of shares on which the executives shall be based. The bonus will be paid in cash over the next five years, i.e. 20% each year at the average price of the share at the end of each year. The average price per share in Mexican pesos in 2016 and 2015 was 26.73 and 34.30, respectively.

The short-term and long-term liability was analyzed as follows:

		December 31,	
		2016	2015
Short-term	Ps	11	Ps 18
Long-term		20	36
Total carrying value	Ps	31	Ps 54

## Note 21 - Expenses classified by their nature:

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

		2016	2015
Raw materials	Ps	(31,815)	Ps (29,520)
Maquila (production outsourcing)		(6,537)	(6,019)
Employee benefit expenses (Note 24)		(12,181)	(10,194)
Personnel expenses		(2,048)	(1,920)
Maintenance		(4,094)	(3,659)
Depreciation and amortization		(5,873)	(4,609)
Freight charges		(868)	(871)
Advertising expenses		(21)	(16)
Consumption of energy and fuel		(2,905)	(2,554)
Travel expenses		(324)	(281)
Operating leases		(411)	(362)
Technical assistance, professional fees and administrative services		(675)	(1,397)
Other		(2,550)	(2,134)
Total	Ps	(70,302)	Ps (63,536)

## Note 22 - Other (expenses) income, net:

		2016	2015
Loss on sale of property, plant and equipment	Ps	(4)	Ps (12)
Impairment of property, plant and equipment		(293)	-
Customer reimbursements		-	9
Other		39	46
Total other (expenses) income, net	Ps	(258)	Ps 43

**Note 23 - Financial result, net:**

	2016		2015	
Financial income:				
- Interest income in short term bank deposits	Ps	8	Ps	8
- Intercompany financial income		34		24
- Other financial income <sup>1</sup>		11		13
Total financial income, excluding foreign exchange gain		53		45
Foreign exchange gain		14,604		6,200
Total financial income	Ps	14,657	Ps	6,245
Financial expenses:				
- Interest expense on bank loans	Ps	(1,235)	Ps	(1,097)
- Intercompany financial costs		-		-
- Other financial costs <sup>2</sup>		(22)		(75)
Total financial costs, excluding foreign exchange loss		(1,257)		(1,172)
Foreign exchange loss		(14,839)		(6,366)
Financial expense		(16,096)		(7,538)
Financial result, net	Ps	(1,439)	Ps	(1,293)

<sup>1</sup> Includes mainly the yield on plan assets and other concepts.

<sup>2</sup> Includes mainly the financial costs of employee benefits.

**Note 24 - Employee benefit expenses:**

	2016		2015	
Salaries, wages and benefits	Ps	9,890	Ps	8,360
Contributions to social security		1,817		1,435
Employee benefits (Note 18)		155		103
Other contributions		319		296
Total	Ps	12,181	Ps	10,194

**Note 25 - Income tax for the year:**

	2016		2015	
Tax currently payable:				
Income tax on profits of the period	Ps	(1,114)	Ps	(871)
Adjustment for previous years		(10)		(21)
Total tax currently payable		(1,124)		(893)
Deferred tax:				
Origination and reversal of temporary differences		(766)		(659)
Total deferred tax		(766)		(659)
Income taxes charged to income	Ps	(1,890)	Ps	(1,552)

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

	2016		2015	
Profit before taxes	Ps	7,300	Ps	6,153
Share of gain of associates recognized through equity method		(55)		(48)
Income before equity in associates		7,245		6,105
Statutory rate		30%		30%
Tax at statutory rate		(2,173)		(1,831)
(Add) deduct tax effect of:				
Difference based on the comprehensive financial result		(188)		(120)
Non-deductible		150		12
Non taxable exchange rate effects		295		287
Other permanent differences, net		27		100
Total provision for income taxes charged to income	Ps	(1,890)	Ps	(1,552)
Effective rate		26%		25%

The tax charge/(credit) relating to components of other comprehensive income was as follows:

	2016			2015		
	Before taxes	Tax payable/(receivable)	After taxes	Before taxes	Tax payable/(receivable)	After taxes
Translation effect of foreign entities	Ps 5,486	Ps -	Ps 5,486	Ps 1,390	Ps -	Ps 1,390
Remeasurement of obligations for employee benefits	(73)	18	(55)	(11)	1	(10)
Effect of derivative financial instruments hired as cash flow hedges	74	(28)	46	(359)	111	(248)
Other items of comprehensive income	Ps 5,487	Ps (10)	Ps 5,477	Ps 1,020	Ps 112	Ps 1,132
Deferred taxes		Ps (10)			Ps 112	

## Note 26 - Related party transactions:

Transactions with related parties during the years ended December 31, 2016 and 2015, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2016							
Loans granted to related parties							
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable
Parent	Ps -	Ps 720	Ps 69	MXP	18/08/2018	4.42 %	Ps -
Affiliates	8	-	-				54
Associates	-	-	43	EUR	04/08/2018	6.00%	-
Ford	2,260	-	-				-
Total	Ps 2,268	Ps 720	Ps 112				Ps 54
December 31, 2015							
Loans granted to related parties							
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable
Parent	Ps -	Ps 655	Ps 9	USD	01/01/2016	4.42%	Ps -
Affiliates	8	-	-				50
Associates	-	-	34	EUR	04/08/2015	6.00%	-
Ford	2,701	-	-				-
Total	Ps 2,709	Ps 655	Ps 43				Ps 50

Sales revenues and other related parties:

	Year ended December 31, 2016			
	Finished goods	Interest	Dividends	Others
Parent	Ps -	Ps 32	Ps -	Ps -
Ford	24,380	-	-	-
Associates	-	-	-	198
Total	Ps 24,380	Ps 32	Ps -	Ps 198

	Year ended December 31, 2015			
	Finished goods	Interest	Dividends	Others
Parent	Ps -	Ps 24	Ps -	Ps -
Ford	23,540	-	-	-
Associates	-	-	17	217
Total	Ps 23,540	Ps 24	Ps 17	Ps 217

Cost of sales and other expenses with related parties

	Year ended December 31, 2016		
	Administrative services	Other cost and expenses	Dividends paid
Parent	Ps -	Ps -	Ps 1,321
Affiliates	73	194	-
Associates	-	196	-
Ford	-	-	95
Total	Ps 73	Ps 390	Ps 1,416

	Year ended December 31, 2015		
	Administrative services	Other cost and expenses	Dividends paid
Parent	Ps -	Ps -	Ps 1,112
Affiliates	87	225	-
Associates	-	215	-
Ford	-	-	80
Total	Ps 87	Ps 440	Ps 1,192

The Company has declared they have no significant transactions with related parties or conflicts of interest to disclose.

At December 31 2016 and 2015, the Company has recognized intangible assets related with Ford by Ps1,325 and Ps608, respectively. See Note 12.

For the years ended December 31, 2016 and 2015, wages and benefits received by top officials of the Company were Ps131 and Ps200, respectively, an amount comprising base salary, social benefits and supplemented mainly by a variable compensation program governed by the results of the Company and by the average price of the Alfa's shares.

## Note 27 - Financial information by segments:

The Company manages and assesses its ongoing operations considering the group as a whole, however, the operating segments are reported based on the financial information presented before the Chief Operating Decision Maker (CODM) of the Company. The CODM who is responsible for assigning resources and assessing the performance of operating segments, has been identified as the Chief Executive Officer of the Company (CEO). The CODM considers the business from a geographical perspective.

The CODM analyzes the business segments of the Company by grouping operating segments (normally plants operating in the common geographical area), defined as two segments subject to reporting, separately.

Firstly 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”.

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

The Company assesses the performance of each one of the operating segments based primarily on income before the financial result, taxes, depreciation, amortization and the impairment in non-current assets (Adjusted UAFIDA or EBITDA), considering that such indicator represents a good measure to assess the operating performance and the capacity to satisfy principal and interest obligations in respect to indebtedness, as well as the capacity to fund capital investments and working capital requirements. However, adjusted UAFIDA or EBITDA is not a financial performance measure under IFRS, and should not be considered as an alternative to net profit as an operating performance measure, or cash flow as a liquidity measure.

The Company has defined adjusted UAFIDA or EBITDA as consolidated profit (loss) before tax after adding back or subtracting, as the case may be: (1) depreciation and amortization, and impairment of non-current assets (2) non-current assets write-down, (3) financial result, net (which includes interest expense, interest income, foreign exchange gains (losses), net and gain (loss) of derivative financial instruments), (4) share of gain of associates and (5) exceptional items.

For the year ended December 31, **2016**

	North America	Europe	Rest of the world	Eliminations	Total
Income statement					
Sales by segment	Ps 46,793	Ps 26,816	Ps 6,707	Ps (1,072)	Ps 79,244
Inter-segment sales	(695)	(328)	(49)	1,072	-
Sales from external customers	46,098	26,488	6,658	-	79,244
EBITDA					
Operating profit	5,882	2,776	26	-	8,684
Depreciation and amortization	3,682	1,610	581	-	5,873
Non-current assets write-down	289	3	-	-	292
Adjusted EBITDA	9,853	4,389	607	-	14,849
Capital expenditures (CAPEX)	Ps 4,919	Ps 4,321	Ps 924	Ps -	Ps 10,164

For the year ended December 31, 2015

	North America	Europe	Rest of the world	Eliminations	Total
Income statement					
Sales by segment	Ps 44,202	Ps 22,023	Ps 5,502	Ps (837)	Ps 70,891
Inter-segment sales	(643)	(194)	-	837	-
Sales from external customers	43,559	21,829	5,502	-	70,891
EBITDA					
Operating profit	5,389	2,100	(91)	-	7,398
Depreciation and amortization	3,009	1,191	409	-	4,609
Non-current assets write-down	-	(4)	3	-	(1)
Adjusted EBITDA	8,398	3,287	321	-	12,006
Capital expenditures (CAPEX)	Ps 3,426	Ps 2,658	Ps 1,169	Ps -	Ps 7,253

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

	December 31,	
	2016	2015
Adjusted EBITDA	Ps 14,849	Ps 12,006
Depreciation and amortization	(5,873)	(4,609)
Non-current assets write-down	(292)	1
Operating profit	8,684	7,398
Financial result	(1,439)	(1,293)
Share of gain of associates	55	48
Profit before tax	Ps 7,300	Ps 6,153

For the year ended December 31, **2016**

	Property plant and equipment	Goodwill	Intangible assets
North America	Ps 27,582	Ps 2,455	Ps 3,116
Europe	16,929	3,629	1,967
Rest of the world	5,583	-	890
Total	Ps 50,094	Ps 6,084	Ps 5,973

For the year ended December 31, 2015

	Property plant and equipment	Goodwill	Intangible assets
North America	Ps 22,909	Ps 2,073	Ps 1,553
Europe	11,117	3,114	828
Rest of the world	4,237	-	464
Total	Ps 38,263	Ps 5,187	Ps 2,845

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 34%, General Motors 28% and 26% and Fiat-Chrysler 11% and 13%, in 2016 and 2015, respectively.

## Note 28 - Commitments and contingencies:

At December 31, 2016 and 2015, the Company had the following contingencies:

- a. In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, 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 have a material adverse effect on its results of operations or financial position.
- b. The Company has certain legal disputes with the Brazilian tax authorities. The main dispute is related to the application of certain criteria and other minor contingencies related to labor and social security issues. In this process, the company made deposits by the amounts in dispute and is waiting for a final decision to their claims. The amounts mentioned above are Ps474 in 2016 and Ps323 in 2015.
- c. 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:

		December 31,	
		2016	2015
No later than 1 year	Ps	981	Ps 221
Later than 1 year and no later than 5 years		105	421
Later than 5 years		160	527

## Note 29 - Foreign currency position:

At February 17, 2017, the date of issuance of these financial statements, the exchange rate was 20.33 Mexican pesos per dollar.

The figures below are expressed in millions of dollars, since this is the prevailing foreign currency for Company.

At December 31, 2016 and 2015 had the following assets and liabilities in foreign currencies:

	As of December 31, 2016									
	Dollars (USD)				Other currencies				Total of Mexican pesos	
	USD		Mexican pesos		USD		Mexican pesos			
Monetary assets	Ps	199	Ps	4,114	Ps	623	Ps	12,871	Ps	16,984
Monetary liabilities:										
Current		(110)		(2,275)		(821)		(16,961)		(19,235)
Non-current		(959)		(19,811)		(475)		(9,808)		(29,619)
Monetary position in foreign currencies	Ps	(870)	Ps	(17,972)	Ps	(673)	Ps	(13,898)	Ps	(31,870)

	As of December 31, 2015									
	Dollars (USD)				Other currencies				Total of Mexican pesos	
	USD		Mexican pesos		USD		Mexican pesos			
Monetary assets	Ps	210	Ps	3,621	Ps	617	Ps	10,612	Ps	14,233
Monetary liabilities:										
Current		(155)		(2,666)		(935)		(16,090)		(18,756)
Non-current		(983)		(16,908)		(443)		(7,617)		(24,525)
Monetary position in foreign currencies	Ps	(928)	Ps	(15,953)	Ps	(761)	Ps	(13,095)	Ps	(29,048)

## Note 30 - Subsequent events:

In the preparation of the financial statements, the Company has assessed the events and transactions for their recognition or subsequent disclosure as of December 31, 2016 and up to February 17, 2017 (date of issuance of these financial statements) and it has concluded that there are no subsequent events affecting the financial statements.

  
**Armando Tamez Martínez**  
 Chief Executive Officer

  
**Alberto Sada Medina**  
 Chief Financial Officer

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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.



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