

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

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

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

Independent Auditors' Report and Consolidated Financial Statements for 2017 and 2016

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Independent Auditors' Report to the Board of Directors and Stockholders of Nemak, S. A. B. de C. V.

Opinion

We have audited the consolidated financial statements of Nemak, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statement of financial position as of December 31, 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

Basis for Opinion

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

Other matter

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined that the matters described below are the key audit matters which should be communicated in our report.

Assessment of long-lived assets and goodwill

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

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

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

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

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

Assessment of the recoverability of deferred income tax assets

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

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

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

The results of our audit procedures were satisfactory. The Company's accounting policy for the recording of deferred taxes, as well as the detail of their disclosure are included in Notes 3.1 and 23, respectively, to the accompanying consolidated financial statements.

Information other than the Financial Statements and Auditor's Report thereon

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company's audit. We remain solely responsible for our audit opinion.

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

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

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

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



C. P. C. Roberto Benavides González

Monterrey, Nuevo León, México
January 31, 2018

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

Consolidated Statements of Financial Position

As of December 31, 2017 and 2016

In millions of Mexican pesos

	Note	As of December 31	
		2017	2016
Assets			
Current assets:			
Cash and cash equivalents	6	\$ 3,757	\$ 2,661
Restricted cash	7	113	474
Trade and other accounts receivable, net	8	11,406	11,581
Inventories	9	12,694	11,784
Assets available for sale		32	40
Prepaid expenses		434	367
Total current assets		<u>28,436</u>	<u>26,907</u>
Non-current assets:			
Property, plant and equipment, net	10	52,274	50,094
Goodwill and intangible assets, net	11	12,782	12,057
Deferred income tax	23	1,002	1,520
Other non-current accounts receivable	8, 24	688	720
Other non-current assets	12	1,507	595
Total non-current assets		<u>68,253</u>	<u>64,986</u>
Total assets		<u>\$96,689</u>	<u>\$ 91,893</u>
Liabilities and Stockholders' Equity			
Liabilities			
Current liabilities:			
Debt	14	\$ 1,494	\$ 3,699
Trade and other accounts payable	13	22,949	18,894
Income taxes payable		274	549
Derivative financial instruments		9	-
Other current liabilities	15	783	542
Total current liabilities		<u>25,509</u>	<u>23,684</u>
Non-current liabilities:			
Debt	14	27,905	25,310
Employee benefits	16	1,225	1,058
Deferred income taxes	23	3,346	4,152
Other non-current liabilities	15	281	618
Total non-current liabilities		<u>32,757</u>	<u>31,138</u>
Total liabilities		<u>58,266</u>	<u>54,822</u>
Stockholders' equity			
Capital stock	17	6,604	6,607
Share premium		10,434	10,434
Retained earnings		12,722	12,309
Other reserves	17	8,663	7,721
Total stockholders' equity		<u>38,423</u>	<u>37,071</u>
Total liabilities and stockholders' equity		<u>\$96,689</u>	<u>\$ 91,893</u>

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Income

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos, except for earnings per share amounts

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Changes in Stockholders' Equity

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

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

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

In millions of Mexican pesos

	2017	2016
Cash flows from operating activities		
Income before income taxes	\$ 5,175	\$ 7,300
Depreciation and amortization	6,320	5,872
Costs related to employee benefits	97	97
Impairment of property, plant and equipment	211	293
Exchange fluctuation, net	775	230
Interest expense, net	1,000	1,117
Other	(309)	(24)
Movements in working capital:		
Trade receivables and other accounts receivable, net	(323)	1,229
Inventories	(591)	(548)
Suppliers and related parties	3,690	(1,361)
Income taxes paid	(1,686)	(1,380)
Net cash flows provided by operating activities	<u>14,359</u>	<u>12,825</u>
Cash flows from investing activities		
Interest collected	362	11
Cash flow in acquisitions of property, plant and equipment	(6,732)	(6,896)
Cash flow in acquisition of intangible assets	(1,547)	(1,972)
Dividends collected	21	21
Restricted cash	(426)	(1)
Cash flow in acquisition of business, net of cash acquired	-	(56)
Other	83	29
Net cash flows used in investing activities	<u>(8,239)</u>	<u>(8,864)</u>
Cash flows from financing activities		
Proceeds from debt	15,827	10,994
Payments of debt	(16,133)	(11,960)
Interest paid	(1,545)	(1,112)
Other	(21)	(9)
Dividends paid	(3,163)	(1,755)
Net cash flows used in financing activities	<u>(5,035)</u>	<u>(3,842)</u>
Net increase in cash and cash equivalents	1,085	119
Exchange fluctuation of cash and cash equivalents	11	749
Cash and cash equivalents at the beginning of the year	<u>2,661</u>	<u>1,793</u>
Cash and cash equivalents at the end of the year	<u>\$ 3,757</u>	<u>\$ 2,661</u>

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

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

See accompanying notes to consolidated financial statements.

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

Notes to the Consolidated Financial Statements

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

1. General information

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

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

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

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

2. Significant events

2017

a. Opening of a new operating plant in Mexico

On March 1, 2017, Nemak announced the inauguration of its new High Pressure Die Casting plant ("HPDC") at the facilities of García, N.L. The new plant uses HPDC technology for the production of aluminum auto parts, particularly monoblocks, transmission housings and structural parts. In addition, it includes a machining center for the processing of such components. The investment required in the plant was approximately US\$200 and mass production began during the first half of the year.

b. Placement of debt bonds in the European market

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

2016

a. Acquisition of de Cevher Döküm

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

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

Costs related to the acquisition amounted \$15 and were recorded in the statement of income, in the other expenses, net caption. The revenues contributed for the assets of Cevher included in the consolidated statement of income from the acquisition date to December 31, 2016 were \$182, and a net loss of \$36. The Company recognized a bargain purchase gain of Euro 2.2 associated with this acquisition, which was recorded in 2017 when Nemak finalized its purchase accounting and 2016 figures were not restated given the immaterial nature of the 2017 purchase adjustments.

3. Summary of significant accounting policies

The following are the most significant accounting policies followed by 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 effect and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

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

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

b. Consolidation

i. Subsidiaries

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

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

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

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

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

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

Transactions and intercompany balances and unrealized gains on transactions between 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.

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

	Country ⁽¹⁾	Percentage of ownership (%) ⁽²⁾	Functional currency
Nemak, S. A. B. de C. V. (Holding)	Mexico		U.S. dollar
Nemak Mexico, S. A.	Mexico	100	U.S. dollar
Modellbau Schönheide GmbH	Germany	100	Euro
Corporativo Nemak, S. A. de C. V. (Administrative services)	Mexico	100	Mexican peso
Nemak Canada, S. A. de C. V. (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
Camen International Trading, Inc.	USA	100	U.S. dollar
Nemak Europe GmbH	Germany	100	Euro
Nemak Exterior, S. L. (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
	Czech		
Nemak Czech Republic, S.r.o.	Republic	100	Euro
Nemak Spain, S. L.	Spain	100	Euro
Nemak Rus, LLC.	Russia	100	Russian ruble
Nemak Pilsting GmbH	Germany	100	Euro
Nemak Alumínio do Brazil Ltda.	Brazil	100	Real Brasileiro
Nemak Argentina, S. R. L.	Argentina	100	Argentine peso
Nemak Nanjing Automotive Components Co., Ltd.	China	100	Chinese renminbi yuan
Nemak Chongqing Automotive Components, Co, Ltd.	China	100	Chinese renminbi yuan
Nemak Aluminum Casting India Private, Ltd	India	100	Indian rupee
Nemre Insurance Pte LTD	Singapore	100	U.S. dollar
Nemak Commercial Services, Inc.	USA	100	U.S. dollar
Nemak USA, Inc.	USA	100	U.S. dollar
Nemak USA Services Inc	USA	100	U.S. dollar
Nemak Automotive Castings, Inc.	USA	100	U.S. dollar
J. L. French Servicios, S. de R. L. de C. V.	Mexico	100	Mexican peso
J. L. French, S. de R. L. de C. V.	Mexico	100	Mexican peso
Nemak Izmir Döküm Sanayi A. Ş. ⁽³⁾	Turkey	100	Euro
Nemak Izmir Dis Tiscaret A. Ş. ⁽³⁾	Turkey	100	Euro

- (1) Country of company's incorporation.
- (2) Direct and indirect ownership percentage of Nemak SAB. Share ownership percentages as of December 31, 2017 and 2016, except for the entities constituted in 2016.
- (3) Business acquisition in 2016.

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

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, in example, an increase or decrease in the percentage of control, is recorded in stockholders' equity, directly in retained earnings, in the period in which the transactions that cause such effects occur. The effect of absorption (dilution) of control is determined by comparing the book value of the investment before the event of dilution or absorption against the book value after the relevant event. In the case of loss of control the dilution effect is recognized in income.

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

c. Foreign currency translation

i. Functional and presentation currency

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

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

ii. Transactions and balances

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

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

Translation of subsidiaries with recording currency other than the functional currency.

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

- a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- b. 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.
- c. The income, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the income statement, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items were used.
- d. The exchange differences arising in the translation from the recording currency to the functional currency were recognized as income or expense in the consolidated income statement in the period they arose.

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

The results and financial position of all 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:

- a. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the closing date;
- b. Stockholders' equity of each consolidated statement of financial position are translated at historical rates.

- c. 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
- d. The resulting exchange differences are recognized in the consolidated statement comprehensive income.

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

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

d. Cash and cash equivalents

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

e. Restricted cash

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

f. Financial instruments

Financial assets

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

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

i. Financial assets at fair value through profit or loss

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

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

ii. Loans and receivables

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

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

iii. Held to maturity investments

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

iv. Available for sale investments

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

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

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

Assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of financial instruments

a. Financial assets carried at amortized cost

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

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

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

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

If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Alternatively, the Company could determine the impairment of the asset given its fair value determined on the basis of a current observable market price.

If in the subsequent years, the impairment loss decreases and the decrease can be related objectively to an event occurring after the date on which such impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the loss impairment is recognized in the income statement.

b. Financial assets available for sale

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

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

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

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

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

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

Fair value hedges

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

Cash flow hedges

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

Suspension of hedge accounting

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

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

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

g. Inventories

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

h. Property, plant and equipment

Items of property, plant and equipment are recorded at cost less the accumulated depreciation and any accrued impairment losses. The costs include expenses directly attributable to the asset acquisition.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the income statement during the year they are incurred. Major improvements are depreciated over the remaining useful life of the related asset.

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

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

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

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

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

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

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

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

i. Leases

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

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

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

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

j. *Intangible assets*

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

Intangible assets are classified as follows:

(i) Indefinite useful life

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

(ii) Finite useful life

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

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

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

a. Goodwill

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

b. Development costs

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

c. Other relationships with customers

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

k. *Impairment of non-financial assets*

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

l. *Income tax*

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

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

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

Deferred tax assets are recognized only when it is probable that future taxable profits will exist against which the deductions for temporary differences can be taken.

The deferred income tax on temporary differences arising from investments in subsidiaries and associates is recognized, unless the period of reversal of temporary differences is controlled by Nemark and it is probable that the temporary differences will not reverse in the near future.

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

m. *Employee benefits*

i. *Pension plans*

Defined contribution plans:

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

Defined benefit plans

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

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

Actuarial gains and losses from adjustments and changes in actuarial assumptions are recognized directly in other comprehensive income in the year they occur.

The Company determines the net finance expense (income) by applying the discount rate to the liabilities (assets) from net defined benefits.

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

ii. Post-employment medical benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

v. Employee participation in profit and bonuses

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

n. Provisions

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

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

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

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

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

o. Share-based payments

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

The fair value of the amount payable to employees in respect of share-based payments which are settled in cash is recognized as an expense, with a corresponding increase in liabilities, over the period of service required. The liability is included within other liabilities and is adjusted at each reporting date and the settlement date. Any change in the fair value of the liability is recognized as compensation expense in the income statement.

p. Treasury shares

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

q. Capital stock

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

r. Comprehensive income

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

s. Segment reporting

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

t. Revenue recognition

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

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

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

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

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

u. *Advanced payments*

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

v. *Earnings per share*

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

w. *Changes in accounting policies and disclosures*

i. New standards and changes adopted by the Company.

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

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

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

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

IFRS 9, Financial Instruments

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

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

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

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

IFRS 15, Revenues from contracts with customers

IFRS 15, Revenues from contracts with customers, was issued in May 2014 and is effective for periods beginning January 1, 2018, although early adoption is permitted. Under this standard, revenue recognition is based on the transfer of control, i.e. notion of control is used to determine when a good or service is transferred to the customer.

The standard also presents a single comprehensive model for the accounting for revenues from contracts with customers and replaces the most recent revenue recognition guidance, including the specific orientation of the industry. This comprehensive model introduces a five-step approach for revenue recognition: (1) identifying the contract; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations in the contract; and (5) recognizing revenue when the Company satisfies a performance obligation. Furthermore, the amount of disclosures required in the financial statements, both annual and interim, is increased.

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

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

IFRS 16, Leases

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

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

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

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

IFRIC 22, Interpretation on foreign currency transactions and advance consideration

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

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

IFRIC 23, Interpretation on uncertainty over income tax treatments

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

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

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

4. Financial instruments and financial risk management

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

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

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

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

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

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

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

Capital management

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

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

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

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

Financial instruments by category

Below are the Company's financial instruments by category:

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

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

Fair value of financial assets and liabilities measured at amortized cost

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

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

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

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

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

Market risks

(i) Exchange rate risk

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

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

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

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

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

Derivative financial instruments

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

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

(ii) Price risk commodities

a. Aluminum

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

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

b. Natural gas

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

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

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

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

⁽¹⁾Dollar per Mega British Thermal Unit

Interest rate risk

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

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

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

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

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

As of December 31, 2016									
Type of derivative, value or contract	Notional amount	Value of the underlying asset			Fair value	Expiration per year			Collateral / warranty
		Units	Reference			2018	2019	2020 +	
IRS Euribor									
Sobre Euribor	\$190	% per year	0.16	\$ (5)	\$ (2)	\$ 2	\$ 1	\$ -	

Credit risk

Credit risk is managed on a group basis, except for the credit risk related to accounts receivable balances. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. Credit risk is generated from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions as well as credit exposure to customers, including receivables and committed transactions. If there is no independent rating, the Company's risk control group evaluates the creditworthiness of the customer, taking into account their financial position, past experience and other factors.

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

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

Liquidity risk

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

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

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

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

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

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

Fair value hierarchy

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

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

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

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

The specific valuation techniques used to value financial instruments include:

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

5. Critical accounting estimates and judgments

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

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

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

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 11). For impairment testing, goodwill and intangibles assets with indefinite lives are allocated with those cash generating units ("CGUs") of which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

- Future gross and operating margins according to the historical performance and expectations of the industry for each CGU group.
- Discount rate based on the weighted cost of capital (WACC) of each CGU or CGU group.
- Long-term growth rates.

b. Recoverability of deferred tax assets

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

c. Long lived assets

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

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

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

d. Contingent losses

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

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

6. Cash and cash equivalents

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

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

7. Restricted cash

The value of restricted cash is composed as follows:

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

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

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

8. Trade and other receivables, net

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

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

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

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

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

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

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

9. Inventories

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

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

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

10. Property, plant and equipment, net

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and equipment	Constructions in progress	Other fixed assets	Total
For the year ended December 31, 2016								
Opening balance, net	\$1,246	\$ 6,601	\$ 23,687	\$ 61	\$ 446	\$ 5,548	\$ 675	\$ 38,264
Translation effect	264	1,346	4,689	13	98	1,036	116	7,562
Additions	-	(3)	1,193	-	14	8,110	18	9,332
Additions from business acquisitions	132	129	825	7	6	124	-	1,223
Disposals	-	(1)	(901)	-	(1)	(6)	4	(905)
Depreciation of the year	-	(402)	(4,545)	(28)	(164)	-	-	(5,139)
Transfers	34	495	4,550	21	247	(5,480)	(110)	(243)
Final balance as of December 31, 2016	<u>\$1,676</u>	<u>\$ 8,165</u>	<u>\$ 29,498</u>	<u>\$ 74</u>	<u>\$ 646</u>	<u>\$ 9,332</u>	<u>\$ 703</u>	<u>\$ 50,094</u>
As of December 31, 2016								
Cost	\$1,676	\$ 13,564	\$ 69,308	\$ 339	\$ 2,012	\$ 9,332	\$ 703	\$ 96,934
Accumulated depreciation	-	(5,399)	(39,810)	(265)	(1,366)	-	-	(46,840)
Net carrying amount as of December 31, 2016	<u>\$1,676</u>	<u>\$ 8,165</u>	<u>\$ 29,498</u>	<u>\$ 74</u>	<u>\$ 646</u>	<u>\$ 9,332</u>	<u>\$ 703</u>	<u>\$ 50,094</u>
For the year ended as of December 31, 2017								
Net opening balance	\$1,676	\$ 8,165	\$ 29,498	\$ 74	\$ 646	\$ 9,332	\$ 703	\$ 50,094
Translation effect	(1)	34	551	34	55	(164)	402	911
Additions	59	(140)	1,327	(1)	6	6,834	222	8,307
Disposals	-	(4)	(841)	1	(25)	(101)	(384)	(1,354)
Impairment charge recognized in the year	-	-	(211)	-	-	-	(21)	(211)
Depreciation charge recognized in the year	-	(402)	(5,013)	(58)	21	-	(21)	(5,473)
Transfers	-	1,150	6,371	20	349	(7,961)	71	-
Final balance as of December 31, 2017	<u>\$1,734</u>	<u>\$ 8,803</u>	<u>\$ 31,682</u>	<u>\$ 70</u>	<u>\$ 1,052</u>	<u>\$ 7,940</u>	<u>\$ 993</u>	<u>\$ 52,274</u>
As of December 31, 2017								
Cost	\$1,734	\$ 14,670	\$ 75,864	\$ 328	\$ 2,417	\$ 7,940	\$ 1,062	\$104,015
Accumulated depreciation	-	(5,867)	(44,182)	(258)	(1,365)	-	(69)	(51,741)
Net carrying amount as of December 31, 2017	<u>\$1,734</u>	<u>\$ 8,803</u>	<u>\$ 31,682</u>	<u>\$ 70</u>	<u>\$ 1,052</u>	<u>\$ 7,940</u>	<u>\$ 993</u>	<u>\$ 52,274</u>

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

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

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

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

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

11. Goodwill and intangible assets

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

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

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

Impairment testing of goodwill

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

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

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

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

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

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

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

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

12. Other non-current assets

	December 31,	
	2017	2016
Restricted cash	\$ 776	\$ 12
Equity investments ⁽¹⁾	71	71
Investments in associates	505	415
Other assets	155	97
Total other non-current assets	<u>\$1,507</u>	<u>\$ 595</u>

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

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

	2017	2016
Net income and comprehensive income	<u>\$60</u>	<u>\$55</u>
There are no contingent liabilities or commitments related to the Company's investments in associates.		

13. Trade and other payables

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

14. Debt

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

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

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

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

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

- (1) Club Deal (Citi) in USD and EUR accrues at the LIBOR+1.5% and EURIBOR+1.5%, respectively.
(2) Club Deal (BBVA) in USD and EUR accrues at the LIBOR+1.25% and EURIBOR+1.25%, respectively.
(3) Senior Notes at a fixed interest rate of 5.5% Senior Notes EUR at a fixed interest rate of 3.25%
(4) At the exchange rate prevailing at the period end.
(5) For the year ended as of December 31, 2016 the issuance costs were \$254

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

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

- (1) Interest on bank loans will be paid quarterly.
(2) Interest on Senior Notes will be paid semiannually.

Covenants:

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

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

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

During 2017 and 2016, the financial ratios were calculated in according to the formulas set out in the effective debt agreements.

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

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

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

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

Significant debt transactions in 2017:

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

Significant debt transactions in 2016:

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

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

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

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

The present value of finance lease liabilities is as follows:

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

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

15. Other liabilities

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

16. Employee benefits

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

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

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

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

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

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

Post-employment pension and medical benefits

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

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

	December 31	
	2017	2016
Present value of the obligations	\$ 1,878	\$ 1,669
Fair value of plan assets	<u>(653)</u>	<u>(607)</u>
Net liabilities in the consolidated statement of financial position	<u>\$ 1,225</u>	<u>\$ 1,062</u>

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

	2017	2016
As of January 1	\$ 1,669	\$ 1,271
Current service cost	91	131
Interest cost	52	52
Contributions from plan participants	1	5
Remeasurements:		
Loss (gain) for changes in personnel experience	62	70
Reductions	(22)	-
Benefits paid	(56)	(42)
Exchange differences	81	182
As of December 31,	<u>\$ 1,878</u>	<u>\$ 1,669</u>

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

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

The primary actuarial assumptions were as follows:

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

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

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

Plan assets are comprised of the following:

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

17. Stockholders' equity

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. Share based payments

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

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

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

Short and long-term liability consists of the following:

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

19. Expenses classified by nature

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

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

20. Other expenses, net

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

21. Financial results, net

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

¹ Mainly includes interest on plan assets and other items.

² Mainly includes the financial cost of employee benefits.

22. Employee benefit expenses

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

23. Income taxes

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

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

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

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

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

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

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

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

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

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

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

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

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

24. Transactions with related parties

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

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

December 31, 2016							
Loans with related parties							
	Accounts receivable	Amount	Interest	Currency	Maturity date MM/DD/YYYY	Interest rate	Accounts payable
Alfa	\$ -	\$ 720	\$ 69	MXP	08/18/2018	4.42%	\$ -
Affiliates	8	-	-				54
Associates	-	-	43	EUR	08/04/2018	6.00%	-
Ford	2,260	-	-				-
Total	<u>\$ 2,268</u>	<u>\$ 720</u>	<u>\$112</u>				<u>\$ 54</u>

Sales revenues and other related parties:

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

	Year ended December 31, 2016		
	Finished goods	Interest	Other
Alfa	\$ -	\$ 32	\$ -
Ford	24,380	-	-
Associates	-	-	198
Total	<u>\$ 24,380</u>	<u>\$ 32</u>	<u>\$ 198</u>

Cost of sales and other expenses with related parties:

	Year ended December 31, 2017		
	Administrative services	Other costs and expenses	Dividends paid
Alfa	\$ -	\$ -	\$ 2,380
Affiliates	63	-	-
Associates	-	246	-
Ford	-	-	172
Total	<u>\$ 63</u>	<u>\$ 246</u>	<u>\$ 2,552</u>

	Year ended December 31, 2016		
	Administrative services	Other costs and expenses	Dividends paid
Alfa	\$ -	\$ -	\$ 1,321
Affiliates	73	194	-
Associates	-	196	-
Ford	-	-	95
Total	<u>\$ 73</u>	<u>\$ 390</u>	<u>\$ 1,416</u>

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

25. Segment financial information

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

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

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

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

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

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

Following is the condensed financial information of these operating segments:

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

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

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

For the year ended December 31, 2017

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

For the year ended December 31, 2016

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

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

26. Commitments and contingencies

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

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

- Nemak México, S.A. received from the Canada Revenue Agency (CRA) the claim for a tax credit for refunds of Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) for an approximate total amount, including interest, for US\$82. The CRA alleges that Nemak delivered certain assets in Canada that were subject to GST and HST. However, the Company filed an objection to the CRA's Audit Division arguing that its clients acted as importers in Canada and that Nemak delivered the goods to them outside of such country. As of the date of the consolidated financial statements, the Company cannot predict the outcome of this claim; however, management considers that it has the arguments to obtain a favorable result, thus it has not recognized any provision in the statement of financial position.
- 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	
	2017	2016
Within 1 year	\$ 247	\$ 981
After 1 year but not exceeding 5 years	434	105
After 5 years	21	160
Total	<u>\$ 702</u>	<u>\$ 1,246</u>

27. Subsequent events

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

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

28. Authorization to issue the consolidated financial statements

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

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