

**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,  
2019 and 2018, and Independent  
Auditors' Report Dated January 31,  
2020



**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 2019 and 2018**

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

### **Opinion**

**(In millions of Mexican pesos)**

We have audited the consolidated financial statements of Nemak, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2019 and 2018, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the years then ended, and the 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, 2019 and 2018 and their consolidated financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

### **Basis for opinion**

We conducted our audits in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the 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.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the 2019 consolidated financial statements. 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.





### ***Assessment of impairment of goodwill and long lived assets***

As described in Notes 3 i., k., l. and 12 to the consolidated financial statements, the Company performs impairment tests to its goodwill and intangibles with indefinite useful lives; in addition, it performs impairment tests when there are indicators that the value of long lived assets, such as property, plant and equipment, intangible assets and right-of-use assets, will not be recovered.

We have identified the long lived assets and goodwill impairment evaluation as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions, premises, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs") of the Company, in addition to the importance of the goodwill balance of \$ 5,535 in the consolidated financial statements of the Company. Therefore, our review procedures require a high degree of professional judgment and the incorporation of valuation specialists.

Based on the above we performed the audit procedures as follows:

- We tested the design, implementation and the operating effectiveness of internal controls in the determination of CGUs, the determination of their recoverable value and the assumptions used in the valuation.
- We evaluated the factors and variables used to determine the CGUs, among which were considered: the analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial and sales areas.
- With the assistance of our valuation specialists, we assessed the reasonableness of the i) methodology to determine the recoverable value of intangible assets with indefinite useful lives and goodwill and ii) reviewed the financial projections, comparing them with performance and historical business trends, corroborating the explanations of the variations with management.
- We assessed the internal processes used by management to calculate projections, including timely monitoring and analysis by the Board of Directors, and if the projections are consistent with the budgets approved by the Board.
- We reviewed the significant assumptions used in the impairment calculation model, specifically including income and cash flow projections, the projected industry growth rate and the projected long-term growth rate; gross and operating margins, as well as the multiple of Earnings before interest, taxes, depreciation and amortization ("EBITDA"). Additionally, we tested the mathematical accuracy and integrity of the impairment model, the sensitivity calculations of the significant assumptions in the calculation for all CGUs, calculating an independent estimate to conclude whether the assumptions used would need to be modified and the probability that such modifications are submitted.
- We determined an estimate of the discount rates to independently perform the impairment test and we compared such rates with the estimates used by management.
- We reviewed the assessment made by management to identify impairment indicators over long-lived assets, other than goodwill and intangible assets with indefinite useful lives.
- We validated that the carrying amount of the CGUs on which goodwill impairment tests were carried out, to include the balances of property, plant and equipment assets, right-of-use assets and intangible assets, without this representing that such balances presented impairment indicators individually.

The results of our procedures were satisfactory, and we consider that the definition of the CGUs, the evaluation of impairment indicators on long-lived assets, the assumptions used in the valuation and the determination of the recoverable value of the CGUs, 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 carryforwards to generate an economic and fiscal benefit in the future, to support the deferred tax assets recognized on its consolidated financial statements.





Due to the significance of the deferred income tax asset balance derived from tax losses as of December 31, 2019 amounting to \$1,322, and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item, among others, and performed the following procedures:

- We verified the reasonableness of the projections used to determine future taxable income.
- We challenged the projections used in the assessment by comparing them to the business performance and historical trends, verifying the explanations of variations with management.
- With the support of internal experts, we reviewed the projected taxable income, and the assumptions used by management in preparing such tax projections.
- We discussed with management the sensitivity analysis and assessed the extent to which the key assumptions used would need to be modified in order for an adjustment to be considered for evaluation.

The results of our audit procedures were satisfactory. The Company's accounting policy to record deferred taxes, as well as the details of their disclosure are included in Notes 3m. and 25, respectively, to the accompanying consolidated financial statements.

### ***Changes in accounting principles***

As explained in Notes 3.i., 11 and 16 to the consolidated financial statements, the Company changed the methodology for the recognition of leases in the consolidated financial statements as of January 1, 2019, derived from the adoption of IFRS 16, "Leases", in addition to adopting the requirements of IFRIC 23 "Uncertainty over Income Tax Treatments". Since the method used by the Company based on the transition provisions did not imply adjusting the comparative periods presented, the financial information for the year ended December 31, 2018 is not comparative with certain financial statement line items or financial indicators and the results of the year 2019.

### ***Information other than the Consolidated Financial Statements and Auditors' Report thereon***

The Company's management is responsible for the additional information presented. Additional information includes: i) the Annual Report (which is expected to be available for reading after the date of this audit report), ii) the information that will be incorporated in the Annual Report that the Company is required to prepare in accordance with article 33, section I, subsection b) of Title four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions") and iii) other additional information, which is a measure that is not required by IFRS and has been incorporated with the purpose of providing an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the capacity to meet obligations regarding the Earnings before interest, taxes, depreciation and amortization ("EBITDA") of the Company; this information is presented in Notes 3 t) and 27.

Our opinion of the consolidated financial statements will not cover the additional information and we will not express any form of security about it.

In relation to our audit of the consolidated financial statements, our responsibility will be to read the additional information when it is available, and when we do, consider whether the financial information contained is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or that seems to contain a material error. When we read the Annual Report we will issue the legend on the reading of the annual report, required in Article 33 Section I, subsection b) number 1.2. of the Provisions. Additionally, and in relation to our audit of the consolidated financial statements, our responsibility is to read the additional information, which, in this case, corresponds to the annual report and EBITDA and in doing so consider whether the other information contained therein is inconsistent in material form with the consolidated financial statements or with our knowledge obtained during the audit, or that seems to contain a material error. If based on the work we have done, we conclude that there is a material error in the additional information, we would have to report this fact. As of the date of this report, we do not have anything to report in this regard.





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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.





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

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

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

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

A handwritten signature in black ink, appearing to be "C/A" followed by a stylized flourish.

C. P. C. Carlos A. López Vázquez  
Monterrey, Nuevo Leon, Mexico  
January 31, 2020





**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, 2019 and 2018

In millions of Mexican pesos

	Note	As of December 31	
		2019	2018
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	6	\$ 5,883	\$ 3,555
Restricted cash	7	120	617
Trade and other accounts receivable, net	8	7,860	10,247
Inventories	9	11,146	12,518
Prepaid expenses	3v	394	468
Total current assets		<u>25,403</u>	<u>27,405</u>
Non-current assets:			
Property, plant and equipment, net	10	48,140	51,629
Right-of-use asset	11	1,763	-
Goodwill and intangible assets, net	12	11,182	11,307
Deferred income tax	25	1,057	701
Other non-current accounts receivable	8, 26	2	706
Other non-current assets	13	1,197	1,510
Total non-current assets		<u>63,341</u>	<u>65,853</u>
Total assets		<u>\$ 88,744</u>	<u>\$93,258</u>
<b>Liabilities and Stockholders' Equity</b>			
Liabilities			
Current liabilities:			
Debt	15	\$ 2,297	\$ 2,806
Lease liability	16	372	-
Trade and other accounts payable	14	21,166	22,480
Income taxes payable		883	452
Other current liabilities	17	614	806
Total current liabilities		<u>25,332</u>	<u>26,544</u>
Non-current liabilities:			
Debt	15	24,440	26,352
Lease liability	16	1,481	-
Employee benefits	18	1,408	1,238
Deferred income taxes	25	1,955	2,806
Other non-current liabilities	17	184	214
Total non-current liabilities		<u>29,468</u>	<u>30,610</u>
Total liabilities		<u>54,800</u>	<u>57,154</u>
Stockholders' equity			
Capital stock	19	6,599	6,604
Share premium		10,434	10,434
Retained earnings		11,373	11,567
Other reserves		5,538	7,499
Total stockholders' equity		<u>33,944</u>	<u>36,104</u>
Total liabilities and stockholders' equity		<u>\$ 88,744</u>	<u>\$93,258</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, 2019 and 2018**

**In millions of Mexican pesos**

	Note	2019	2018
Revenues	27	\$ 77,363	\$ 90,327
Cost of sales	21	(66,276)	(76,878)
Gross profit		11,087	13,449
Administrative and sales expenses	21	(5,328)	(5,746)
Other (expenses) income, net	22	(795)	121
Operating income		4,964	7,824
Financial income	23	242	124
Financial expenses	23	(1,576)	(1,873)
Loss due to exchange fluctuation, net	23	(34)	(471)
Financial results, net	23	(1,368)	(2,220)
Equity in income of associates recognized using the equity method	13	41	136
Income before income taxes		3,637	5,740
Income taxes	25	(1,144)	(2,276)
Net consolidated income		<u>\$ 2,493</u>	<u>\$ 3,464</u>
Basic and diluted earnings per share, in Mexican pesos		<u>0.81</u>	<u>1.13</u>
Weighted average outstanding shares (millions)	19	<u>3,077</u>	<u>3,079</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 Comprehensive Income**

**For the years ended December 31, 2019 and 2018**

**In millions of Mexican pesos**

	Note	2019	2018
Net consolidated income		<u>\$ 2,493</u>	<u>\$ 3,464</u>
Other comprehensive income for the year:			
<i>Items that will not be reclassified to the consolidated statement of income:</i>			
Remeasurement of employee benefit obligations, net of taxes	25	(115)	18
<i>Items that will be reclassified to the consolidated statement of income:</i>			
Effect of translation of foreign entities	25	<u>(1,846)</u>	<u>(1,182)</u>
Total comprehensive (loss) income of the year		<u>(1,961)</u>	<u>(1,164)</u>
Consolidated comprehensive income		<u>\$ 532</u>	<u>\$ 2,300</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, 2019 and 2018  
In millions of Mexican pesos

	Capital stock	Share premium	Retained earnings	Other reserves	Total stockholders' equity
Balances as of January 1, 2018	\$6,604	\$10,434	\$12,722	\$8,663	\$ 38,423
Transactions with stockholders:					
Others	-	-	29	-	29
Dividends declared (Note 26)	-	-	(3,281)	-	(3,281)
Net income	6,604	10,434	9,470	8,663	35,171
Total other comprehensive income of the year	-	-	3,464	-	3,464
Comprehensive income	-	-	-	(1,164)	(1,164)
Effect of initial adoption IFRS (IFRS 9 and 15)	-	-	3,464	(1,164)	2,300
Other	-	-	(1,354)	-	(1,354)
	-	-	(13)	-	(13)
Balances as of December 31, 2018	\$6,604	\$10,434	\$11,567	\$7,499	\$ 36,104
Transactions with stockholders:					
Other	(5)	-	14	-	9
Dividends declared (Note 26)	-	-	(2,439)	-	(2,439)
Net income	6,599	10,434	9,142	7,499	33,674
Total other comprehensive income of the year	-	-	2,493	-	2,493
Comprehensive income	-	-	-	(1,961)	(1,961)
Effect of Adoption of IFRIC 23	-	-	2,493	(1,961)	532
	-	-	(262)	-	(262)
Balances as of December 31, 2019	\$6,599	\$10,434	\$11,373	\$5,538	\$ 33,944

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, 2019 and 2018**

**In millions of Mexican pesos**

	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>		
Income before income taxes	\$ 3,637	\$ 5,740
Depreciation and amortization	6,079	6,166
Costs related to employee benefits	90	69
(Gain) loss on sale of property, plant and equipment	(4)	22
Impairment of property, plant and equipment	915	115
Exchange fluctuation, net	34	471
Interest expense, net	1,166	1,588
Other	62	(48)
Movements in working capital:		
Trade receivables and other accounts receivable, net	1,309	45
Inventories	1,048	(158)
Suppliers and related parties	(558)	440
Income taxes paid	(1,945)	(1,508)
Net cash flows provided by operating activities	<u>11,833</u>	<u>12,942</u>
<b>Cash flows from investing activities</b>		
Interest collected	189	74
Cash flow in acquisitions of property, plant and equipment	(5,102)	(6,379)
Cash flow in acquisition of intangible assets	(1,513)	(1,407)
Restricted cash	986	(536)
Other	766	25
Net cash flows used in investing activities	<u>(4,674)</u>	<u>(8,223)</u>
<b>Cash flows from financing activities</b>		
Proceeds from debt	7,164	14,201
Payments of debt	(7,584)	(13,823)
Lease payments (IFRS 16)	(380)	-
Interest paid	(1,368)	(1,768)
Derivative payments	-	(15)
Other	(22)	24
Dividends paid	(2,439)	(3,265)
Net cash flows used in financing activities	<u>(4,629)</u>	<u>(4,646)</u>
Net increase in cash and cash equivalents	2,530	73
Exchange fluctuation of cash and cash equivalents	(202)	(275)
Cash and cash equivalents at the beginning of the year	<u>3,555</u>	<u>3,757</u>
Cash and cash equivalents at the end of the year	<u>\$ 5,883</u>	<u>\$ 3,555</u>

In 2018, there were no new transactions that did not require cash flow related to financial leases.

As of January 1, 2019, any lease addition is recognized as a right-of-use asset and lease liability without any flow through the initial recognition.

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, 2019 and 2018**

**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 leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, e-mobility, and structural applications. 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 75.2% by ALFA and the remaining 24.8% is owned, through the Mexican Stock Exchange by a group of Mexican and foreign investors (including Ford). ALFA has control over the relevant activities of the Company.

In the notes to the consolidated financial statements, reference to pesos, Mexican 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**

#### 2019

- a. On July 16, 2019, Nemak announced the decision to close its manufacturing operations in Windsor, Canada, which will take place in mid-2020. The operation represents approximately 1% of the consolidated sales of the company. The decision is due to the early exit of an export program for a customer in China. Therefore, Nemak acknowledged an impairment of \$714 and a severance of \$80 recognized on other (expenses) income, net.

#### 2018

- b. On January 11, 2018, Nemak issued US\$500 (with issuance cost of US\$5) of 4.75% Senior Notes with 7-year maturity on the Irish Stock Exchange and the Global Stock Market, under Rule 144A, and under the Regulation S. The transaction resources were mainly used to prepay in advance the Senior Notes USD 2023.

### **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.





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 accounting method used by the Company for business combinations is the acquisition method. The Company defines a business combination as a transaction in which it gains control of a business, and through which it is able to direct and manage the relevant activities of the set of assets and liabilities of such business with the purpose of providing a return in the form of dividends, smaller costs or other economic benefits directly to stockholders.

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, 2019, the subsidiaries included in the consolidated financial statements of Nemak were as follows:

	Country <sup>(1)</sup>	Percentage of ownership (%) <sup>(2)</sup>	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	U.S. dollar
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 BSEU Sp. Z.o.o.	Poland	100	Euro
Nemak Slovakia, S. r. o.	Slovakia	100	Euro
Nemak Czech Republic, S.r.o.	Czech Republic	100	Euro
Nemak Spain, S. L.	Spain	100	Euro
Nemak Rus, LLC.	Russia	100	Russian ruble
Nemak Pilsting GmbH	Germany	100	Euro
Nemak Alumínio do Brazil Ltda.	Brazil	100	Brazilian real
Nemak Argentina, S. R. L.	Argentina	100	Argentinean peso
Nemak Nanjing Automotive Components Co., Ltd.	China	100	Chinese renminbi yuan
Nemak Chongqing Automotive Components, Co, Ltd.	China	100	Chinese renminbi yuan
Nemak Shanghai Management 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
Nemak Izmir Döküm Sanayi A. Ş.	Turkey	100	Euro
Nemak Izmir Dis Ticaret A. Ş.	Turkey	100	Euro

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

<sup>(2)</sup> Direct and indirect ownership percentage of Nemak SAB. Share ownership percentages as of December 31, 2019 and 2018.

As of December 31, 2019 and 2018, there are no significant restrictions on investment in shares of the subsidiary companies mentioned above.

## 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 consolidated statement of income. 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 consolidated statement of income 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 consolidated statements of income.

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 consolidated statements of income.

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.

Conversion differences of non-monetary assets, for example, investments classified as available for sale, are included in other comprehensive income.

Exchange differences of monetary assets classified as financial instruments at fair value through profit or loss are recognized in the income statement as part of the gain or loss of fair value.

*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 statement of income in the period they arose.

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

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

- a. Assets and liabilities for each statement of financial position 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 of income 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 of comprehensive income.



Goodwill and fair value adjustments arising on the acquisition date of a foreign transaction to measure them at their fair value are recognized as assets and liabilities of the foreign entity and are converted to the closing exchange rate. The exchange differences that arise are recognized in the consolidated statement of 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 December 31,		Average Exchange rate at December 31,	
		2019	2018	2019	2018
Canada	Canadian dollar	14.53	14.41	14.65	14.88
United States	U.S. dollar	18.85	19.68	19.17	20.15
Brazil	Brazilian real	4.69	5.07	4.66	5.18
Argentina	Argentinean peso	0.31	0.52	0.32	0.53
Czech Republic	Euro	21.15	22.51	21.23	22.91
Germany	Euro	21.15	22.51	21.23	22.91
Austria	Euro	21.15	22.51	21.23	22.91
Hungary	Euro	21.15	22.51	21.23	22.91
Poland	Euro	21.15	22.51	21.23	22.91
Slovakia	Euro	21.15	22.51	21.23	22.91
Spain	Euro	21.15	22.51	21.23	22.91
China	Chinese renminbi yuan	2.71	2.86	2.75	2.90
India	Indian rupee	0.26	0.28	0.27	0.29
Russia	Russian ruble	0.30	0.28	0.30	0.29
Singapore	U.S. dollar	18.85	19.68	19.17	20.15
Turkey	Euro	21.15	22.51	21.23	22.91

**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 consolidated statement of financial position and are excluded from cash and cash equivalents in the consolidated statement cash flows.

**f. Financial instruments**

**Financial assets**

The Company classifies and measures its financial assets based on the Company's business model to manage financial assets, and on the characteristics of the contractual cash flows of such assets. This way financial assets can be classified at amortized cost, at fair value through other comprehensive income, and at fair value through profit or loss. Management determines the classification of its financial assets upon initial recognition. Purchases and sales of financial assets are recognized at settlement date.

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





### *Classes of financial assets*

#### *i. Financial assets at amortized cost*

Financial assets at amortized cost are financial assets that i) are held within a business model whose objective is to hold said assets in order to collect contractual cash flows; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal.

#### *ii. Financial assets at fair value through other comprehensive income*

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2019, the Company does not have financial assets to be measured at fair value through other comprehensive income.

#### *iii. Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss, in addition to those described in point i in this section, are financial assets that do not meet the characteristics to be measured at amortized cost or fair value through other comprehensive income, since i) they have a business model different to those that seek to collect contractual cash flows, or collect contractual cash flows and sell the financial assets, or otherwise ii) the generated cash flows are not solely payments of principal and interest on the amount of outstanding principal.

Despite the mentioned classifications, the Company can make the following irrevocable elections in the initial recognition of a financial asset:

- a. Present the subsequent changes in the fair value of a capital investment in other comprehensive income, as long as the investment is not held for trading purposes, that is a contingent consideration recognized as a result of a business combination.
- b. Designate a debt instrument that meets the criteria to be subsequently measured at amortized cost or at fair value through other comprehensive results, to be measured at fair value through results, if doing so eliminates or significantly reduces an accounting asymmetry that would arise of the measurement of assets or liabilities or the recognition of gains and losses on them in different bases.

As of December 31, 2019 and 2018, the Company has not made any of the irrevocable designations described above.

### *Impairment of financial instruments*

The Company use a new impairment model based on expected credit losses rather than losses incurred, applicable to financial assets subject to such assessment (i.e. financial assets measured at amortized cost and at fair value through other comprehensive income), as well as lease receivables, contract assets, certain written loan commitments, and financial guarantee contracts. The expected credit losses on these financial assets are estimated from the origin of the asset at each reporting date, taking as a reference the historical experience of the Company's credit losses, adjusted for factors that are specific to the debtors or groups of debtors, the general economic conditions and an evaluation of both the current direction and the forecast of future conditions.

#### *a. Trade receivables*

The Company adopted the simplified expected loss calculation model, through which expected credit losses during the asset's lifetime are recognized.

The Company does an analysis of its portfolio of accounts receivable from clients, in order to determine if there are significant clients for whom it requires an individual evaluation; On the other hand, customers with similar characteristics that share credit risks (participation in the portfolio of accounts receivable, market type, sector, geographic area, etc.), are grouped to be evaluated collectively.





For the impairment assessment, the Company may include indications that the debtors or a group of debtors are experiencing significant financial difficulties; increase in the probability of debtors entering into bankruptcy or a financial restructuring, as well as observable data indicating that there is a considerable decrease in the estimate of the cash flows to be received, including arrears.

For purposes of the previous estimate, the Company considers that the following constitutes an event of default, since historical experience indicates that financial assets are not recoverable when they meet any of the following criteria:

- The debtor fails to meet the financial covenants; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Company, in its entirety (without considering any guarantee held by the Company).

The Company defined as the default threshold, the period from which the recovery of the account receivable subject to analysis is marginal; in this case, 271 days of delay, which is in line with internal risk management.

b. Other financial instruments

The Company recognizes credit losses expected during the asset's lifetime of all financial instruments for which credit risk has significantly increased since its initial recognition (assessed on a collective or individual basis), considering all the reasonable and sustainable information, including the one referring to the future. If as of the date of presentation of the credit risk a financial instrument has not significantly increased since its initial recognition, the Company calculates the loss allowance for that financial instrument as the amount of expected credit losses in the following 12 months.

In both cases, the Company recognizes in profit or loss of the period the decrease or increase in the expected credit loss allowance at the end of the period, as an impairment gain or loss.

The Company calculates expected credit losses of a financial instrument in such a way that reflects:

- a. an amount of weighted probability, not biased, which is determined by the assessment of a range of possible results;
- b. the time value of money; and
- c. the reasonable and sustainable information that is available without cost or disproportionate effort at the date of presentation on past events, current conditions and forecasts of future economic conditions.

In measuring the expected credit losses, the Company does not necessarily identify all the possible scenarios. However, it considers the risk or probability that a credit loss occurs, reflecting the possibility that the payment default occurs and does not occur, even if that possibility is very low. In addition, the Company determines the period for the default to occur, and the recoverability rate after default.

Management assesses the impairment model and the inputs used therein at least once every 3 months, in order to ensure that they remain in effect based on the current situation of the portfolio.

*Financial liabilities*

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

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



#### *Derecognition of financial liabilities*

The Company derecognizes financial liabilities if, and only, the Company's liabilities are met, cancelled or expired. The difference between the book value of the financial liabilities derecognized and the consideration, is recognized in the income statement.

Additionally, when the Company incurs a refinancing transaction and the previous liability qualifies to be derecognized, the incurred costs of refinancing are recognized immediately in the consolidated income statements at the extinction date of the past financial liability.

#### *Compensation of financial assets and liabilities*

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

#### **g. *Derivative financial instruments and hedging activities***

All derivative financial instruments are identified and classified as fair value hedging hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the 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 consolidated statement of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2019 and 2018, 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.

#### *Net investment hedge in a foreign transaction*

The Company applies hedge accounting to currency risk arising from its investments in foreign transactions for variations in exchange rates arising between the functional currency of such transaction and the functional currency of the holding entity, regardless of whether the investment is maintained directly or through a sub-holding entity. Variation in exchange rates is recognized in the other items of comprehensive income as part of the translation effect, when the foreign transaction is consolidated.

To this end, the Company designates the debt denominated in a foreign currency as a hedging instrument; therefore, the exchange rate effects caused by the debt are recognized in other components of comprehensive income, on the translation effects line item, to the extent that the hedge is effective. When the hedge is not effective, exchange differences are recognized in profit or loss.





### *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 consolidated statement of income. 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 consolidated statement of income, to the extent the forecasted transaction impacts it.

The fair value of derivative financial instruments reflected in the consolidated 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.

### *h. 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.

### *i. Property, plant and equipment*

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

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably measured. The carrying amount of the replaced part is derecognized. Repairs and maintenance are recognized in the consolidated statement of income 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	20 to 50 years
Machinery and equipment	10 to 30 years
Vehicles	4 to 20 years
Lab and IT furniture and equipment	6 to 15 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 consolidated statement of income 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.

The Company made changes in the estimated useful life of its fixed assets, in order to reflect that they will generate future economic benefits for a period longer than previously estimated and which, were recognized prospectively from the beginning of the years ended December 31 of 2019 and 2018, respectively, representing a profit in the results of approximately \$ 327 and \$ 768 with respect to the depreciation that would have been recognized without such revisions in the 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 consolidated statements of income.

**j. Leases**

**Classification and valuation of leases under IAS 17, in effect through December 31, 2018**

*The Company as lessee*

As of December 31, 2018, the classification of leases as finance or operating depended 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 were classified as operating leases. Payments made under operating leases (net of incentives received by the lessor) were recognized in the consolidated statement of income based on the straight-line method over the lease period.

Leases where the Company assumes substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalized at the beginning of the lease, at the lower of the fair value of the leased property and the present value of the future minimum lease payments. If its determination was practical, in order to discount the future minimum lease payments to present value, the interest rate implicit in the lease was used; otherwise, the incremental borrowing rate of the lessee was used. Any initial direct costs of the leases were added to the original amount recognized as an asset. Each lease payment was allocated between the liability and finance charges to achieve a constant rate on the outstanding balance. The corresponding rental obligations were included in non-current debt, net of finance charges. The interest element of the finance cost was 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 were depreciated over the shorter of the asset's useful life or the lease term.

*The Company as lessor*

Leases for which the Company is considered a lessor were classified as financial or operating. As long as the lease terms transfer substantially all the risks and rewards of ownership to the lessee, the contract was classified as a finance lease. The other leases were classified as operating leases.

Revenues arising from operating leases were recognized in straight-line over the term of the corresponding lease. The initial direct costs incurred in the negotiation and the organization of an operating lease were added to the book value of the leased asset and were recognized in a straight line over the term of the lease. Revenues arising from financial leases were recognized as accounts receivable for the amount of the net investment of the Company in the leases.





## **Classification and valuation of leases under IFRS 16, in effect beginning January 1, 2019**

### *The Company as lessee*

The Company evaluates whether a contract is or contains a lease agreement at inception of a contract. A lease is defined as an agreement or part of an agreement that conveys the right to control the use of an identified asset for a period of time in exchange for a consideration. The Company recognizes an asset for right-of-use and the corresponding lease liability, for all lease agreements in which it acts as lessee, except in the following cases: short-term leases (defined as leases with a lease term of less than 12 months); leases of low-value assets (defined as leases of assets with an individual market value of less than US\$5,000 (five thousand dollars)); and, lease agreements whose payments are variable (without any contractually defined fixed payment). For these agreements, which exempt the recognition of an asset for right-of-use and a lease liability, the Company recognizes the rent payments as an operating expense in a straight-line method over the lease period.

The right-of-use asset comprises all lease payments discounted at present value; the direct costs to obtain a lease; the advance lease payments; and the obligations of dismantling or removal of assets. The Company depreciates the right-of-use asset over the shorter of the lease term or the useful life of the underlying asset; therefore, when the lessee will exercise a purchase option, the lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

The lease liability is initially measured at the present value of the future minimum lease payments that have not been paid at that date, using a discount rate that reflects the cost of obtaining funds for an amount similar to the value of the lease payments, for the acquisition of the underlying asset, in the same currency and for a similar period to the corresponding contract (incremental borrowing rate). When lease payments contain non-lease components (services), the Company has chosen, for some class of assets, not to separate them and measure all payments as a single lease component; however, for the rest of the class of assets, the Company measures the lease liability only considering lease payments, while all of the services implicit in the payments, are recognized directly in the consolidated statement of income as operating expenses.

To determine the lease term, the Company considers the non-cancellable period, including the probability to exercise any right to extend and/or terminate the lease term.

Subsequently, the lease liability is measured increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and reducing the carrying amount to reflect the lease payments made.

When there is a modification in future lease payments resulting from changes in an index or a rate used to determine those payments, the Company remeasures the lease liability when the adjustment to the lease payments takes effect, without reassessing the discount rate. However, if the modifications are related to the lease term or exercising a purchase option, the Company reassesses the discount rate during the liability's remeasurement. Any increase or decrease in the value of the lease liability subsequent to this remeasurement is recognized as an adjustment to the right-of-use asset to the same extent.

Finally, the lease liability is derecognized when the Company fulfills all lease payments. When the Company determines that it is probable that it will exercise an early termination of the contract that leads to a cash disbursement, such disbursement is accounted as part of the liability's remeasurement mentioned in the previous paragraph; however, in cases in which the early termination does not involve a cash disbursement, the Company cancels the lease liability and the corresponding right-of-use asset, recognizing the difference immediately in the consolidated statement of income.

### *The Company as lessor*

As of January 1, 2019, the Company, in those cases where it acts as a lessor, maintains its accounting policy consistent with that in effect during the year ended December 31, 2018, considering the new definition of leases established by IFRS 16.





**k. 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. As of December 31, 2019 and 2018, 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. As of December 31, 2019 and 2018, the Company recorded a reduction to revenue associated with the amortization of these assets of \$165 and \$116 for this item, respectively.

**l. 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.





**m. Income tax**

The amount of income taxes in the consolidated statement of income 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 consolidated 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 Nemak and it is probable that the temporary differences will not reverse in the near future.

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

**n. 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 consolidated 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 consolidated statement of income.





*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.

***o. Provisions***

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

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

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

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

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.

***p. Share-based payments***

The Company has compensation plans based on the market value of its shares in favor of certain senior executives. 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 Nematik. Adjustments to this estimate are charged or credited to the consolidated statement of income.





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 consolidated statement of income.

**q. *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.

**r. *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.

**s. *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.

**t. *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.

**u. *Revenue recognition***

Revenues comprise the fair value of the consideration received or to receive for the sale of goods and services in the ordinary course of the transactions, and are presented in the consolidated statement of income, net of the amount of variable considerations, which comprise the estimated amount of returns from customers, rebates and similar discounts and payments made to customers with the objective that goods are accommodated in attractive and favorable spaces at their facilities.

To recognize revenues from contracts with customers, the comprehensive model for revenue accounting is applied, which is based on a five-step approach consisting of the following: (1) identify the contract; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to each performance obligation in the contract; and (5) recognize revenue when the company satisfies a performance obligation.

Contracts with customers are given by commercial agreements with the OEM and complemented by purchase orders, whose costs comprise the promises to produce, distribute and deliver goods based on the contractual terms and conditions set forth, which do not imply a significant judgment to be determined. When there are payments related to obtaining new contracts, they are capitalized and amortized over the term of the contract obtained.

The Company evaluates whether the agreements signed for the development of tooling, in parallel with a production contract with the OEMs, should be combined as a single contract. In cases where the two contracts meet the characteristics to be combined, the Company's management evaluates whether the development of tooling represents a performance obligation, or a cost of fulfillment of the contract.

Based on the above, when determining the existence of separable performance obligations in a contract with customers, the management evaluates the transfer of control of the good or service to the customer, with the objective of determining the moment of revenue recognition related to each performance obligation.





Moreover, the payment terms identified in the majority of the sources of revenue are in the short-term, with variable considerations primarily focused on discounts and rebates of goods given to customers, without financing components or significant guarantees. These discounts and incentives to customers are recognized as a reduction to income or as sale expenses, according to their nature. Therefore, the allocation of the price is directly on the performance obligations of production, distribution and delivery, including the effects of variable considerations.

The Company recognizes revenue at a point in time, when control of sold goods has been transferred to the customer, which is given upon delivery and acceptance of the goods promised to the customer according to the negotiated incoterm. An account receivable is recognized when the performance obligations have been met, recognizing the corresponding revenue.

**v. *Advanced payments***

Advanced payments mainly comprise insurance and the corporate fee paid to suppliers. These amounts are recorded based on the contractual value and are carried to the consolidated statement of income 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.

**w. *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, 2019 and 2018, there are no dilutive effects from financial instruments potentially convertible into shares.

**x. *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, 2019, including the annual improvements to IFRS, as described below:

**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 financial leases, while the model for lessees remains without significant changes. IFRS 16 is effective beginning January 1, 2019, and the Company decided to adopt it with the recognition of all the effects as of that date, without changing prior years.

Under IFRS 16, lessees will recognize a right-of-use asset and the corresponding lease liability. The right of use will be depreciated based on the contractual term or, in some cases, on its economic useful life. On the other hand, the financial liability will be measured at initial recognition, discounting future minimum lease payments at present value according to a term, using the discount rate that represents the lease funding cost; subsequently, the liability will accrue interest through maturity.

The Company will apply the exemptions to not to recognize an asset and a liability as described above, for lease agreements with a term of less than 12 months (provided that they do not contain purchase or term renewal options) and for those agreements where the acquisition of an individual asset of the contract was less than USD\$5,000 (five thousand dollars). Therefore, payments for such leases will continue to be recognized as expenses within operating income.

The Company adopted IFRS 16 on January 1, 2019; therefore, as of the date of this report, it recognized a right-of-use asset and a lease liability of \$902, as its initial adoption effect

In addition, the Company adopted and applied the following practical expedients provided by IFRS 16:

- Account for as leases the payments made in conjunction with the rent and that represent services (for example, maintenance and insurance).
- Create portfolios of contracts that are similar in terms, economic environment and characteristics of assets, and use a funding rate by portfolio to measure leases.



- For leases classified as financial leases as of December 31, 2018, and without elements of minimum payment updating for inflation, maintain the balance of the right-of-use asset, and its corresponding lease liability on the date of adoption of IFRS 16.
- Not to revisit the previously reached conclusions for service agreements which were analyzed to December 31, 2018 under the IFRIC 4, *Determining Whether a Contract Contains a Lease*, and where it had been concluded that there was no implicit lease.
- For operating leases that, as of December 31, 2018, contain direct costs to obtain a lease, maintain the recognition of such costs, that is, without capitalizing them to the initial value of the right-of-use assets.

The Company took the required steps to implement the changes that the standard represents in terms of internal control, tax and systems affairs, from the adoption date. The following is a reconciliation of the total commitments of operating leases as of December 31, 2018 and the lease liability at the date of initial adoption:

	2019
Operating lease commitments as of December 31, 2018	\$ 1,061
Amount discounted using the incremental borrowing rate as of January 1, 2019	1,204
Lease liabilities as of December 31, 2018	
(-): Short-term leases not recognized as lease liabilities	21
(-): Low value assets not recognized as lease liabilities	281
(+/-): Adjustments by extension of terms and others	-
(+/-): Adjustments related to changes in the index of variable payment	-
	<u>\$ 902</u>
Lease liability as of January 1, 2019	

The weighted average incremental rate on which the minimum payments of the lease agreements within the scope of IFRS 16 were discounted at present value was 6.93%.

### **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 Taxes*, 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 a circumstance, an entity shall recognize and measure its current or deferred tax asset or liability by applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

In assessing how an uncertain tax treatment affects the determination of fiscal gain (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, the Company assumes that the amounts that the authority is entitled to be inspected examine and have full knowledge of all related information when conducting such inspections.

The Company applied IFRIC 23 as of January 1, 2019, recognizing a liability for \$262 million against retained earnings at that date, without modifying the comparative periods presented. To determine said liability, the administration applied its professional judgment and considered the prevailing conditions of the fiscal positions that it has taken at the date of adoption in its different subsidiaries and the powers of the corresponding authorities to assess the fiscal positions held at that date, using the most probable amount method, which predicts the best resolution of uncertainty when the possible results are concentrated in a single value.

As of December 31, 2019, there have been no changes in the facts and circumstances considered by the administration to determine the value of their positions.





#### 4. Financial instruments and financial risk management

The Company's activities expose it to various financial risks; market risk (including exchange rate risk, aluminum, 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 Nemaq, 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 Nemaq'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 Nemaq	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.

The Company's risk management policy indicates that the hedging positions should always be lower than the projected exposure to allow for an acceptable margin of uncertainty. Being unhedged operations expressly forbidden. The 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.

Nemaq 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 1.61 and 1.58 as of December 31, 2019 and 2018, 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, 2019 and 2018, financial assets and liabilities consist of the following:

	2019	2018
Cash and cash equivalents	\$ 5,883	\$ 3,555
Restricted cash	276	1,296
Financial assets measured at amortized cost:		
Trade and other accounts receivable	7,518	9,556
	<u>\$ 13,677</u>	<u>\$ 14,407</u>
Financial liabilities measured at amortized cost:		
Debt	\$ 26,737	\$ 29,158
Lease liability	1,853	-
Trade and other accounts payable	19,334	21,261
	<u>\$ 47,924</u>	<u>\$ 50,419</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, 2019 and 2018.

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

	As of December 31, 2019		As of December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Non-current accounts receivable	\$ 2	\$ 1	\$ 706	\$ 661
Financial liabilities:				
Debt	\$ 26,737	\$ 25,606	\$ 29,158	\$ 26,189

Estimated fair values as of December 31, 2019 and 2018, were determined based on a discounted cash flow basis. Measurement at fair value of non-current accounts is considered within level 3 of the fair value hierarchy, whereas, for the financial debt, the measurement at fair value is considered within levels 1 and 2 of the hierarchy.

### *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 53% of its sales are U.S dollars denominated, 38% in Euros, and the remaining 9% in other currencies 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, 2019 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 \$21.1537 as follows:

Sensitivity analysis		In millions of Mexican pesos
a)	Appreciation of the dollar against the euro	(2,044)
b)	Depreciation of the dollar against the euro	2,044

*Financial instruments to hedge net investments in foreign transactions*

Beginning March 1, 2018, the Company designated certain non-current debt instruments as hedges to net investments in foreign transactions in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or subholding company that maintains these investments.

The Company formally designated and documented each hedging relationship establishing objectives, management's strategy to cover the risk, the identification of the hedging instrument, the hedged item, the nature of the risk to be hedged, and the methodology to assess the effectiveness. Given that the exchange rate hedging relationship is clear, the method that the Company used to assess the effectiveness consisted of a qualitative effectiveness test by comparing the critical terms between the hedging instruments and the hedged items. The hedging effectiveness results confirm that the hedging relationships are highly effective due to the economic relationship between the hedging instrument and the hedged items. For its part, when the value of the net assets of the foreign transaction is less than the notional value of the designated debt, the company performs a rebalancing of the hedging relationship and recognizes ineffectiveness in the statement of results.

The Company maintains the following hedging relationships:

As of December 31, 2019									
Holding	Functional Currency	Hedging Instrment	Notional Value (Euros)		Covered item	Net assets of the hedged item (Euros)			
Nemak, S. A. B. de C. V.	USD	Senior Notes	€	211	Nemak Dillingen GmbH	€	109		
		Bank Loans		4	Nemak Linz GmbH		29		
					Nemak Gyor Kft.		125		
					Nemak Slovakia, S.r.o.		43		
					Nemak Wernigerode GmbH		67		
					Nemak Czech Republic, S.r.o.		55		
					Nemak Poland Sp.z.o.o.		45		
					Nemak Spain, S.L.		36		
					Nemak Pilsting GmbH		10		
					Nemak Izmir Dokum Sanayi A.S.		46		

As of December 31, 2018								
Holding	Functional Currency	Hedging Instrmnt	Notional Value		Covered item	Net assets of the hedged item		
Nemak, S. A. B. de C. V.	USD	Senior Notes	€	206	Nemak Dillingen GmbH	€	121	
					Nemak Linz GmbH		29	
		Bank Loans		4	Nemak Gyor Kft.		110	
					Nemak Slovakia, S.r.o.		71	
					Nemak Wernigerode GmbH		67	
					Nemak Czech Republic, S.r.o.		54	
					Nemak Poland Sp.z.o.o.		41	
					Nemak Spain, S.L.		39	
					Nemak Pilsting GmbH		9	
					Nemak Izmir Dokum Sanayi A.S.		35	
			€	210		€	576	



The average coverage ratio of the company amounted to 35.38% and 30.80%, causing the exchange rate fluctuation generated by the hedging instruments from the date of designation until December 31, 2019 and 2018, respectively, to amount to a net (loss) gain of \$(84) in 2019 and \$304 in 2018 which was recognized in the other items of integral utility, compensating the effect by conversion generated by each foreign investment. The results of coverage effectiveness confirm that hedging relationships are highly effective due to the economic relationship between hedging instruments and covered items.

*(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 or positively 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 was hedged until April 2018, therefore as of December 31, 2019, the Company does not keep open positions of this type of derivative financial instruments.

*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, 2019, 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 \$36.

*Credit risk*

The credit risk represents the potential loss due to non-compliance of counterparts in their payment obligations. Credit risk is generated by 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.

The Company is managed on a group basis and credit risk profile, the significant clients with whom it maintains a receivable, distinguishing those that require an individual credit risk assessment. For the rest of the clients, the company carries out its classification according to the type of market in which they operate, according with the business management and the internal risk management. Each subsidiary is responsible for managing and analyzing credit risk for each of its new customers before setting the terms and conditions of payment. If wholesale customers are qualified independently, these are the qualifications used. If there is no independent qualification, the company's risk control assesses the customer's credit quality, taking into account its financial position, previous experience and other factors. The maximum exposure to credit risk is given by the balances of these items as presented in the consolidated state of financial position.

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board of Directors. The use of credit risks is monitored regularly. Sales to retail customers are in cash or credit cards. During 2019 and 2018, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.





In addition, the Company performs a qualitative evaluation of economic projections, with the purpose of determining the possible impact on probabilities of default and the rate of recovery that it assigns to its clients.

During the year ended December 31, 2019, there have been no changes in the techniques of estimation or assumption.

#### *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 consolidated 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, 2019			
Trade and other accounts payable	\$ 19,334	\$ -	\$ -
Debt (excluding debt issuance costs)	22	1,093	3,637
Lease liability	372	1,151	330
Senior Notes	-	19,999	-
Notes payable	320	-	-
As of December 31, 2018			
Trade and other accounts payable	\$ 21,261	\$ -	\$ -
Debt (excluding debt issuance costs)	919	3,733	1,262
Senior Notes	-	11,253	9,841
Notes payable	352	-	-
Finance leases	42	502	161

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

As of December 31, 2019 and 2018, the Company has uncommitted short term credit lines unused for more than US\$ 734 (\$13,836) and US\$741 (\$14,591), respectively. Additionally, as of December 31, 2019 and 2018, Nematik has committed medium-term credit lines available of US\$ 404 (\$7,613) and US\$406 (\$7,990) 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, 2019 and 2018, 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**

The Company conducts annual tests to determine whether goodwill and intangibles assets with indefinite useful lives have suffered any impairment (Note 12). 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 25). Based on income and tax revenue projections Nematik will generate in subsequent years through a structured and robust business plan, which includes the sale of non-strategic assets, new services to be provided to its subsidiaries, among others, the Company’s management has considered that its tax loss carryforwards will be used before they expire and therefore it has been deemed appropriate to recognize a deferred tax asset for such losses.

### **c. 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.





d. 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 the impairment indicators for depreciable and amortizable assets annually, or when certain events or circumstances indicate that the book value may not be recovered in the remaining useful life of those assets. On the other hand, intangible assets with an indefinite useful life are subject to impairment tests at least every year and provided there is an indication that the asset could have deteriorated.

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 or a reversal of impairment 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.

e. Estimation of default probabilities and recovery rate to apply the model of expected losses in the calculation of impairment of financial assets.

The Company assigns to customers with whom it maintains an account receivable at each reporting date, either individually or as a group, an estimate of the probability of default on the payment of accounts receivable and the estimated recovery rate, with the purpose of reflecting the cash flows expected to be received from the outstanding balances on said date.

f. Estimation of the discount rate to calculate the present value of future minimum income payments

The Company estimates the discount rate to be used in determining the lease liability, based on the incremental loan rate ("IBR").

The Company uses a three-tier model, with which it determines the three elements that make up the discount rate: (i) reference rate, (ii) credit risk component and (iii) adjustment for characteristics of the underlying asset. In this model, management also considers its policies and practices to obtain financing, distinguishing between that obtained at the corporate level (that is, by the holder), or at the level of each subsidiary. Finally, for the leases of real estate, or, in which there is significant and observable evidence of its residual value, the Company estimates and evaluates an adjustment for the characteristics of the underlying asset, taking into account the possibility that said asset be granted as collateral or guarantee against the risk of default.

g. Estimate of the lease term

The Company defines the term of the leases as the period for which there is a contractual payment commitment, considering the non-cancelable period of the contract, as well as the renewal and early termination options that are likely to be exercised. The Company participates in lease agreements that do not have a definite forced term, a defined renewal period (if it contains a renewal clause), or automatic annual renewals, so, to measure the lease liability, it estimates the term of the contracts considering their contractual rights and limitations, their business plan, as well as the administration's intentions for the use of the underlying asset. Additionally, the Company considers the early termination clauses of its contracts and the probability of exercising them, as part of its estimate of the lease term.



## 6. Cash and cash equivalents

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

	December 31	
	2019	2018
Cash on hand and in banks	\$2,150	\$3,551
Short-term bank deposits	3,733	4
Total cash and cash equivalents	<u>\$5,883</u>	<u>\$3,555</u>

## 7. Restricted cash

The value of restricted cash is composed as follows:

	December 31	
	2019	2018
Current	\$ 120	\$ 617
Non-current (Note 13)	156	679
Restricted cash <sup>(1)(2)</sup>	<u>\$ 276</u>	<u>\$1,296</u>

<sup>(1)</sup> The Company received formal notices from the Brazilian tax authorities corresponding to tax credits, related to their review of its operations in Brazil. Pending the resolution of these requirements, and by virtue of a court order, Nemak has segregated bank balances as of December 31, 2018 of \$677, which will be reimbursed to the Company upon final resolution. In the first semester of 2019, the Company obtained the final court decision related to its right to utilize tax credits for \$315 the last 15 years with no possibility of appeal from the Federal government.

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

## 8. Trade and other accounts receivables, net

	December 31	
	2019	2018
Current:		
Trade accounts receivable	\$ 4,790	\$ 6,784
Due from related parties (Note 26)	779	1,277
Recoverable taxes	342	691
Sundry debtors	2,179	1,746
Allowance for impairment of trade accounts receivable	(230)	(251)
Total	<u>\$ 7,860</u>	<u>\$ 10,247</u>
Non-current:		
Non-current receivable due from related parties (Note 26)	<u>\$ 2</u>	<u>\$ 706</u>

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

	2019	2018
Opening balance as of January 1	\$ (251)	\$ (441)
Allowance for impairment of trade and other sundry debtors	-	(43)
Receivables written off during the year	20	229
Other	1	4
Final balance as of December 31	<u>\$ (230)</u>	<u>\$ (251)</u>





The net change in the estimate of impairment of accounts receivable for the years ended December 31, 2019 and 2018 were \$(230) and \$(251), respectively, was mainly due to changes in the estimation of probabilities of default and the percentage of recovery, allocated to different customer groups in which the Company operates, which reflected an increase in credit risk over these financial assets.

The following describes the probability ranges of default and recovery rates allocated to the main customer segments with which the company has balances receivable in its different businesses:

<b>As of December 31, 2019</b>		
<b>Clients or group of clients</b>	<b>Probability range of default</b>	<b>Severity of loss</b>
Automotive	0.00% - 0.54%	99.54%
Related parties	0.00% - 0.20%	99.82%

<b>As of December 31, 2018</b>		
<b>Clients or group of clients</b>	<b>Probability range of default</b>	<b>Severity of loss</b>
Automotive	0.00% - 0.85%	99.80%
Related parties	0.00% - 0.17%	100.00%

Increases in customer impairment estimation and cancellations, when they do not imply the loss of an account receivable, are recognized in the consolidated statement of results within the heading of sales costs.

The company does not maintain any significant collateral or guarantees that mitigate exposure to the credit risk of its financial assets.

## 9. Inventories

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Raw material and other consumables	\$ 5,310	\$ 5,702
Work in process	3,969	4,375
Finished goods	1,867	2,441
	<u>\$11,146</u>	<u>\$12,518</u>

For the years ended on December 31, 2019 and 2018, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of \$65 and \$22, respectively.

At December 31, 2019 and 2018, there were no inventories pledged as collateral.



## 10. Property, plant and equipment, net

For the year ended December 31, 2018

	Land	Buildings and constructions	Machinery and equipment	Vehicles	Furniture and equipment	Constructio ns in progress	Other fixed assets	Total
Opening balance, net	\$1,734	\$ 8,803	\$ 31,682	\$ 70	\$ 1,052	\$ 7,940	\$ 993	\$ 52,274
Translation effect	(49)	(298)	(957)	(4)	(43)	(357)	(131)	(1,839)
Additions	-	4	113	2	35	5,997	552	6,703
Disposals	-	-	-	-	(23)	-	(301)	(324)
Impairment charge recognized in the year	-	-	(115)	-	-	-	-	(115)
Depreciation charge recognized in the year	-	(477)	(4,095)	(49)	(431)	-	(18)	(5,070)
Transfers	-	1,165	6,283	29	229	(7,720)	14	-
	<u>\$ 1,685</u>	<u>\$ 9,197</u>	<u>\$ 32,911</u>	<u>\$ 48</u>	<u>\$ 819</u>	<u>\$ 5,860</u>	<u>\$ 1,109</u>	<u>\$ 51,629</u>

As of 31 December 31, 2018

Cost	\$1,685	\$ 15,238	\$ 79,511	\$ 329	\$ 2,461	\$ 5,860	\$ 1,175	\$ 106,259
Accumulated depreciation	-	(6,041)	(46,600)	(281)	(1,642)	-	(66)	(54,630)
Net carrying amount as of December 31, 2018	<u>\$1,685</u>	<u>\$ 9,197</u>	<u>\$ 32,911</u>	<u>\$ 48</u>	<u>\$ 819</u>	<u>\$ 5,860</u>	<u>\$ 1,109</u>	<u>\$ 51,629</u>

For the year ended December 31, 2019

Opening balance, net	\$1,685	\$ 9,197	\$ 32,911	\$ 48	\$ 819	\$ 5,860	\$ 1,109	\$ 51,629
Reclassifications to right-of-use asset	-	(534)	-	(7)	(22)	-	-	(563)
Translation effect	(84)	(414)	(1,611)	5	(38)	(307)	(56)	(2,505)
Additions	-	9	348	-	26	4,697	226	5,306
Disposals	-	(1)	(7)	-	(23)	(10)	(11)	(52)
Impairment charge recognized in the year	-	(73)	(832)	-	1	-	(11)	(915)
Depreciation charge recognized in the year	-	(477)	(4,011)	(23)	(227)	-	(22)	(4,760)
Transfers	6	663	4,350	19	123	(5,182)	21	-
	<u>\$1,607</u>	<u>\$ 8,370</u>	<u>\$ 31,148</u>	<u>\$ 42</u>	<u>\$ 659</u>	<u>\$ 5,058</u>	<u>\$ 1,256</u>	<u>\$ 48,140</u>
As of December 31, 2019								
Cost	\$1,607	\$ 14,608	\$ 78,708	\$ 201	\$ 2,362	\$ 5,058	\$ 1,314	\$ 103,858
Accumulated depreciation	-	(6,238)	(47,560)	(159)	(1,703)	-	(58)	(55,718)
Net carrying amount as of December 31, 2019	<u>\$1,607</u>	<u>\$ 8,370</u>	<u>\$ 31,148</u>	<u>\$ 42</u>	<u>\$ 659</u>	<u>\$ 5,058</u>	<u>\$ 1,256</u>	<u>\$ 48,140</u>





Of the total depreciation expense, \$4,498 and \$4,821, were charged to cost of sales, \$ 1 and \$2, to selling expenses and \$261 and \$247, to administrative expenses in 2019 and 2018, respectively.

As of December 31, 2019, there were property, plant and equipment pledged as collateral.

For the ending year December 31, 2018, the Company made no acquisitions of assets of property or plant and equipment that did not require cash flows. During fiscal year 2019, any addition related to investments such as leases is classified within the right-of-use assets.

The other fixed assets are mainly made up of spare parts and long-term improvements.



# 11. Right-of-use asset

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts is 12 years.

- a) The right of use recognized in the consolidated statement of financial position as of December 31, 2019, is integrated as follows:

	Buidings	Machinery and equipment	Vehicles	Other fixed assets	Total
Cost:					
Adoption effect	\$ 584	\$ 170	\$ 114	\$ 34	\$ 902
Property, plant and equipment reclassification	<u>534</u>	<u>-</u>	<u>7</u>	<u>22</u>	<u>563</u>
Initial balances as of January 1, 2019	\$ 1,118	\$ 170	\$ 121	\$ 56	\$ 1,465
Final balances as of December 31, 2019	<u>\$ 1,084</u>	<u>\$ 122</u>	<u>\$ 497</u>	<u>\$ 60</u>	<u>\$ 1,763</u>
Accumulated depreciation	(139)	(93)	(191)	(19)	(442)

- b) Expenses recognized in the consolidated income statement for the year ended December 31, 2019.

Rent expenses from a short term and low-value assets leases \$ 319

Additions to the net book value of the right of use for leases as of December 31, 2019 amounted to \$ 771.

The Company has not signed lease contracts which at the date of the consolidated financial statements have not started. During the year, the Company did not realize significant extensions to the term of its lease contracts.





12. Goodwill and intangible assets, net

	Development costs	Relationships with customers	Software and licenses	Intellectual property rights	Goodwill	Others	Total
Cost							
As of January 1, 2018	\$ 7,631	\$ 3,325	\$ 356	\$ 107	\$ 6,053	\$ 770	\$ 18,242
Translation effects	(172)	32	24	5	(203)	(85)	(399)
Additions	1,217	(307)	11	-	-	5	926
Disposals	(24)	(1,079)	(58)	-	-	-	(1,161)
As of December 31, 2018	8,652	1,971	333	112	5,850	690	17,608
Translation effects	(933)	231	(9)	(10)	(315)	(57)	(1,093)
Additions	1,564	35	16	-	-	3	1,618
Disposals	(12)	(53)	(2)	-	-	(1)	(68)
As of December 31, 2019	\$ 9,271	\$ 2,184	\$ 338	\$ 102	\$ 5,535	\$ 635	\$ 18,065
Accumulated amortization							
January 1, 2018	\$ (3,559)	\$ (1,096)	\$ (273)	\$ (106)	\$ -	\$ (428)	\$ (5,462)
Amortizations	(698)	(194)	(30)	-	-	(58)	(980)
Disposals	-	-	58	-	-	-	58
Translation effects	(37)	51	(13)	-	-	82	83
As of December 31, 2018	(4,294)	(1,239)	(258)	(106)	-	(404)	(6,301)
Amortizations	(750)	(218)	(27)	-	-	(47)	(1,042)
Disposals	12	13	2	-	-	-	27
Translation effects	286	76	14	4	-	53	433
As of December 31, 2019	\$ (4,746)	\$ (1,368)	\$ (269)	\$ (102)	\$ -	\$ (398)	\$ (6,883)
Net carrying amount							
Cost	\$ 8,652	\$ 1,971	\$ 333	\$ 112	\$ 5,850	\$ 690	\$ 17,608
Accumulated amortization	(4,294)	(1,239)	(258)	(106)	-	(404)	(6,301)
As of December 31, 2018	\$ 4,358	\$ 732	\$ 75	\$ 6	\$ 5,850	\$ 286	\$ 11,307
Cost	\$ 9,271	\$ 2,184	\$ 338	\$ 102	\$ 5,535	\$ 635	\$ 18,065
Accumulated amortization	(4,746)	(1,368)	(269)	(102)	-	(398)	(6,883)
As of December 31, 2019	\$ 4,525	\$ 816	\$ 69	\$ -	\$ 5,535	\$ 237	\$ 11,182



Of the total amortization expense, \$639 and \$927, were charged to cost of sales, \$232 and \$169, to administrative expenses, \$6 and \$- to selling expenses, \$165 and \$116 decreasing the revenues to costs incurred to obtain new agreements with clients in 2019 and 2018, respectively.

Research expenses incurred and recorded in the 2019 and 2018 consolidated statements of income were \$21 and \$16, 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, 2018	\$ 2,108	\$3,945	\$ -	\$6,053
Exchange differences	(5)	(198)	-	(203)
Balance as of December 31, 2018	2,103	3,747	-	5,850
Exchange differences	(90)	(225)	-	(315)
Balance as of December 31, 2019	<u>\$ 2,013</u>	<u>\$3,522</u>	<u>\$ -</u>	<u>\$5,535</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 a 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 2019 and 2018 were as follows:

	2019		
	North America	Europe	Rest of the World
Growth rate	1.50%	1.50%	2.50%
Discount rate	12.90%	10.70%	9.74%

  

	2018		
	North America	Europe	Rest of the World
Growth rate	1.50%	1.50%	2.50%
Discount rate	10.50%	10.02%	10.58%

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.

### 13. Other non-current assets

	December 31	
	2019	2018
Restricted cash	\$ 156	\$ 679
Equity investments <sup>(1)</sup>	71	71
Investments in associates	544	662
Tax credits receivable (Note 7)	315	-
Other assets	111	98
Total other non-current assets	<u>\$1,197</u>	<u>\$1,510</u>

<sup>(1)</sup> Equity investments are investment in shares of companies of non-public companies. No impairment loss was recognized as of December 31, 2019 and 2018.





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

	2019	2018
Net income and comprehensive income	<u>\$ 41</u>	<u>\$136</u>

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

#### 14. Trade and other accounts payable

	December 31 2019	2018
Trade account payable	\$16,008	\$17,431
Advances from customers	521	414
Other social security fees and benefits	1,258	769
Related parties (Note 26)	53	36
Other payables	3,326	3,830
	<u>\$21,166</u>	<u>\$22,480</u>

#### 15. Debt

	December 31 2019	2018
Current:		
Bank loans <sup>(1)</sup>	\$ 1,955	\$ 1,409
Current portion of non-current debt	22	1,045
Notes payable <sup>(1)</sup>	320	352
Total current debt <sup>(2)</sup>	<u>\$ 2,297</u>	<u>\$ 2,806</u>
Non-current debt:		
Secured bank loans	\$ 9	\$ 68
Unsecured bank loans	4,743	5,846
Finance leases	-	705
<u>In U.S dollars:</u>		
Senior Notes	9,422	9,841
<u>In Euros:</u>		
Senior Notes	10,577	11,253
Non-current debt before debt issuance costs	24,751	27,713
Less: Debt issuance costs	(289)	(316)
Less: current portion of other debts	(22)	(1,045)
Non-current debt	<u>\$24,440</u>	<u>\$26,352</u>

(1) As of December 31, 2019 and 2018, short-term bank loans and notes payable bore interest at an average rate of 4.27% and 4.73%, 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, 2019	Balance as of December 31, 2018	Inception date DD/MM/YYYY	Maturity date DD/MM/YYYY	Interest rate
Brazil	BRL	\$ 9	\$ -	\$ -	\$ 9	\$ 68	31/01/2016	20/01/2025	6.00%
Total secured bank loans		9	-	-	9	68			
Club Deal-(BBVA) <sup>(1)</sup>	USD	-	-	-	-	447	13/11/2016	13/11/2020	3.86%
Club Deal-(BBVA) <sup>(1)</sup>	EUR	-	-	-	-	91	13/11/2016	13/11/2020	1.25%
Bancomext LP	USD	3,563	4	21	3,580	-	23/12/2019	23/12/2029	4.70%
Bancomext LP	USD	-	-	-	-	2,315	23/12/2015	23/12/2025	5.16%
Nafin LP	USD	-	-	-	-	1,544	29/12/2015	29/12/2025	5.19%
Scotiabank Turquía	EUR	530	1	-	529	-	28/10/2019	29/10/2024	1.06%
Unicredit Turkey	EUR	-	-	-	-	764	28/12/2016	28/12/2019	1.25%
Spain	EUR	94	1	-	93	122	05/07/2016	25/12/2031	1.42%
USA	USD	541	-	-	541	563	01/04/2017	04/06/2024	3.86%
Total unsecured bank loans		4,728	6	21	4,743	5,846			
Issuance costs		(21)	-	-	(21)	(133)			
Total bank loans		4,716	6	21	4,731	5,781			
Senior Notes <sup>(2)</sup>	USD	9,465	196	153	9,422	9,841	25/01/2018	25/01/2025	4.75%
Senior Notes - EUR <sup>(2)</sup>	EUR	10,564	102	115	10,577	11,253	15/03/2017	15/03/2024	3.25%
Issuance costs		(268)	-	-	(268)	(183)			
Total Senior Notes		19,761	298	268	19,731	20,911			
Finance lease:									
USA	USD	-	-	-	-	42	01/01/2013	09/01/2017	5.00%
China	RMB	-	-	-	-	161	06/09/2006	28/02/2023	6.45%
Russia	RUB	-	-	-	-	-	01/08/2014	30/04/2019	4.05%
Canada	CAD	-	-	-	-	3	01/06/2017	01/05/2020	10.00%
Modellbau	EUR	-	-	-	-	12	12/02/2015	15/05/2020	1.82%
Dillingen	EUR	-	-	-	-	467	01/05/2015	15/05/2020	7.45%
Mexico	USD	-	-	-	-	20	01/07/2017	01/06/2020	2.50%
Total finance lease		-	-	-	-	705			
Total		24,477	304	289	24,462	27,397			
Less: current portion of non-current debt		(22)	-	-	(22)	(1,045)			
Non-current debt		\$ 24,455	\$304	\$289	\$24,440	\$ 26,352			

(1) Club Deal (BBVA) in USD and EUR accrues at the LIBOR+1.25% and EURIBOR+1.25%, respectively.

(2) Senior Notes at a fixed interest rate of 4.75% Senior Notes EUR at a fixed interest rate of 3.25%

As of December 31, 2019, the annual maturities of non-current debt are as follows:

	2019	2020	2021 and thereafter	Total
Bank loans <sup>1</sup>	\$ 22	\$ 205	\$ 4,525	\$ 4,752
Senior Notes <sup>2</sup>	-	-	19,999	19,999
	<u>\$ 22</u>	<u>\$ 205</u>	<u>\$24,524</u>	<u>\$ 24,751</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 27) 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 (See Note 27) for the period of the last four complete quarters, which shall not be more than 3.5 times.

Additionally, in the aforementioned agreements, there are commitments related to the Senior Notes issued in USD in January 2018, 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 2019 and 2018, the financial ratios were calculated in according to the formulas set out in the effective debt agreements.

At December 31, 2019 and the date of issuance of these consolidated 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, 2019 and 2018, 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"). As of December 31, 2019 the outstanding balance and the value of the pledged assets are approximately US\$0.5 (\$8.8) and US\$0.6 (\$11.0). As of December 31, 2018, the outstanding balance and the value of the pledged assets are approximately US\$3.4 (\$67.9) and US\$4.3 and (\$84.6), respectively.

#### Significant debt transactions in 2019 and 2018:

- a. On December 23, 2019, Nemark obtained financing with Bancomext for an amount of US\$190 at a rate of Libor + 2.70 with a 10-year maturity, the resources were used to prepay the existing debt held with Bancomext for US \$114.7 and with NAFIN for US \$76.60
- b. On January 11, 2018, Nemark issued US\$500 of 4.750% Senior Notes with 7-year maturity in the Irish Stock Exchange and the Global Stock Market, under Rule 144A, and under the Regulation S. The transaction resources were mainly used to prepay in advance the Senior Notes USD 2023.



The Company's finance lease obligations as of December 31, 2018 are as follows:

	<b>2018</b>
Less than 1 year	\$ 145
Over 1 year and less than 5 years	293
Over 5 years	<u>393</u>
Total	<u><u>\$ 831</u></u>

The present value of finance lease liabilities is as follows:

	<b>2018</b>
Less than 1 year	\$ 126
Over 1 year and less than 5 years	243
Over 5 years	<u>336</u>
	<u><u>\$ 705</u></u>

#### 16. Lease liability

	<b>As of December 31, 2019</b>
<u>Current portion:</u>	
USD:	\$ 70
MXP:	86
EUR:	169
Other currencies:	<u>47</u>
Current lease liability	<u><u>\$ 372</u></u>
 <u>Non-current portion:</u>	
USD:	\$ 133
MXP:	294
EUR:	939
Other currencies:	<u>487</u>
	<u>\$ 1,853</u>
Less: Current portion of lease liability	<u>(372)</u>
Non-current lease liability	<u><u>\$ 1,481</u></u>

As of December 31, 2019, changes in the lease liability related to the finance activities in accordance with the statement of cash flow are integrated as follows:

Lease liability as of January 1, 2019	\$ 902
Financial lease reclassification	<u>705</u>
Beginning balance	1,607
New contracts	693
Write-offs	(2)
Adjustment to liability balance	15
Interest expense from lease liability	70
Lease payments	(380)
Exchange (loss) gain	<u>(150)</u>
Ending balance	<u><u>\$ 1,853</u></u>





The total of future minimum payments of leases that include non-accrued interest is analyzed as follows:

	<b>December 31, 2019</b>
Less than 1 year	\$ 394
Over 1 year and less than 3 years	901
Over 3 year and less than 5 years	250
Over 5 years	308
	<u>1,853</u>
Total	<u>\$ 1,853</u>

#### 17. Other liabilities

	<b>December 31 2019</b>	<b>2018</b>
Current:		
Other taxes and withholdings	\$ 409	\$ 565
Deferred income	-	15
Statutory employee profit sharing	167	163
Share-based payment (Note 20)	37	50
Bank overdrafts	1	13
	<u>\$ 614</u>	<u>\$ 806</u>
Total		
Non-current:		
Other	\$ 184	\$ 214
	<u>\$ 184</u>	<u>\$ 214</u>
Total		

#### 18. 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:

	<b>December 31 2019</b>	<b>2018</b>
Country		
Mexico	\$ 562	\$ 419
United States	29	31
Canada	184	169
Poland	171	161
Austria	220	231
Germany	139	133
Other	103	94
	<u>\$1,408</u>	<u>\$1,238</u>
Total		



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

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Obligations in the consolidated statement of financial position:		
Pension benefits	\$1,253	\$1,082
Post-employment medical benefits	155	156
Liability recognized in the consolidated statement of financial position	<u>1,408</u>	<u>1,238</u>
Charge in the consolidated statement of income for:		
Pension benefits	(84)	(57)
Post-employment medical benefits	(6)	(12)
	<u>(90)</u>	<u>(69)</u>
Remeasurements from employee benefit obligations recognized in other comprehensive income for the year		
Pension benefits	(117)	22
Post-employment medical benefits	(20)	3
	<u>(137)</u>	<u>25</u>
Remeasurements accumulated in stockholder's equity	<u>\$ (338)</u>	<u>\$ (201)</u>

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:

	<b>December 31</b>	
	<b>2019</b>	<b>2018</b>
Present value of the obligations	\$2,035	\$1,802
Fair value of plan assets	(627)	(564)
Net liabilities in the consolidated statement of financial position	<u>\$1,408</u>	<u>\$1,238</u>

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

	<b>2019</b>	<b>2018</b>
As of January 1	\$1,802	\$1,878
Current service cost	54	56
Interest cost	56	54
Contributions from plan participants	1	1
Remeasurements:		
Loss for changes in personnel experience	172	69
Benefits paid	(64)	(49)
Exchange differences	14	(207)
As of December 31,	<u>\$2,035</u>	<u>\$1,802</u>

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

	<b>2019</b>	<b>2018</b>
As of January 1	\$(564)	\$(653)
Interest income	(25)	(41)
Remeasurements – return from plan assets, net	(55)	44
Exchange differences	4	57
Contributions from plan participants	(8)	7
Employee contributions	(1)	(1)
Benefits paid	22	23
As of December 31	<u>\$(627)</u>	<u>\$(564)</u>





The primary actuarial assumptions were as follows:

	December 31	
	2019	2018
Mexico:		
Inflation rate	2.83%	6.77%
Wage increase rate	4.50%	4.50%
Future wage increase	3.50%	3.50%
Medical inflation rate	6.50%	6.50%
Discount rate:		
Mexico	7.00%	7.25%
Canada	3.11%	3.40%
Austria	2.00%	2.00%
United States	3.05%	2.86%
Germany	0.82%	0.82%
Poland	3.30%	3.30%

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 \$(112)	Increases by \$136
<i>Pension benefit assets</i>			

Plan assets are comprised of the following:

	2019	2018
Equity instruments	\$ 425	\$ 365
Short and long-term fixed-income securities	202	199
	<u>\$ 627</u>	<u>\$ 564</u>

## 19. Stockholders' equity

At December 31, 2019 and December 31, 2018, the fixed, capital stock of \$ 6,599 and \$ 6,604, respectively, was represented by 3,077 and 3,079 million registered common shares, "Class I" of the Series "A", without face value, fully subscribed and paid, respectively.

As of December 31, 2018 and 2019, the shares were represented as follows:

Stockholder	Number of shares	
	(In millions)	Amount
ALFA	2,318	\$ 4,971
Public	761	1,633
Balances as of December 31, 2018	<u>3,079</u>	<u>\$ 6,604</u>
Repurchase of shares	<u>(2)</u>	<u>(5)</u>
Balances as of December 31, 2019	<u>3,077</u>	<u>\$ 6,599</u>



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

	<b>Number of shares (In millions)</b>
Shares as of January 1, 2018	3,079
Movements of the year	-
Shares as of December 31, 2018	3,079
Movements of the year	<u>(2)</u>
Shares as of December 31, 2019	<u>3,077</u>

During the year 2019 there was a repurchase of shares of 2, in 2018 there were no significant repurchases of shares.

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. As of December 31, 2019 and 2018, the legal reserve amounted to \$1,049 and \$851, respectively, which is included in retained earnings.

Dividends paid in 2019 and 2018 were \$2,439 (\$0.79 per share) and \$3,281 (\$1.06 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 2018. 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, 2019, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to \$3,824 and \$8,379, 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:

<b>Year of distribution of dividend or profit</b>	<b>Percentage of application to the amount of dividend or profit distributed.</b>
2019	5%
2020	5%
2021 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 consolidated 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, 2019 and 2018, the Company generated taxable income of \$2,493 and \$3,464, 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.

## 20. 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 2019 and 2018 was \$8.15 and \$14.33, respectively.

Short and long-term liability consists of the following:

	December 31	
	2019	2018
Short term	\$ 10	\$ 14
Long term	27	36
Total carrying amount	<u>\$ 37</u>	<u>\$ 50</u>

## 21. Expenses classified by nature

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

	December 31	
	2019	2018
Raw materials	\$(29,347)	\$(37,837)
Maquila (production outsourcing)	(6,068)	(6,841)
Employee benefit expenses (Note 24)	(17,166)	(17,534)
Personnel expenses	(157)	(172)
Maintenance	(4,263)	(4,779)
Depreciation and amortization	(6,079)	(6,166)
Freight charges	(498)	(594)
Advertising expenses	(10)	(17)
Consumption of energy and fuel	(3,679)	(3,869)
Travel expenses	(280)	(326)
Operating leases	(319)	(608)
Technical assistance, professional fees and administrative services	(1,293)	(1,558)
Other	(2,445)	(2,323)
Total	<u>\$(71,604)</u>	<u>\$(82,624)</u>

## 22. Other (expenses) income, net

	2019	2018
Gain (loss) on sale of property, plant and equipment	\$ 4	\$ (22)
Impairment of property, plant and equipment	(915)	(115)
Other income	116	258
Total other (expenses) income, net	<u>\$ (795)</u>	<u>\$ 121</u>



**23. Financial results, net**

	2019	2018
Financial income:		
Interest income in short-term bank deposits	\$ 32	\$ 43
Intercompany financial income (Note 26)	46	44
Other financial income <sup>1</sup>	164	37
Total financial income	<u>242</u>	<u>124</u>
Financial expenses:		
Interest expense on bank loans	(1,534)	(1,807)
Other financial expenses <sup>2</sup>	(42)	(66)
Total financial expense	<u>(1,576)</u>	<u>(1,873)</u>
Exchange fluctuation gain (loss), net:		
Exchange fluctuation gain	5,336	4,575
Exchange fluctuation loss	(5,370)	(5,046)
Total exchange fluctuation loss, net	<u>(34)</u>	<u>(471)</u>
Financial results, net	<u>\$ (1,368)</u>	<u>\$ (2,220)</u>

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

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

**24. Employee benefit expenses**

	2019	2018
Salaries, wages and benefits	\$14,586	\$14,983
Contributions to social security	2,208	2,290
Employee pension benefits (Note 18)	54	56
Other contributions	318	205
Total	<u>\$17,166</u>	<u>\$17,534</u>

**25. 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:

	2019	2018
Germany	30.0%	30.0%
Austria	25.0%	25.0%
Brazil	34.0%	34.0%
China	25.0%	25.0%
Spain	24.0%	28.0%
Slovakia	21.0%	21.0%
United State of America	21.0%	21.0%
Hungary	9.0%	9.0%
Poland	19.0%	19.0%
Turkey	22.0%	20.0%

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

	2019	2018
Current tax	<u>\$(2,331)</u>	<u>\$(2,039)</u>
Deferred tax	<u>1,187</u>	<u>(237)</u>
Income tax expensed	<u>\$(1,144)</u>	<u>\$(2,276)</u>





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

	2019	2018
Income before taxes	\$ 3,637	\$ 5,740
Equity in losses of associates recognized through the equity method	(41)	(136)
Income before interests in associates	<u>3,596</u>	<u>5,604</u>
Statutory rate	30%	30%
Taxes at statutory rate	<u>(1,079)</u>	<u>(1,681)</u>
(Add) less tax effect on:		
Inflation adjustments	(199)	(344)
Non-deductible expenses	(134)	(262)
Non-taxable exchange effects	220	(20)
Other	<u>48</u>	<u>31</u>
Total income tax expense	<u>\$ (1,144)</u>	<u>\$ (2,276)</u>
Effective rate	<u>31%</u>	<u>40%</u>

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

	December 31	
	2019	2018
Inventories	\$ 33	\$ 45
Property, plant and equipment	(918)	(1,174)
Intangible assets	(136)	(64)
Asset valuation reserve	8	7
Valuation of derivative instruments	-	16
Provisions	146	276
Tax loss carryforwards	686	1,244
Other temporary differences, net	1,238	351
Deferred tax asset	<u>\$ 1,057</u>	<u>\$ 701</u>
Inventories	(53)	(7)
Property, plant and equipment	(2,838)	(2,501)
Intangible assets	(1,427)	(1,026)
Debt issuance costs	(56)	-
Asset valuation reserve	-	2
Provisions	587	778
Tax loss carryforwards	636	(7)
Other temporary differences, net	1,196	(45)
Deferred tax liability	<u>\$ (1,955)</u>	<u>\$ (2,806)</u>

Tax losses as of December 31, 2019 expire in the following years:

Expiration year	Amount
2023	\$ 12
2024	317
2025 and thereafter	2,496
No maturity	<u>1,582</u>
	<u>\$ 4,407</u>



Additionally, as of December 31, 2019, the Company holds tax losses to be amortized for an amount of \$4,239 and has decided to reserve the total amount.

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

	2019			2018		
	Before	Tax	After	Before	Tax	After
	taxes	charged/ (credited)	taxes	taxes	charged/ (credited)	taxes
Translation effect of foreign entities	\$(1,846)	\$ -	\$(1,846)	\$(1,182)	\$ -	\$(1,182)
Remeasurements of obligations for employee benefits	(137)	22	(115)	25	(7)	18
Other comprehensive income items	<u>\$(1,983)</u>	<u>\$ 22</u>	<u>\$(1,961)</u>	<u>\$(1,157)</u>	<u>\$ (7)</u>	<u>\$(1,164)</u>

## 26. Transactions with related parties

Transactions with related parties during the years ended December 31, 2019 and 2018, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2019							
Loans with related parties							
	Accounts receivable	Non-current Amount	Capital and Interest	Currency	Maturity date DD/MM/YYYY	Interest rate	Accounts payable
ALFA	\$ -	\$ -	\$ 76	MXP	16/08/2020	4.98%	\$ -
Affiliates	-	-	-				-
Associates	63	2	38	EUR	16/08/2020	8.50%	53
Ford	602	-	-				-
Total	\$ 665	\$ 2	\$ 114				\$ 53

December 31, 2018							
Loans with related parties							
	Accounts receivable	Non-current Amount	Capital and Interest	Currency	Maturity date DD/MM/YYYY	Interest rate	Accounts payable
ALFA	\$ -	\$ 706	\$ 71	MXP	16/08/2020	4.98%	\$ -
Affiliates	18	-	-				36
Associates	56	-	39	EUR	16/08/2020	8.50%	-
Ford	1,093	-	-				-
Total	\$ 1,167	\$ 706	\$ 110				\$ 36

During 2019 the Company received the deposit of a loan with Alfa at the rate of Libor 1 month + 3 with a maturity as of December 23, 2019 for the amount of \$706.





Sales revenues and other related parties:

	Year ended December 31, 2019		
	Finished goods	Interest	Other
ALFA	\$ -	\$ 41	\$ -
Ford	18,724	-	-
Associates	-	5	273
Total	<u>\$ 18,724</u>	<u>\$ 46</u>	<u>\$ 273</u>

	Year ended December 31, 2018		
	Finished goods	Interest	Other
ALFA	\$ -	\$ 44	\$ -
Ford	22,889	-	-
Associates	-	-	255
Total	<u>\$ 22,889</u>	<u>\$ 44</u>	<u>\$ 255</u>

Cost of sales and other expenses with related parties:

	Year ended December 31, 2019		
	Administrative services	Other costs and expenses	Dividends paid
ALFA	\$ -	\$ -	\$ 1,825
Affiliates	78	-	-
Associates	-	166	-
Ford	-	-	119
Total	<u>\$ 78</u>	<u>\$ 166</u>	<u>\$ 1,944</u>

	Year ended December 31, 2018		
	Administrative services	Other costs and expenses	Dividends paid
ALFA	\$ -	\$ -	\$ 2,468
Affiliates	89	-	-
Associates	-	249	-
Ford	-	-	179
Total	<u>\$ 89</u>	<u>\$ 249</u>	<u>\$ 2,647</u>

For the years ended December 31, 2019 and 2018, wages and benefits received by senior management of the Company were \$142 and \$143, respectively, an amount comprising base salary and other benefits associated with the Company's share based payment plans.

## 27. 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, 2019

	North America	Europe	Rest of the world	Eliminations	Total
Statement of income					
Income by segment	\$ 43,060	\$28,413	\$ 7,304	\$ (1,414)	\$ 77,363
Inter-segment income	(487)	(827)	(100)	1,414	-
Income from external customers	<u>\$ 42,573</u>	<u>\$27,586</u>	<u>\$ 7,204</u>	<u>\$ -</u>	<u>\$ 77,363</u>
EBITDA					
Operating income	\$ 3,121	\$ 2,170	\$ (327)	\$ -	\$ 4,964
Depreciation and amortization	3,246	2,045	788	-	6,079
Impairment	735	5	175	-	915
Adjusted EBITDA	<u>\$ 7,102</u>	<u>\$ 4,220</u>	<u>\$ 636</u>	<u>\$ -</u>	<u>\$ 11,958</u>
Capital investments (Capex)	<u>\$ 3,475</u>	<u>\$ 2,263</u>	<u>\$ 878</u>	<u>\$ -</u>	<u>\$ 6,616</u>

For the year ended December 31, 2018

	North America	Europe	Rest of the world	Eliminations	Total
Statement of income					
Income by segment	\$ 51,450	\$ 32,695	\$ 8,273	\$ (2,091)	\$ 90,327
Inter-segment income	(886)	(1,180)	(25)	2,091	-
Income from external customers	<u>\$ 50,564</u>	<u>\$ 31,515</u>	<u>\$ 8,248</u>	<u>\$ -</u>	<u>\$ 90,327</u>
EBITDA					
Operating income	\$ 5,360	\$ 2,661	\$ (197)	\$ -	\$ 7,824
Depreciation and amortization	3,107	2,345	714	-	6,166
Impairment	95	20	-	-	115
Adjusted EBITDA	<u>\$ 8,562</u>	<u>\$ 5,026</u>	<u>\$ 517</u>	<u>\$ -</u>	<u>\$ 14,105</u>
Capital investments (Capex)	<u>\$ 4,076</u>	<u>\$ 2,735</u>	<u>\$ 975</u>	<u>\$ -</u>	<u>\$ 7,786</u>





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

	2019	2018
Adjusted EBITDA	\$11,958	\$14,105
Depreciation and amortization	(6,079)	(6,166)
Impairment	(915)	(115)
Operating income	4,964	7,824
Financial results, net	(1,368)	(2,220)
Equity in associates	41	136
Income before taxes	<u>\$ 3,637</u>	<u>\$ 5,740</u>

For the year ended December 31, 2019

	Property, plant and equipment	Goodwill	Intangible assets
North America	\$ 25,313	\$ 2,013	\$ 3,540
Europe	19,894	3,522	3,210
Rest of the World	2,933	-	660
Total	<u>\$ 48,140</u>	<u>\$ 5,535</u>	<u>\$ 7,410</u>

For the year ended December 31, 2018

	Property, plant and equipment	Goodwill	Intangible assets
North America	\$ 26,612	\$ 2,102	\$ 2,718
Europe	19,857	3,748	1,955
Rest of the World	5,160	-	784
Total	<u>\$ 51,629</u>	<u>\$ 5,850</u>	<u>\$ 5,457</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 25 % and 26%, General Motors 19% and 22%, Fiat-Chrysler 12% and 12%, and Volkswagen Group 14% and 12% in 2019 and 2018, respectively.

## 28. 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, 2018, 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, 2019 and 2018, 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. Based on a face-to-face meeting with the CRA where the evidences and arguments required to support our objection are presented, the administration considers that the case will be concluded favorably so it has not recognized any provision in its statement of financial position.



**29. Subsequent events**

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2019 and through January 31, 2020, (issuance date of the consolidated financial statements), and has concluded that there are no subsequent events that require recognition or disclosure.

**30. Authorization to issue the consolidated financial statements**

On January 31, 2020, 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.

