Annual Report 2015

G4-3, G4-9

Nemak is a leading provider of innovative lightweighting solutions for the global automotive industry specializing in the development and manufacturing of aluminum components for powertrain and body structure applications. As of 2015, the company employed more than 21,000 people at 35 facilities worldwide and generated revenues of US$4.5 billion.

For more information about Nemak, visit: http://**www.nemak.com**

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nemak

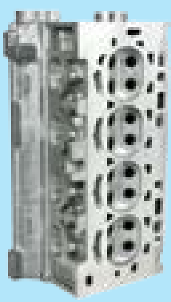
- Proven track record of profitable growth and financial resilience
- Strong cash flow generation and balance sheet
- Leading product development capabilities supported by a skilled workforce
- Experienced management team

At a **glance**

G4-6, G4-8

Nemak's workforce of more than 21,000 employees serves the world's largest automotive markets from 35 plants strategically located across 15 countries.

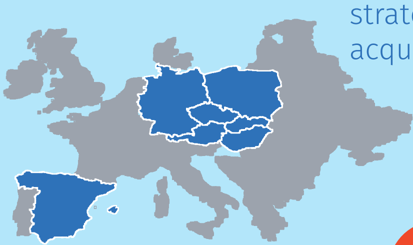
Nemak begins operations



80s

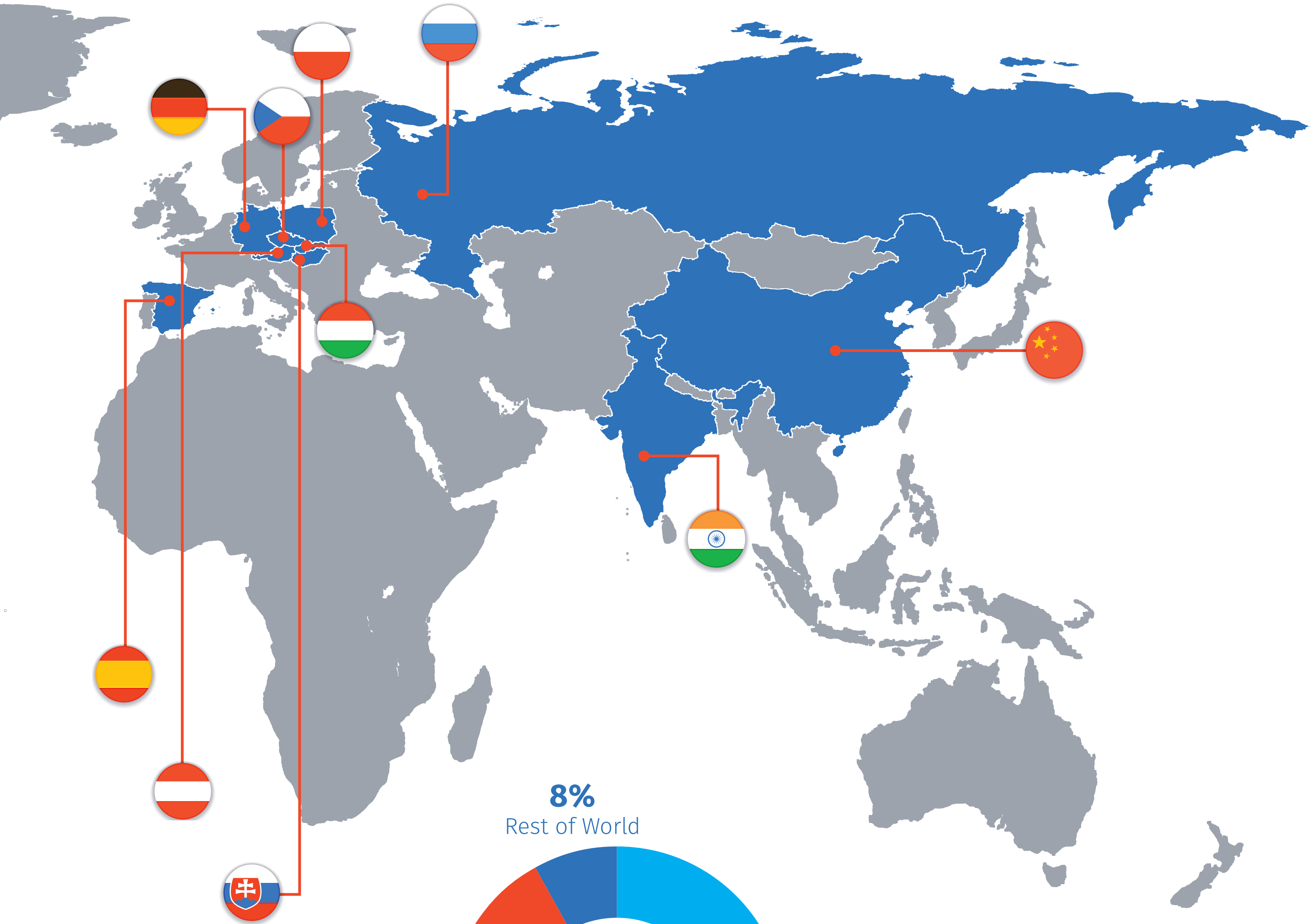
Leverage technology, R&D, and product development capabilities. Nemak begins producing engine blocks

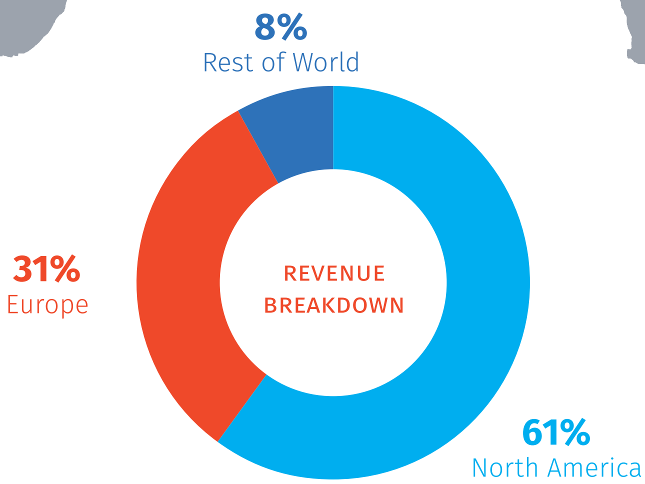
90s

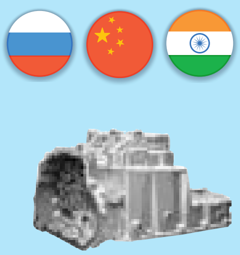


Global expansion through strategic acquisitions

00s







Technology portfolio diversification and increased presence in fast-growing automotive markets

10s

Nemak signs its first contracts to produce structural components

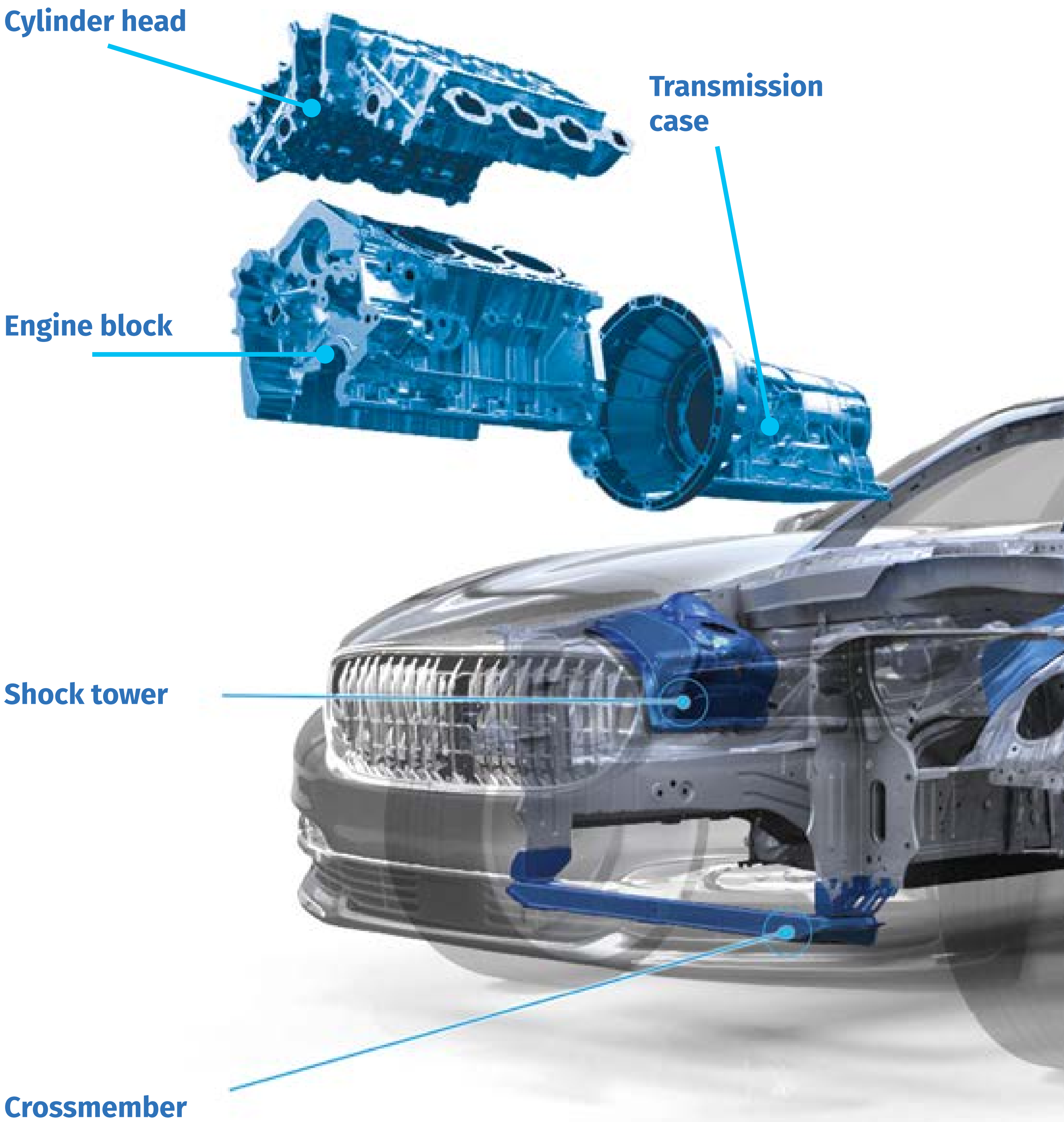
2014

Nemak completes IPO on Mexican Stock Exchange

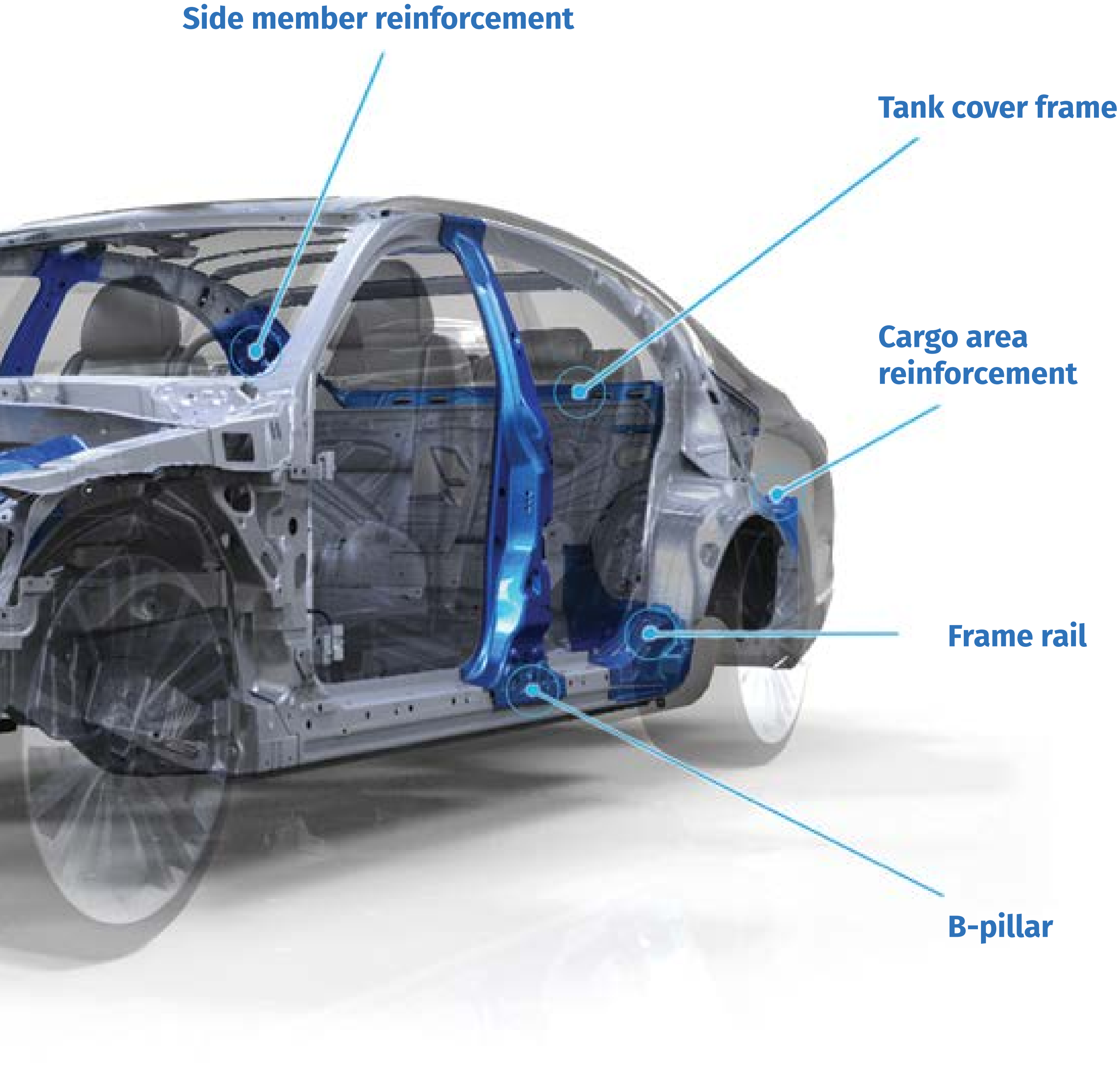
2015

Product *portfolio*

G4-4



Nemak focuses on the development and manufacturing of cylinder heads, engine blocks, transmission cases, and structural components

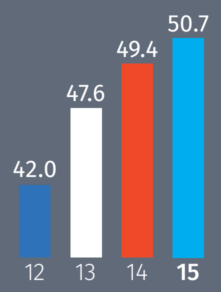


Financial *highlights*

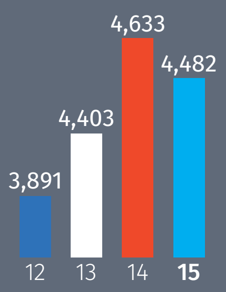
G4-EC1

Expressed in millions of U.S. dollars	***2015***	*2014*	*Change%*
Volume (million equivalent units)	50.7	49.4	2.6
Total revenues	4,482	4,633	(3.3)
Gross profit	743	683	8.8
Sales & administrative expenses	(277)	(271)	2.2
Other income (expenses) net	3	5	(40.0)
Income from operations	469	417	12.5
Interest expenses	(74)	(75)	(1.3)
Interest income	3	2	50.0
Foreign exchange gain (loss)	(11)	20	NA
Financing expenses net	(82)	(53)	54.7
Participation in associates results	3	3	0.0
Income tax	(99)	(111)	(10.8)
Net income	291	256	13.7
EBITDA[1]	759	702	8.1
CAPEX	460	393	17.0
Net debt	1,210	1,270	(4.8)

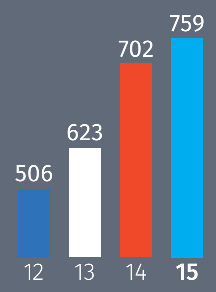
(1) EBITDA = Operating income + depreciation and amortization + non-recurring items.



Volume
millions
of equivalent units



Total revenues
billions of U.S. dollars



EBITDA
millions of U.S. dollars

Dear *shareholders:*

G4-1

In 2015, we continued building upon our track record as a leading provider of lightweighting solutions for the global automotive industry. We delivered solid financial results and won new contracts across our business lines. Furthermore, we took important steps to execute on our strategic growth plans including the construction of new greenfield facilities to support the launch of new programs; capacity expansions to advance our vertical integration strategy; and the successful completion of our initial public offering on the Mexican Stock Exchange.

Nemak benefited from positive industry dynamics in most of the markets it serves. Vehicle sales in the U.S. rose 6% mainly due to favorable credit conditions, low unemployment, and low gasoline prices. Meanwhile, Nemak customers' vehicle production in North America increased 1%. In Europe, vehicle sales increased 3% from 2014, with Western Europe's recovery more than compensating for lower vehicle sales in Russia. Nemak's customer production in the region increased 4%, driven by several Nemak customers' recording gains in market share. Brazil experienced significant macroeconomic headwinds, which in turn put downward pressure on the industry. Despite the recent economic slowdown in China, industry volumes there continued growing in the mid-single-digit range.

Nemak's sales volume this year was 50.7 million equivalent units, a 3% increase from 2014. We achieved volume growth in all our regions, with the highest growth coming from Europe. In 2015, revenues decreased 3% to US$4.5 billion mainly due to the depreciation of the euro compared to the U.S. dollar and lower aluminum prices. The euro's depreciation accounted for around US$270 million in revenue losses in 2015, as 31% of our revenues were denominated in euros. On a currency-neutral basis, consolidated revenues increased 4% in the year. Nemak has pass-through clauses in all its contracts which offset the effects of aluminum price movements.

ARMANDO GARZA SADA
Chairman (left)

ARMANDO TAMEZ MARTÍNEZ
Chief Executive Officer (right)

US$759 M

EBITDA in 2015

EBITDA for the year was US$759 million, up 8% from last year. This increase was driven by an improved sales mix, efficiency gains, and favorable external factors including lower energy costs and other macroeconomic effects.

Net income increased 14% compared to 2014, to US$291 million. This was driven by higher income from operations which more than compensated for foreign exchange losses. Earnings per share in 2015 were Ps 1.49. This result was calculated based on 3,080,747,324 shares. During the year, we paid US$80 million in dividends to our shareholders.

In 2015 we continued to focus on strengthening our balance sheet, lowering our net debt by US$60 million to US$1.2 billion at the end of the year. As of December 31, 2015, our net debt-to-EBITDA ratio was 1.6 times. In recognition of our solid credit profile, Fitch Ratings and Moody's Investors Service upgraded their ratings on Nemak to BB+ and Ba1, respectively. These ratings are both one notch below investment grade.

During the year, we were awarded new contracts worth a total of approximately US$1.2 billion in annual revenues, close to half of which represented incremental programs. These included new contracts to produce cylinder heads, engine blocks, transmission cases, and structural components.

Capital expenditures totaled US$460 million for 2015. Investments were made to expand capacity, update existing production equipment, and improve operational efficiency. As part of our vertical integration strategy, we continued with investments to increase our in-house machining capacity in all our regions, including the construction of a second machining facility in Mexico which is scheduled for completion in the second half of 2016. Furthermore, Nemak continued to develop initiatives to maximize asset utilization and to reduce investment per unit of installed capacity.

In September, we officially inaugurated our first plant in Russia—the 35th facility in our system— where we are now producing cylinder heads and engine blocks for gasoline applications. The plant has an annual capacity of 600,000 parts and required an investment of approximately US$70 million. It is located in Ulyanovsk, an industrial center 800 kilometers east of Moscow.

We also continued the construction of a high-pressure die casting (HPDC) plant in Monterrey, Mexico for manufacturing blocks, transmission cases, and structural

US$1.2 B

value in terms of annual revenues of new contracts signed in 2015

35th plant

Nemak inaugurated a state-of-the-art facility in Ulyanovsk, Russia


components. We plan to inaugurate this facility in the second half of 2016. It will feature state-of-the-art HPDC technology to produce 2.2 million parts per year that will supply assembly lines in Mexico and the United States. We estimate that it will create more than 500 new direct jobs.

At Nemak, we are committed to supporting the well-being of our people and the communities where we operate. This year, we continued efforts to promote responsible environmental practices such as recycling of aluminum and foundry sand and reducing water consumption and emissions at our facilities. Additionally, we supported a variety of outreach and fundraising initiatives benefiting schools and community-based organizations near our sites.

We would like to express our gratitude and appreciation to everyone who has been a part of Nemak's growth story including our investors, customers, and employees and the communities where we operate. We have reached this point thanks to all of you, and we are counting on your continued support as we look forward to the challenges and opportunities ahead. We are confident that we are better-positioned than ever before to execute on our vision of becoming a world leader in the automotive industry.

ARMANDO GARZA SADA
Chairman

ARMANDO TAMEZ MARTÍNEZ
Chief Executive Officer

US$460 M

Investments made to expand capacity, update production equipment, and improve operational efficiency

GRI G4

We reported our sustainability performance in accordance with the Global Reporting Initiative's G4 Guidelines

Growth *drivers*

Riding the lightweighting trend

Portfolio positioned for growth

G4-EC2

» Strict emissions & fuel economy standards have driven up aluminum content per vehicle

» Growth in Nemak's product categories is positioned to capture 75% of total market growth[1]

[1] Based on expected growth in pounds of aluminum per vehicle from 2015-2025 from Drucker Worldwide.

Powertrain

» Industry growth
» Aluminum penetration
» Increasing complexity

Structural components

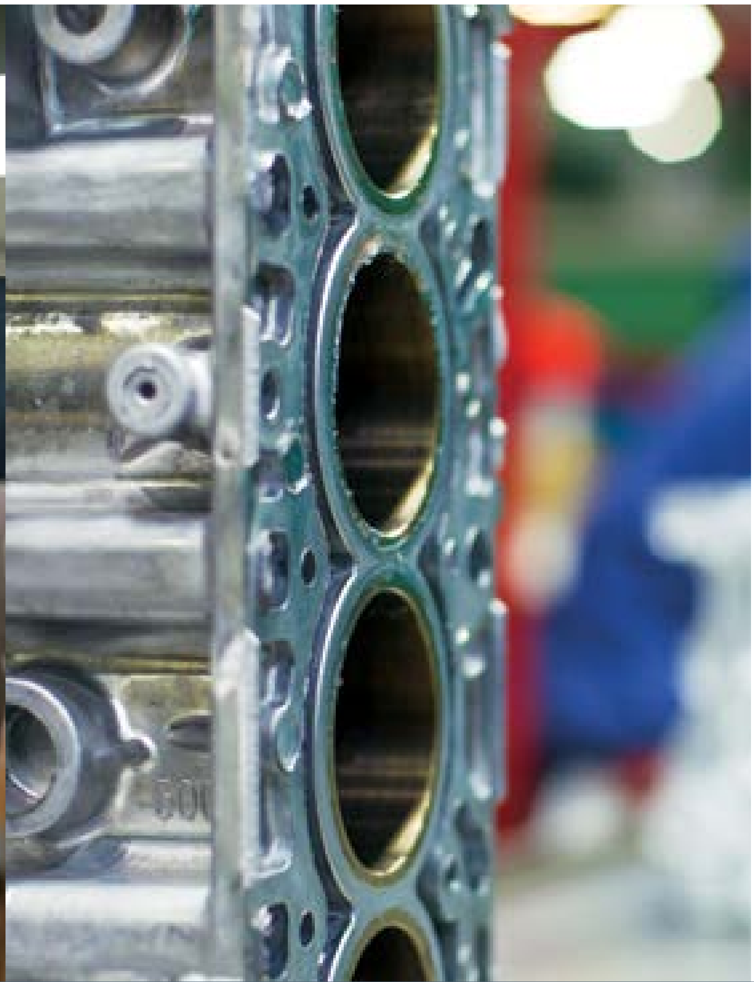
» Technology shift

Presence in fast-growing markets

» Mexico is becoming a key hub in the global auto market

» Recovery in Europe is driving demand

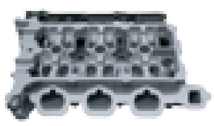
» China has become the world's largest auto market



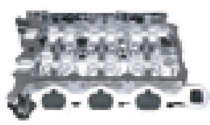
Vertical integration initiatives

Significant margin expansion opportunities

As cast



Machined



Outpacing industry growth

Riding the lightweighting trend

G4-EC2, G4-EN7

With major automotive markets—including the U.S., the European Union, and more recently China—mandating progressively more stringent fuel economy and emissions reduction targets over the next 10 years, automakers are increasingly turning to aluminum lightweighting solutions as a lever for producing vehicles that weigh less, and are therefore more efficient. As a result, demand among original equipment manufacturers (OEMs) for the components produced by Nemak—powertrain and structural components—is expected to continue growing at a faster rate than the automotive industry as a whole during this period.

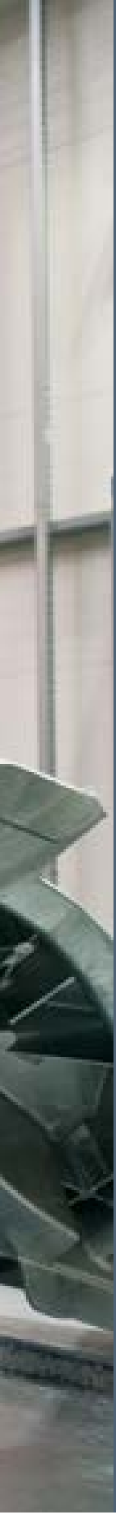
GROWTH

1 out of 4

light vehicles sold worldwide has a Nemak component

US$140 M

value in terms of annual revenues of signed contracts through 2015 to produce structural components



As vehicle engines become ever more sophisticated and powerful, OEMs are increasingly turning to powertrain components that require more advanced—and therefore higher value-added—casting solutions. Given Nemak's technological and manufacturing capabilities, it is well-positioned to benefit from this trend across its powertrain portfolio, which consists mainly of cylinder heads, engine blocks, and transmission cases.

With OEMs seeking to further reduce the weight of their vehicles, engine blocks may offer especially attractive growth prospects for Nemak. Engine blocks are among the heaviest automotive components that have not fully transitioned to aluminum. According to industry experts, aluminum penetration in engine blocks will grow from 65%, its current level, to 75% in 2025.

Another of Nemak's most promising avenues for growth is to capitalize on OEMs' plans to migrate the structure of vehicles from steel to aluminum. Within the next 15 years, the size of the market for aluminum structural components is expected to exceed that of the heads and blocks markets combined. Nemak has been leveraging its expertise in aluminum casting technologies to develop its structural components business.

Additionally, Nemak is advancing its growth strategy through vertical integration initiatives. These include investments to increase its in-house machining capacity in all its regions.

1 Powertrain components: Nemak is riding the lightweighting trend to capture a growing share of the market. It is a key partner for automakers seeking to increase the efficiency and lower the weight of their vehicles without sacrificing power or performance.

2 Structural components: Nemak is working closely with automakers to develop its aluminum structural components business. Since launching this business line, Nemak has won new contracts to produce these components worth a total of US$140 million in annual revenues.

3 Vertical integration: The main benefits of increased in-house machining include improved quality, reduced logistics and working capital costs, and incremental margins.

US$12 B

is the expected size of the structural components market by 2030

40 %

of volume was machined in-house in 2015

Creating value through innovation

Leveraging technology *to drive efficiency and performance*

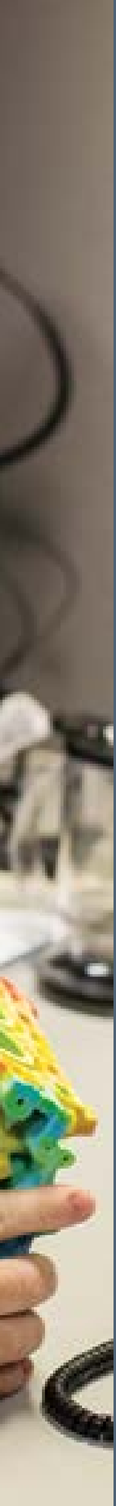
Nemak seeks to leverage its leading-edge aluminum casting technologies and processes to help its customers design and manufacture high-tech components for the next generation of light vehicles. To this end, it works closely with customers starting at the early phases of product design to develop tailor-made solutions that enable them to meet and exceed their quality, performance, emissions, and fuel economy targets in ways that are cost-effective. Additionally, Nemak makes targeted investments in R&D infrastructure and activities with the aim of ensuring that these efforts can be sustained and strengthened over time.

56

projects and best practices shared during Nemak Innovation Day 2015

315

patents reinforce Nemak's core technological advantages



Nemak's expertise in casting engineering technology—including materials, processes, design, and simulation—enables it to serve as a strategic partner to automakers in the development of engine and vehicle platforms. Nemak manages high-impact innovation projects through its Nemak Innovation System (NIS). Under the NIS, global teams of technical experts continuously incorporate feedback from customers about products under implementation as well as R&D projects. And with six strategically located Product Development Centers around the world, Nemak is well-positioned to provide integrated solutions to its customers.

Nemak has built its R&D portfolio with its customers' needs top-of-mind. Its most recent technological innovations have focused on enhancing material properties and performance. These innovations include the adaptation of its proprietary Rotacast® process to series production of high-performance engine blocks; the development of NemaCoat™, an insulating coat for efficient thermal management of complex cylinder heads; and the development of a new alloy, NemAlloy HT 200™, that improves heat tolerance for cylinder heads.

1 Best-in-class casting technologies and processes: Nemak's engineering and R&D capabilities enable it to serve as an end-to-end innovation partner to its customers.

2 Nemak Innovation System: A global team of technical experts drives Nemak's integrated, customer-oriented approach to innovation.

3 R&D portfolio: Nemak targets investments in R&D that help its customers reduce the weight and improve the efficiency and performance of the vehicles they produce. Recent Nemak innovations include a new casting process for engine blocks that is based on its proprietary Rotacast® process; NemaCoat™; and NemAlloy HT 200™.

5

leading casting technologies underpin Nemak's lightweighting solutions

6

Product Development Centers around the world to support our customers

Our success depends on our people

Talent development *and employee experience*

G4-10, G4-LA10

Nemak is committed to maintaining a productive and supportive work environment that is conducive to the personal and professional development of all its people. To this end, Nemak empowers its people to take ownership of their careers and to advance steadily towards their professional goals. Moreover, it strives to create optimal conditions for employee success by fostering collaboration and knowledge-sharing across its operations.

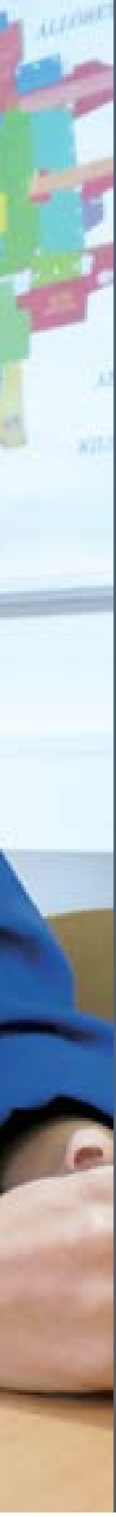
TALENT DEVELOPMENT

+21,000

employees working in 35 manufacturing plants strategically located across 15 countries

+US$5 M

invested in training programs benefiting our employees in 2015



As part of Nemak's efforts to attract, develop, and retain the best talent, it provides targeted recruitment and training programs. These include a talent development program aimed at young professionals, an executive development program organized in partnership with leading business schools, and internship programs directed at high-achieving college students in all the regions where Nemak operates.

Nemak strives to provide its people with the resources and support they need to thrive at the company. This includes mentoring and coaching new employees to help them adapt to the culture and to be more effective in their new roles, and continually monitoring employee performance and career progress against individual development plans. In 2015, Nemak partnered with global talent and human capital services firms to develop and implement new processes and web-based platforms to further enhance the overall employee experience.

Furthermore, Nemak promotes collaboration and best-practice sharing across the company by regularly convening teams of subject matter experts on a variety of topics, including manufacturing, commercial, innovation, and health, safety and environment.

1 Talent attraction: Nemak partners with leading universities across its regions to offer training and development opportunities to current and prospective employees alike. These include vocational programs directed at college-age students and technical and business management programs for seasoned professionals.

2 Employee experience: Nemak's onboarding process is designed to help new employees gain a deeper understanding of its business and culture. Nemak strives to provide its people with individually tailored learning and development opportunities throughout their careers at the company.

3 Organizational alignment: Nemak's talent attraction, employee engagement, and knowledge-sharing programs are designed to foster collaboration across the organization and to ensure a match between its needs and its people's capabilities.

84 %

of Nemak employees received training in 2015

+6,000

job applications submitted by external candidates through our Careers website

Towards a better future

Creating value through **sustainability**

G4-18 to 21, G4-LA2, G4-EN27, G4-EN31

Nemak continuously strives to deliver sustainable value across its business operations, whether through optimizing engineering and manufacturing processes to reduce emissions, through leading the way in the use of recycled aluminum, or through working to improve the well-being of people in the communities where it operates.

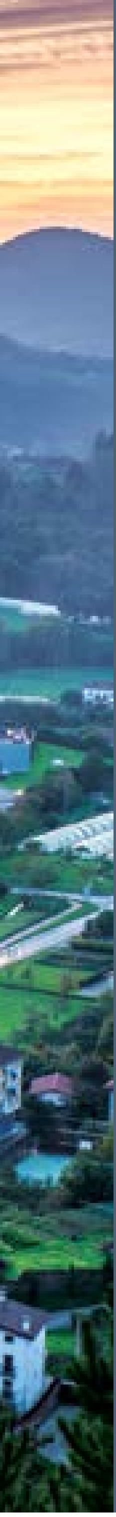
SUSTAINABILITY

Value creation

Leverage our capabilities and expertise in automotive lightweighting to deliver reasonable economic returns

Employee well-being

Provide benchmark working conditions and development opportunities for our employees



In 2015, we reported on our sustainability performance in accordance with the Global Reporting Initiative's (GRI) G4 Guidelines. We followed the GRI G4's "Core" option, focusing our reporting on activities that are of high importance to our stakeholders. We carried out a materiality determination process to identify these high-priority activities and lay the groundwork for a successful implementation of our sustainability strategy in the coming years.

This year, we have covered 88 out of the GRI G4's 97 indicators identified as material aspects. In these pages, we highlight our performance against some of these indicators (for reference purposes, we have inserted the indicators beneath the headings that precede the corresponding text.)

Our stakeholders

As part of our commitment to sustainability, we strive to forge beneficial relationships with all our stakeholders. We participate in trade associations, where representatives of our company hold leadership positions with the purpose of supporting sustainability initiatives relevant to our industry.

1 Communication with our stakeholders is key to our operations: Every site has in place mechanisms to communicate with clients, suppliers, local community members, and employees. These include magazines, helplines, internet-based contact forms, town hall meetings, and regular visits to plants.

2 We tailor our community programs to support priorities of local stakeholders: These programs include, among others: sponsoring sports teams and cultural groups; promoting environmentally-friendly behaviors inside and outside the company; and raising funds for non-governmental organizations.

3 Support for education: In 2015 we supported over 60 schools with donations of equipment, fundraising, volunteering, and infrastructure development. We estimate that in 2015 alone, over 10,000 students benefited from Nemak's education programs.

Environment

Control and reduce our environmental footprint by optimizing our manufacturing processes and the use of natural resources across our operations

Social contribution

Proactively contribute to the social well-being of the communities where we operate

In addition, we work with non-governmental organizations to develop and implement educational and fundraising initiatives, and in each country where we have a presence, we work closely with authorities to ensure that our operations comply with all applicable laws and regulations.

Safety in our operations and facilities is a top priority. Accordingly, we provide safety programs that reach all employees.

As part of our efforts to ensure the well-being of our people and their families, we offer competitive compensation packages across our sites that meet or exceed legal and industry standards. We also support a variety of development and wellness programs benefiting our employees. In 2015 alone, we devoted more than US$5 million to training programs, nearly US$2 million to sports, recreation and family development programs, and more than US$4 million to health and nutrition programs.

We work closely with our suppliers to strengthen our value chain. This includes advising them on compliance with environmental regulations and helping them evaluate their social responsibility and human rights practices.

For Nemak, environmental sustainability is a fundamental element of our business—from deciding which suppliers we want to forge relationships with, to developing products that will be used inside the cars millions of people drive each day. We strive to direct all our actions towards supporting a cleaner, more environmentally-conscious operation that enhances our ability to deliver sustainable value to our stakeholders.

Nemak's plants throughout the world adopt the necessary practices and processes to fulfill their responsibility to mitigate their environmental impact.

A key goal of Nemak's environmental sustainability efforts is to ensure compliance with internationally-recognized standards, many of which go above and beyond legal requirements. Examples of these are the ISO 14001 standard on environmental management and the ISO 50001 standard on energy management, which are already helping us reduce our environmental impact at some of our operating sites.

One of our main levers for protecting the environment is to make responsible use of the materials we employ in our manufacturing processes. We strive to use recycled materials—obtained from both internal (on-site) and external (off-site) recycling—as much as possible. In 2015, we recycled an average of over 75% of our leftover sand and

US$ 16 M

invested in sustainability-related initiatives in 2015

+10,000

students benefited from Nemak's education programs in the year aluminum, with some plants reaching a 100% aluminum recycling rate and a sand recycling rate as high as 98%. Since aluminum and sand account for the majority of the materials we use for our operations, they are the main focus of our recycling program. However, we also recycle cardboard, wood, plastics, and other materials that are incidental to our operations.

Other measures that are helping to reduce our environmental impact include: making lighter-weight aluminum components that help reduce the emissions and energy consumption of the vehicles in which they are used; monitoring our energy consumption in order to identify inefficiencies; and improving the treatment processes for wastewater in order to reduce or eliminate the pollutants it may contain prior to being discharged. We are committed to further integrating best environmental practices into our operations, thereby ensuring that Nemak can create sustainable value into the future.

4 **In 2015,** we continued to monitor our water consumption and pursued several initiatives to improve the management of our water resources. These initiatives ranged from using waterless sanitary facilities to making extensive improvements in our water treatment processes that enable us either to reuse our wastewater or to discharge it safely and free of pollutants. We treated nearly 350,000 m^3 of water in 2015 alone.

5 **Thanks to several optimizations in our processes,** in 2015 we reduced our energy consumption by 2.5%. Some of our most meaningful improvements in energy efficiency were achieved thanks to enhancements in our casting processes and in our offices' energy systems, and our use of the ISO 50001 standard on energy management.

65

trade associations in which Nemak employees participate

~350,000 m^3

of water treated in 2015

Nemak *operating summary*

G4-2

Nemak rode favorable industry tailwinds across North America and Europe, its two largest regions, to higher profitability in 2015. Healthy macroeconomic conditions in the U.S. and the recovery in Europe helped push up vehicle production levels, thereby easing Nemak's path to growth. Moreover, Nemak delivered an improved mix of higher value-added products as well as cost and efficiency gains to boost its bottom line across its regions.

Total sales volume at Nemak reached 50.7 million equivalent units in 2015, a 3% increase over 2014. Revenues totaled US$4.5 billion, a 3% decrease compared to 2014 mainly due to the euro's depreciation against the U.S. dollar.

In 2015, Nemak won new contracts worth US$1.2 billion, close to half of which represented incremental programs. Serial production for most of these new contracts is scheduled to begin within the next 24 to 36 months.

In support of its growth plans, Nemak made investments to expand capacity, update existing production equipment, and improve operational efficiency. Nemak's capacity expansion plans are being driven mainly by contracts to produce cylinder heads, engine blocks, and structural components for North America, Europe, and Asia. In 2015, Nemak inaugurated a new plant in Ulyanovsk, Russia, where it is now producing cylinder heads and engine blocks, and continued the construction of a new high-pressure die casting plant in Monterrey, Mexico, where it will produce engine blocks, structural components, and transmission cases beginning in the second half of 2016.

Additionally, Nemak continued making investments to expand its in-house machining capacity. During the year, it increased the share of castings it machines internally to 40%. As part of its vertical integration strategy, Nemak is planning to increase the share of castings it machines internally to approximately 70% by the end of the decade. Benefits of increased in-house machining include quality improvements, cost reductions, and margin expansion.

North America

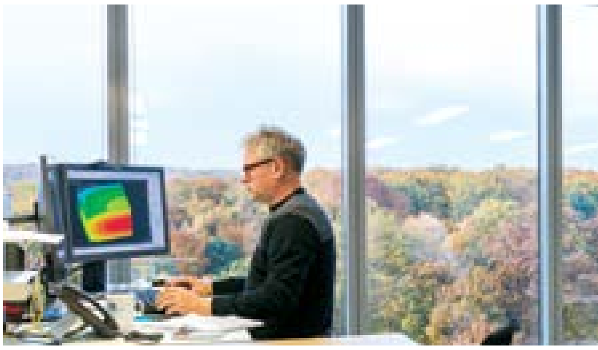
In North America, Nemak delivered 11% EBITDA growth mainly due to a favorable sales mix, operational efficiencies, and lower energy prices. Favorable macroeconomic conditions in the United States—including low gasoline prices, pent-up consumer demand, and favorable credit conditions—helped drive increases in light-vehicle sales and production.

~US$550 M

value in terms of incremental annual revenues of new contracts signed in 2015

11%

EBITDA growth in North America



During 2015, new light-vehicle sales in the U.S. were 17.9 million units, a 6% increase over 2014, and vehicle production grew by 3% over this same period. Meanwhile, Nemak's sales volumes increased 1% while revenues in the region decreased 3% due mainly to lower aluminum prices.

Europe

Nemak delivered 2% EBITDA growth in Europe, as a better mix of higher value-added products more than offset a 16% decline in the value of the euro compared to the U.S. dollar. Incremental programs to produce cylinder heads, engine blocks, and transmission cases drove higher profits. Nemak's sales volumes in the region grew by 8% compared to 2014. During 2015, new light-vehicle sales in Europe were 19.4 million units, a 3% increase over 2014. Vehicle production in Europe increased by 3% over 2014, as economic recovery continued in the region.

Revenues declined by 4% during the year, mainly due to the depreciation of the euro. However, on a currency-neutral basis, in 2015 revenues and EBITDA grew 15% and 24%, respectively, compared to 2014.

Rest of World

Nemak delivered positive results in its Rest of World (RoW) region, which consists of Asia and South America, mainly on the back of new program launches in Asia. Despite slowing economic growth in China and a deepening recession in Brazil, EBITDA in RoW grew by 5%. Revenues, in contrast, decreased 4% compared to 2014, mainly due to the devaluation of local currencies. Decreased revenues in South America more than offset revenue growth in Asia.

24 %

Currency-neutral EBITDA growth in Europe

5 %

EBITDA growth in Rest of World

Board *of directors*

G4-38, G4-LA12

Armando Garza Sada (3)
Chairman of the Board of ALFA, S. A. B. de C. V.
Chairman of the Boards of Alpek and Nemak. Member of the Boards of CEMEX, FEMSA, Frisa Industrias, Grupo Financiero Banorte, Grupo Lamosa, Liverpool, Proeza and ITESM.

Álvaro Fernández Garza (3)
President of ALFA, S. A. B. de C. V.
Co-Chairman of the Board of Axtel. Member of the Boards of Alpek, Nemak, Cydsa, Grupo Aeroportuario del Pacífico, Vitro, Universidad de Monterrey (UDEM), Georgetown University (Latin American Board) and Museo de Arte Contemporáneo de Monterrey. He is Chairman of the Advisory Board of the Centro Roberto Garza Sada of the UDEM.

Juan Carlos Calderón Rojas (3)
Director of Sustainability at ALFA S. A. B. de C. V.
Member of the Boards of Coparmex Nuevo León and Grupo Franca.

Robert J. Fascetti (2)
Vice President of Global Powertrain Engineering at Ford Motor Company
He has more than 26 years of powertrain and product development experience at Ford Motor Company.

Eugenio Garza Herrera (1A)
Chairman of the Board of Xignux S. A. de C. V.
Member of the Boards of Consejo Regional Banco de México, Corporación EG, Grupo Aeroméxico, Banco Nacional de México and Mitsui de México. In addition, he is member of the Executive Board, member of the Committee of Institutional Government and Chairman of the Development Committee of the ITESM.

Fabiola Garza Sada (2)
Investor
Member of the Board of Alfa Fundación.

Eduardo Garza T. Fernández (1A)
President of Grupo Frisa Industrias
Member of the Board of Grupo Lamosa. Participates as board member or counselor at the ITESM, Colegio de Educación Profesional Técnica del Estado de Nuevo León, Consejo Nacional de Alianzas Educativas, BBVA Bancomer S. A., Corporación EG, Ruhrpumpen Group, Consejo Nuevo León para la Planeación Estratégica, Endeavor Mexico, and the US-Mexico Foundation.

Alfonso González Migoya (1A)
Chairman of the Board of Controladora Vuela Compañía de Aviación, S. A. B. de C. V.
Member of the Boards of FEMSA, Coca Cola FEMSA, the Mexican Stock Exchange, Banregio Grupo Financiero, Javer, Cumprum, ICA and ITESM.

Gary Lapidus (1)
Independent investor and consultant
Former Institutional Investor-ranked automobile and auto parts Senior Equity Research Analyst at Goldman, Sachs & Co. and Sanford C. Bernstein & Co. Previously Mr. Lapidus was a Principal with the management consulting firm Booz-Allen & Hamilton.

Sven Roehrig (2)
Global Manufacturer Controller at Ford Motor Company
He has more than 27 years of manufacturing, finance and program planning experience at Ford Motor Company.

Alejandro Ruiz Fernández (2)
President of Pronto Proyects, S. A. de C. V.
Board member of Pyosa, Pronto Proyects, and Constructora e Inmobiliaria Malsa.

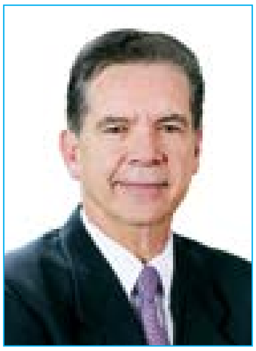
Adrián G. Sada Cueva (1)
President of Vitro, S. A. B. de C. V.
Member of the Boards of Comegua, Club Industrial de Monterrey, Grupo Financiero Banorte, Banco Mercantil del Norte, and CAINTRA Nuevo León.

Stefan H. Thomke (1)
William Barclay Harding Professor of Business Administration at Harvard Business School
He joined the Harvard University faculty in 1995. Prior to joining the Harvard University faculty, he worked in electronics and semiconductor manufacturing and later worked at McKinsey & Company in Germany where he served clients in the automotive and energy industries.

Carlos Jiménez Barrera
Secretary

(1) Independent Board Member
(2) Patrimonial Board Member
(3) Related Patrimonial Board Member
(A) Audit and Corporate Practices Committee

Management *team*



Armando Tamez
CEO

Napoleón Cantú
BU Director Mexico

Klaus Lellig
BU Director Europe

Luis Peña
BU Director U.S.A & Canada

Ernesto Sáenz
BU Co-Director Asia

Jorge Rada
BU Co-Director Asia

Dietrich Khan
BU Director South America

Markus Nolte
VP of Commercial

Giovanni Barbero
VP of Manufacturing

Alberto Sada
CFO

Knut Bentin
VP of Human Resources

Corporate *governance*

G4-38, 42, 47, 49 and 58

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

Once a year, all companies that are listed on the Mexican Stock Exchange (BMV) must disclose the extent to which they adhere to the CMPC by answering a questionnaire. The responses of the different companies may be consulted on the BMV's website. A summary of Nemak's principles of corporate governance is presented below, reflecting the answers the company gave to the questionnaire in June 2015 and updated where necessary.

A) The Board of Directors is made up of thirteen members, who have no alternates. Of the thirteen directors, six are independent board members. This annual report provides information on all the board members, identifying those who are independent and their participation in the Audit and Corporate Practices Committee.

B) The Board of Directors is advised by the Audit and Corporate Practices Committee, which is made up of independent board members. The Committee Chairman is an independent board member.

C) The Board of Directors meets every three months. Meetings of the Board may be called by the Chairman of the Board, the Chairman of the Audit and Corporate Practices Committee, the Secretary of the Board or at least 25% of its members. At least one such meeting every year is dedicated to defining the company's medium and long-term strategies.

D) Members must inform the Chairman of the Board of any conflicts of interest that may arise, and abstain from participating in any related deliberations. Average attendance at Board meetings was 80.76% during 2015 since the IPO.

E) The Audit and Corporate Practices Committee studies and issues recommendations to the Board of Directors on matters such as selecting and determining the fees to be paid to the external auditor, coordinating with the company's internal audit area and studying accounting policies.

F) Additionally, the Audit and Corporate Practices Committee is responsible for issuing recommendations to the Board of Directors on matters related to corporate practices, such as employment terms and severance payments for senior executives, and compensation policies.

G) The company has internal control systems with general guidelines that are submitted to the Audit and Corporate Practices Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control system and issues reports thereon.

H) The Board of Directors is advised by the planning and finance department when evaluating matters relating to the feasibility of investments, strategic positioning of the company, alignment of investing and financing policies, and review of investment projects. This is carried out in coordination with the planning and finance department of the holding company, ALFA, S. A. B. de C. V.

I) Nemak has a department specifically dedicated to maintaining an open line of communication between the company and its shareholders and investors. This ensures that investors have the financial and general information they require to evaluate the company's development and progress. Nemak uses press releases, notices of material events, quarterly results conference calls, investor meetings, its website and other communication channels.

J) Nemak promotes good corporate citizenship and adheres to the recommendations of its holding company, ALFA, S. A. B. de C. V. It has a mission, vision and values, and code of ethics that are promoted within the organization.

Consolidated *financial statements*

CONTENTS

Management's *discussion and analysis*

2015

The following report should be considered in conjunction with the Letter to Shareholders (page 7 – 9) and the Audited Financial Statements (page 31 – 90). Unless otherwise indicated, figures are stated in millions of nominal Mexican pesos (Ps) from 2014 and 2015. Percentage changes are shown in nominal terms.

The financial information included in this Management's Analysis corresponds to the last two -years (2014 and 2015) and has been adapted to comply with the International Financial Reporting Standards (IFRS).

Economic environment

During 2015, the world economy had a weak performance. Agencies such as the International Monetary Fund and the World Bank lowered their initial growth expectations in response to uncertainty over the economic recovery. At the country level, contrasting circumstances were observed. On the one hand, the United States and the United Kingdom experienced higher rates of growth than in prior years. On the other hand, countries such as China and some countries in the Eurozone had a disappointing performance. The volatility in financial markets continued in anticipation of the U.S. Federal Reserve´s decision to increase interest rates. This, in turn, contributed to a significant appreciation of the U.S. dollar vis-à-vis most of the world's currencies, including the Mexican peso. As expected, the Fed started to implement a plan for gradual increases in rates. The less-than-expected growth in China and the potential market entry of oil produced in Iran increased the pressure on the prices of this raw material. Reduction in oil prices and the appreciation of the U.S. dollar have continued into 2016.

In the following paragraphs, further information is provided about the behavior of GDP and other economic indicators in Mexico which are key to better understanding Nemak's results.

Mexico's GDP grew by 2.5% (estimated) in 2015, a slightly higher figure than that of 2014. Consumer inflation was 2.1%[b] in 2015, lower than the 4.0%[b] figure recorded in 2014. The Mexican peso had an annual nominal depreciation of 17.0%[c] in 2015, as compared to the depreciation of 12.5%[c] experienced in 2014. In real terms, the annual average overvaluation of the Mexican peso with respect to the U.S. dollar amounted to 11.8%[d] in 2015 and 15.6%[d] in 2014.

With respect to the interest rates in Mexico, the TIIE was at 3.3%[b] in 2015 in nominal terms, as compared to 3.5% in 2014. In real terms, there was an increase, going from an annual accumulated -0.5% in 2014 to 1.9% in 2015.

The nominal 3-month LIBOR rate in U.S. dollars, annual average was at 0.3%[e] in 2015, higher than the 0.2%[e] rate observed in 2014. Were the nominal depreciation of the Mexican peso to be incorporated vis-à-vis the U.S. dollar, the LIBOR rate in constant pesos went from 8.4%[a] in 2014 to 14.9%[a] in 2015.

Sources:
(a) National Institute of Statistics and Geography (INEGI).
(b) The Bank of Mexico (Banxico).
(c) Banxico exchange rate to liquidate liabilities denominated in foreign currency and payable in Mexico.
(d) Own calculations with data from INEGI, bilateral with the United States, adjusting for consumer prices.
(e) The Bank of Mexico (Banxico).

Results

Net revenues increased 15%, from $61,490 in 2014 to $70,891 million in 2015. This increase was mainly due to the depreciation of the Mexican peso from 13.30 pesos / dollar in 2014 to 15.85 pesos / dollar in 2015, volume growth of 2.6%, and an improved sales mix. These positive factors were partially offset by a decrease in aluminum prices.

Cost of goods sold, which includes depreciation, was $59,143 million in 2015, a 13% increase compared to $52,456 million in 2014. This increase was mainly due to an increase in revenues which was partially offset by lower costs attributable to economies of scale associated with higher volumes and lower aluminum prices.

Gross profit increased 30%, from $9,034 million in 2014 to $11,748 million in 2015.

Operational expenses increased 23%, from $3,526 in 2014 to $4,350 in 2015 due to an increase in revenues and the launch of new programs.

Income from operations increased 34%, from $5,508 million in 2014 to $7,398 in 2015, in line with gross profit.

Net financing expenses went from a negative value of $699 in 2014 to a negative value of $1,293 million in 2015, an increase of 85%.This increase was due to a lower foreign exchange gain in 2015 compared to 2014, combined with higher financial expenses related to the refinancing of our *certificado bursátil* in 2015.

The impact of income taxes in 2014 was $1,454 million in 2014 compared to $1,552 million in 2015, mainly due to an increase in our income from operations.

Net income increased 36% from $3,394 in 2014 to $4,601 in 2015. This increase was mainly due to a higher income from operations which was partially offset by a higher income tax.

2015 Highlights

Initial Public Offering
During the month of July, 2015, Nemak carried out an initial public offering of shares ("IPO") in Mexico and a private offering of shares in international markets (together "Global Offering"). The total amount the Company received as a result of the Global Offering was $11,469, net of the issuance costs of $428. Subsequent to the Global Offering the fully subscribed and paid capital stock of Nemak, is represented by a total of 3,080,747,324 Series A shares.

Construction of two new plants in México
During 2015, the Company started the construction of two new facilities at its site near Monterrey, Mexico: one, a facility dedicated to providing in-house machining services; and two, a production facility featuring "High Pressure Die Casting" technology, which is already used in other plants of the Company. It is noteworthy that Nemak will soon begin to produce structural components using this technology. The Company will start operation of these new facilities in 2017, with a total investment of approximately US$287 million.

Independent Auditor's Report

Monterrey, N. L., February 2, 2016

To the Shareholders' Meeting of Nemak, S. A. B. de C. V.

We have audited the accompanying consolidated financial statements of Nemak, S. A. B. de C. V. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014, and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2015 and 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Nemak, S. A. B. de C. V. and its subsidiaries as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014, in accordance with International Financial Reporting Standards (IFRS).

PricewaterhouseCoopers, S. C.

C.P.C. Ricardo Noriega Navarro

Audit Partner

Consolidated statements of financial position

At December 31, 2015 and 2014
Millions of Mexican pesos

	Note		2015		2014
Assets					
Current assets:					
Cash and cash equivalents	6	Ps	1,793	Ps	976
Restricted cash and cash equivalents	7		323		390
Trade and other receivables, net	8		10,720		6,902
Inventories	9		9,667		8,472
Derivative financial instruments	10		-		8
Advanced payments			277		250
Total current assets			22,780		16,998
Non-current assets:					
Property, plant and equipment	11		38,263		32,534
Goodwill and intangible assets, net	12		8,032		6,911
Deferred income tax	16		1,321		1,173
Other non-current receivables	8		-		513
Derivative financial instruments	10		-		27
Other non-current assets	13		1,623		935
Total non-current assets			49,238		42,093
Total assets		Ps	72,018	Ps	59,091
Liabilities and equity					
Liabilities					
Current liabilities:					
Current debt	15	Ps	952	Ps	4,784
Trade and other payables	14		16,515		12,737
Current income tax liabilities			311		630
Derivative financial instruments	10		-		3
Other liabilities	17		993		846
Total current liabilities			18,771		19,000
Non-current liabilities:					
Non-current debt	15		21,758		15,087
Derivative financial instruments	10		-		804
Deferred income tax	16		2,765		1,955
Employee benefits	18		779		690
Other non-current liabilities	17		6		57
Total non-current liabilities			25,308		18,593
Total liabilities			44,079		37,593
Equity					
Controlling interest:					
Capital stock	19		6,607		874
Share premium	19		10,443		-
Retained earnings	19		8,645		19,505
Other reserves	19		2,244		1,101
Total controlling interest	19		27,939		21,480
Non-controlling interest			-		18
Total equity			27,939		21,498
Total liabilities and equity		Ps	72,018	Ps	59,091

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

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

Consolidated statements of income

For the years ended December 31, 2015 and 2014
Millions of Mexican pesos

	Note		2015		2014
Revenue		Ps	70,891	Ps	61,490
Cost of sales	21		(59,143)		(52,456)
Gross profit			11,748		9,034
Administrative and selling expenses	21		(4,393)		(3,587)
Other revenues, net	22		43		61
Operating profit			7,398		5,508
Financial income	23		6,245		299
Financial expense	23		(7,538)		(998)
Financial result, net			(1,293)		(699)
Share of gain of associates	13		48		39
Profit before income tax			6,153		4,848
Income tax	25		(1,552)		(1,454)
Net consolidated profit		Ps	4,601	Ps	3,394
Profit attributable to:					
Controlling interest		Ps	4,599	Ps	3,389
Non-controlling interest			2		5
		Ps	4,601	Ps	3,394
Earnings per basic and diluted share, in pesos		Ps	1.65	Ps	1.37
Weighted average of outstanding shares	19		2,781,384,955		2,485,914,479

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

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

Consolidated statements of comprehensive income

For the years ended December 31, 2015 and 2014
Millions of Mexican pesos

	Note		2015		2014
Net consolidated profit		Ps	4,601	Ps	3,394
Other comprehensive income for the year, net of tax:					
Items that will not be reclassified to profit or loss					
Remeasurement of obligations for employee benefits	18		(10)		(24)
Items that will be reclassified to profit or loss					
Effect of derivative financial instruments designated as cash flow hedges	10		(248)		(72)
Effect of translation of foreign entities	19		1,390		452
Total other comprehensive income for the year			1,132		356
Total comprehensive income for the year		Ps	5,733	Ps	3,750
Attributable to:					
Controlling interest		Ps	5,732	Ps	3,744
Non-controlling interest			1		6
Total comprehensive income for the year		Ps	5,733	Ps	3,750

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

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

Consolidated statements of changes in equity

For the years ended December 31, 2015 and 2014
Millions of Mexican pesos

	Note	Capital stock	Share premium	Retained earnings
Balances at December 31, 2014		Ps 874	Ps -	Ps 16,976
Transactions with shareholders: Dividends declared	19			(836)
Net profit				3,389
Other items of comprehensive income for the year				(24)
Total comprehensive income for the year				3,365
Balances at December 31, 2014		874	-	19,505
Transactions with shareholders: Dividends declared	19			(1,253)
Increase of capital stock	19	14,196		(14,196)
Merger with GIALFA	19	55		
Capital distribution	19	(9,544)		
Initial public offering	19	1,026	10,443	
Acquisition of non-controlling interest	3b			
Net profit				4,599
Other items of comprehensive income for the year				(10)
Total comprehensive income for the year				4,589
Balances at December 31, 2015		Ps 6,607	Ps 10,443	Ps 8,645

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

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

Other reserves	Total controlling interest	Non-controlling interest	Total equity
Ps 722	Ps 18,572	Ps 12	Ps 18,584
-	(836)		(836)
-	3,389	5	3,394
379	355	1	356
379	3,744	6	3,750
1,101	21,480	18	21,498
	(1,253)		(1,253)
	-		-
	55		55
	(9,544)		(9,544)
	11,469		11,469
		(19)	(19)
-	4,599	2	4,601
1,143	1,133	(1)	1,132
1,143	5,732	1	5,733
Ps 2,244	Ps 27,939	Ps -	Ps 27,939

Consolidated statements of cash flows

For the years ended December 31, 2015 and 2014 *Millions of Mexican pesos*	*Note*		***2015***		*2014*
Cash flows from operating activities					
Profit before income tax		Ps	6,153	Ps	4,848
Depreciation and amortization	11, 12		4,609		3,784
Costs associated with seniority premiums and pension plan			57		67
Loss on sale of property, plant and equipment			12		18
Effect of changes in the fair value of derivative financial			617		302
Exchange (loss) gain, net			(452)		(572)
Other non-operating financial income, net			1,105		889
Other, net			(59)		(416)
Increase in trade and other receivables			(2,193)		(197)
Increase in inventory			(748)		(1,319)
Increase in accounts payable			2,687		360
Income tax paid			(1,563)		(790)
Net cash generated from operating activities			10,225		6,974
Cash flows from investing activities					
Interest received			15		16
Acquisition of property, plant and equipment	11		(6,265)		(4,470)
Acquisition of intangible assets	12		(988)		(604)
Restricted cash			(22)		(27)
Other assets			22		5
Net cash used in investing activities			(7,238)		(5,066)
Cash flows from financing activities					
Proceeds from borrowings or debt	15		20,907		7,405
Payments of borrowings or debt	15		(21,075)		(8,355)
Interest paid			(1,115)		(875)
Derivative financial instruments paid	10		(1,743)		14
Capital stock contributed, net of issuance costs of Ps428	19		11,469		-
Capital distribution	19		(9,544)		-
Acquisition of non-controlling interest	3b		(2)		-
Dividends paid			(1,253)		(836)
Cash used in financing activities			(2,356)		(2,661)
(Decrease) increase in cash and cash equivalents			631		(753)
Foreign exchange in cash and cash equivalents			185		10
Cash and cash equivalents at beginning of year	6		976		1,719
Cash and cash equivalents at end of year	6	Ps	1,792	Ps	976

Transactions not requiring cash flow

The main non-cash transaction corresponded to the increase of Capital stock by the capitalization of retained earnings, see Notes 2a and 2b.

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

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

Notes to the consolidated financial statements

At December 31, 2015 and 2014
Millions of Mexican pesos

Note 1 - General information:

Nemak, S. A. B. de C. V. and subsidiaries ("Nemak" or "the Company"), subsidiary of Alfa, S. A. B. de C. V. ("ALFA"), is a company that specializes in the production of complex aluminum components for the automotive industry, such as cylinder heads, engine blocks, transmission parts, structural components and other components. Nemak's principal executive offices are located at Libramiento Arco Vial Km. 3.8, Col. Centro in García, Nuevo León, Mexico.

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

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

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

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

Note 2 - Significant Events:

2015

a. Capital stock increase and change of legal name

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

- Modify the shares structure by the conversion of our Series B, Series A-1 and Series B-1 shares into Series A common shares of capital stock, with no par value.
- Remove the par value of one Mexican peso of each share, issuing new shares without par value and replacing the outstanding shares at this date.
- Increase the Capital stock from Ps 874 to Ps 15,070 through the capitalization of retained earnings. See note 19.
- Change in the legal name from Tenedora Nemak, S. A. de C. V. to Nemak, S. A. de C. V.

b. Merger with GIALFA

On May 28, 2015, the Company held a general extraordinary shareholders' meeting at which they approved the merger by absorption with its affiliate Grupo Gialfa, S. A. de C. V. (Gialfa) subsisting Nemak, S. A. de C. V. (formerly Tenedora Nemak, S. A. de C. V.). Since Gialfa and Nemak , S. A. de C. V. are controlled by ALFA, the merger was accounted as a transaction between companies under common control, therefore, the net assets of Gialfa were accounted by Nemak, S. A. de C. V. at book value according to the historical consolidated financial information of ALFA (cost based in the predecessor accounting method), resulting in an increase in capital stock of Ps 55 and the acquisition of tax attributes of Gialfa. As a result, the book value of the net assets merged into Nemak, S. A. de C. V. is equal to that ALFA had in its consolidated financial statements and no goodwill or fair value adjustments were recognized. See Note 19.

c. Capital distribution

On June 5, 2015, Nemak, S. A. de C. V. held a general extraordinary shareholders' meeting at which they approved the decrease of capital stock by a distribution to the shareholders in Ps 10,838 without affecting the proportion of shares that each shareholder owns, resulting in an increase in accounts payable to shareholders by the same amount. In accordance with the current tax laws, the decrease generated no income tax (ISR).

On November 20, 2015, Nemak SAB held a general extraordinary shareholders' meeting at which was agreed to amend the resolution of the shareholders meeting of June 5, 2015 to adjust the capital distribution amount from the previously agreed value to the actual amount distributed to the shareholders of Ps 9,544, and canceling the difference payable to the shareholders at the date of the amendment. See Note 19.

d. Initial Public Offering

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

- On June 15, 2015, Nemak, S. A. de C. V. had an Ordinary and Extraordinary General shareholders meeting in which was approved amongst other corporate activities the following: the issuance of the capital stock, a change in the legal regime to Sociedad Anónima Bursátil de Capital Variable, the latter, was subject to the placement of the new shares, a change to the bylaws, the appointment of the new board of directors, the establishment of the audit and corporate practices committee, appointment of committee members, amongst others.
- On July 1, 2015 Nemak, SAB, carried out the Global Offering which corresponded to the issuance of 537,600,000 shares at an offer price of 20.00 pesos, such offering included an overallotment option of up to an additional 80,640,000 shares. The total amount of the offer was Ps 10,752.
- On July 29, 2015, following up on the Global Offering, the underwriters, both in Mexico and abroad, agreed to exercise the overallotment option. The total amount of the greenshoe reached to Ps 1,145 which corresponded to 57,232,845 shares at the offering price of 20.00 pesos each.

Based on the above, the total amount the Company received as a result of the Global Offering was Ps 11,469, net of the issuance costs of Ps 428. Subsequent to the Global Offering the fully subscribed and paid capital stock of Nemak, is represented by a total of 3,080,747,324 Series A shares. See Note 19.

e. Payment of Peso bond

In December 2015, the Company prepaid the total of the Peso bond "Nemak -07" of Ps 3,500. See Note 15. Consistent with this prepayment, the "Cross Currency Swap" derivatives which had been linked to this bond, was early terminated in its entirety. See Note 10d.

f. Contracted debt

During December 2015, the Company obtained two new loans, the first being a five year term in the amount of US$300 (Ps 5,162) which was used to prepay the total amount of the Peso bond "Nemak -07" of $3,500; the second was a 10 year term in the amount of US$200 (Ps 3,441) used to pay substantially all of the Company's short term debt. See Note 15.

g. Construction of two new plants in Mexico

During 2015, the Company started the construction of two production units in the same location where are the plants near Monterrey, Mexico. The first of these units will increase the current capacity for machining services for pieces produced by the Company. The second plant will be dedicated to produce pieces by using the technology "High Pressure Die Casting", which is already used in other plants of the Company. It is noteworthy that the new structural components which Nemak will produce soon, will be produced with this technology. The Company will start operation of its new plants in 2017,with a total investment of approximately US$287 (Ps 4,900). At December 31, 2015 the Company has disbursed Ps 1,686 related to the construction of this plants.

2014

h. Construction of plant in Russia

During May 2014, the Company started construction of an aluminum auto parts plant in Russia as announced in 2013. The plant supplies aluminum heads and monoblocks for a new high technology engine to the Volkswagen group in Russia. The initial capacity of the plant is equivalent to 600,000 units per year and started production in the last quarter of 2015. At December 31, 2015, the Company has disbursed Ps 946 in relation to the construction of this plant.

Note 3 - Summary of significant accounting policies:

The accompanying consolidated financial statements and notes were authorized for issuance on February 2, 2016 by officials with the legal power to sign the basic financial statements and accompanying notes.

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

a. Basis for preparation

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

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

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 5.

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

b. Consolidation

i. Subsidiaries

The subsidiaries are all the entities over which the Company has the power to govern the financial and operating policies of the entity. The Company controls an entity when it is exposed, or has the right to variable returns from its interest in the entity and it is capable of affecting the returns through its power over the entity. Where the Company's participation in subsidiaries is less than 100%, the share attributed to outside shareholders is reflected recorded as non-controlling interest.

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

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

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

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

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

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

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

At December 31, 2015 and 2014, the subsidiaries of Nemak were as follows:

	Country [1]	Ownership percentage (%) [2]	Functional currency
Nemak, S. A. B. de C. V. (Holding)	Mexico		U.S. dollar
Nemak Mexico, S. A.	Mexico	100	U.S. dollar
Modellbau Schönheide GMBH	Germany	100	Euro
Corporativo Nemak, S. A. de C. V. (administrative services)	Mexico	100	Mexican peso
Nemak Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nemak Canada, S. A. de C. V. (sub-holding)	Mexico	100	Mexican peso
Nemak of Canada Corporation	Canada	100	Canadian dollar
Camen International Trading, Inc.	U.S.A.	100	U.S. dollar
Nemak Europe GmbH	Germany	100	Euro
Nemak Exterior, S. L. (sub-holding)	Spain	100	Euro
Nemak Dillingen GmbH	Germany	100	Euro
Nemal 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 Györ Kft	Hungary	100	Euro
Nemak Poland Sp. z.o.o.	Poland	100	Euro
Nemak USA, Inc.	U.S.A.	100	U.S. dollar
Nemak Automotive Castings, Inc.	U.S.A.	100	U.S. dollar
J. L. French, S. de R. L. de C. V.	Mexico	100	Mexican peso
J. L. French Servicios, S. de R. L. de C. V.	Mexico	100	Mexican peso
Nemak Alumínio do Brasil Ltda.	Brazil	100	Real
Nemak Nanjing Aluminum Foundry Co., Ltd.	China	100	Renminbi yuan
Nemak Argentina, S. R. L.	Argentina	100	Argentine peso
Nemak Slovakia, S. r. o.	Slovakia	100	Euro
Nemak Czech Republic, S. r. o.	Czech Republic	100	Euro
Nemak Commercial Services, Inc.	U.S.A.	100	U.S. dollar
Nemak Aluminum Casting India Private, Ltd	India	100	Rupee
Nemak Spain, S. L.	Spain	100	Euro
Nemak Chongqing Automotive Components, Co, Ltd.	China	100	Renminbi yuan
Nemak Rus, L.L. C.	Russia	100	Ruble
Nemre Insurance, PTE LTD	Singapore	100	U.S. dollar

[1] Country of company's incorporation.

[2] Direct and indirect ownership percentage of Nemak SAB. Share ownership percentages as of December 31, 2015 and 2014, except for the entities constituted in 2015 and Modellbau Schönheide GmbH who became 100% subsidiary of Nemak SAB for 2015.

At December 31, 2015 and 2014, there are no significant restrictions in subsidiaries over the capacity of the Company to access the use of assets and pay off liabilities.

ii. Absorption (dilution) of control in subsidiaries

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

c. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

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

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

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

iii. Consolidation of foreign subsidiaries

Incorporation of subsidiaries whose functional currency is different from their recording currency.

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

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 revenue, costs and expenses of the periods, expressed in the recording currency, were translated at the historical exchange rate of the date they were accrued and recognized in the income statement, except when they arose from non-monetary items, in which case the historical exchange rate of the non-monetary items were used.

d. The differences in exchange arising in the translation from the recording currency to the functional currency were recognized as income or expense in the income statement in the period they arose.

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

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

a. Assets and liabilities for each balance sheet presented are translated at the closing exchange rate at the balance sheet date.

b. The equity of each balance sheet presented is translated at historical rates.

c. Income and expenses for each income statement are translated at average exchange rate (when the average exchange rate is not a reasonable approximation of the cumulative effect of the rates of the transaction, to the exchange rate at the date of the transaction is used); and

d. All the resulting exchange differences are recognized in comprehensive income.

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

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

		Local currency to Mexican pesos			
		Closing exchange rate at December 31,		Average exchange rate at December 31,	
Country	Functional currency	**2015**	2014	**2015**	2014
Canada	Canadian dollar	12.39	12.70	12.41	12.04
U.S.A.	U.S. dollar	17.21	14.71	17.01	13.30
Brazil	Brazilian real	4.34	5.55	4.29	5.66
Argentina	Argentine peso	1.33	1.74	1.52	1.64
Czech Republic	Euro	18.70	17.81	18.09	17.63
Germany	Euro	18.70	17.81	18.09	17.63
Austria	Euro	18.70	17.81	18.09	17.63
Hungary	Euro	18.70	17.81	18.09	17.63
Poland	Euro	18.70	17.81	18.09	17.63
Slovakia	Euro	18.70	17.81	18.09	17.63
Spain	Euro	18.70	17.81	18.09	17.63
China	Renminbi yuan	2.65	2.37	2.62	2.16
India	Indian rupee	0.26	0.23	0.25	0.22
Russia	Russian ruble	0.24	0.25	0.24	0.25
Singapore	U.S. dollar	17.21	14.71	17.01	13.30

d. Cash and cash equivalents

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

e. Restricted cash

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

f. Financial instruments

Financial assets

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

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

i. Financial assets at fair value through profit or loss

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

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

ii. Loans and receivables

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

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

iii. Maturity investments

If the Company intends and has the demonstrable ability to hold debt securities to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if expected to be settled within the next 12 months, otherwise they are classified as non-current. Initially they are recognized at fair value plus any directly attributable transaction costs, and subsequently they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or derecognized on the day they are transferred to or by the Company. At December 31, 2015 and 2014, the Company had no such investments.

iv. Financial assets available for sale

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

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

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Impairment of financial instruments

a. Financial assets carried at amortized cost

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

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

Significant financial difficulty of the issuer or debtor.

Breach of contract, such as late payments of interest or principal.

Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.

There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.

Disappearance of an active market for that financial asset due to financial difficulties.

Verifiable information indicates that there is a measurable decrease in the estimated future cash flows related to a group of financial assets after initial recognition, although the decrease cannot yet be identified with the individual financial assets of the Company, including:

i. Adverse changes in the payment status of borrowers in the group of assets.

ii. National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group.

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

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

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

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

b. Financial assets available for sale

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. In the case of equity financial instruments, a significant or prolonged reduction in its fair value below its cost is also considered objective evidence of impairment. At December 31, 2015 and 2014, the Company has no debt financial instruments classified as available for sale.

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

g. Derivative financial instruments and hedging activities

All derivative financial instruments are identified and classified as fair value hedging hedges or cash flow hedges, for trading or the hedging of market risks and are recognized in the balance sheet as assets and/or liabilities at fair value and similarly measured subsequently at fair value. The fair value is determined based on recognized market prices. When there is no market quote, they are determined based on valuation techniques in the financial sphere.

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

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

Fair value hedge

Changes in the fair value of derivative financial instruments are recorded in the income statement. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the income statement in the same line item as the hedged position. At December 31, 2015, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedge

The changes in the fair value of derivative instruments associated to cash flow hedges are recorded in equity. The effective portion is temporarily recorded in comprehensive income, within equity and is reclassified to profit or loss when the hedged position affects these. The ineffective portion is immediately recorded in income. At December 31, 2015, the Company has no derivative financial instruments classified as cash flow hedges

Net investment hedge

Net investment hedge in a foreign business is recorded similarly to cash flow hedges. Any gain or loss of the related hedged instrument with the effective portion of the hedge is recorded in comprehensive income. The gain or loss of the ineffective portion is recorded in the statement of income. Accumulated gains and losses in equity are recorded in the statement of income when partially the foreign operation is partially disposed of or sold. At December 31, 2015 and 2014, the Company has no derivative financial instruments classified as net investment hedges.

Suspension of hedge accounting

The Company suspends hedge accounting when the derivative has expired, has been sold, is cancelled or exercised, when it does not reach high effectiveness to offset the changes in the fair value or the cash flow of the hedged item, or when the Company decides to cancel the hedges designation.

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

The fair value of derivative financial instruments reflected in the financial statements of the Company, is an 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 respective balance sheet date.

The derivative financial instruments were privately negotiated with various financial institutions whose strong financial condition was supported by high ratings assigned by securities and credit risk rating agencies. The documentation used to formalize the operations entered into was that commonly used; in general terms, it follows the “Master Agreement” generated by the “International Swaps & Derivatives Association” (“ISDA”), and is accompanied by the annexes commonly known as “Schedule”, “Credit Support Annex” and “Confirmation”.

h. Inventories

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

i. Property, plant and equipment

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

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

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

Buildings and constructions	33 to 50 years
Machinery and equipment	10 to 14 years
Transportation equipment	4 to 8 years
Furniture and office equipment	6 to 10 years
Other fixed assets	10 to 20 years

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

General and specific borrowing costs related to the acquisition, construction or production of qualifying assets, which necessarily require a substantial period to be ready prior to their use or sale (9 months), are capitalized as part of the cost of acquiring such qualifying assets, up to the moment when they are suitable for their intended use or sale.

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

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

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

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

j. Leasing

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

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

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

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

k. Intangible assets

Intangible assets are recognized in the balance sheet when they meet the following conditions: they are identifiable, provide future economic benefits and the Company has control over such benefits.

Intangible assets are classified as follows:

i) Indefinite useful life. - These intangible assets are not amortized and are subject to annual impairment assessment. At December 31, 2015 and 2014, no factors have been identified limiting the life of these intangible assets.

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

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

Development costs	5 to 20 years
Customer relationships	15 to 17 years
Software and licenses	3 to 11 years
Trademarks and patents	15 to 20 years

a. Goodwill

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

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

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

b. Development costs

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

c. Intangible assets acquired in a business combination

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

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 of disposal and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which separately identifiable cash flows exist (cash generating units). Non-financial long-term assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

m. Income tax

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

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

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

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

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

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

n. Employee benefits

Defined contribution plans:

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

Defined benefit plans:

i. Pension plans

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

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

Remeasurements from adjustments and changes in actuarial assumptions are recognized directly in equity in other items of the comprehensive income in the year they occur.

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

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

ii. Other post-employment benefits

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

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. Any benefits to be paid more than 12 months after the balance sheet date are discounted to their present value.

iv. Short-term benefits

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

v. Employee participation in profits and bonuses

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

o. Provisions

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

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

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

Provisions for legal claims are recognized when the Company has a present obligation (legal or assumed) as a result of past events, it is likely that an outflow of economic resources will be required to settle the obligation and the amount can be reasonably estimated. At December 31, 2015 and 2014, the Company has not any provision.

p. Share-based payments

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

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

q. Capital stock

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

r. Comprehensive income

Comprehensive income is composed of net income plus other capital reserves, net of taxes, which comprise the effects of the translation of foreign subsidiaries, the effects of derivative financial instruments for cash flow hedging, remeasurement of obligations for employee benefits, the effects of changes in the fair value of financial instruments available for sale, the equity in other items of comprehensive income of associates, and other items specifically required to be reflected in equity and which do not constitute capital contributions, reductions or distributions.

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

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

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

- The risks and rewards of ownership have been transferred.
- The amount of revenue can be reliably measured.
- It is likely that future economic benefits will flow to the Company.
- The Company retains no involvement associated with ownership nor effective control of the sold goods.
- The costs incurred or to be incurred in respect of the transaction can be measured reasonably.

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

The Company estimates are based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

v. Earnings per share
Earnings per share are calculated by dividing the profit attributable to the shareholders of the parent by the weighted average number of common shares outstanding during the year. At December 31, 2015 and 2014 there are no dilutive effects from financial instruments potentially convertible into shares.

w. Changes in accounting policies and disclosures
The following accounting policies were adopted by the Company beginning January 1, 2015 and did not have a material impact on the Company:

- Annual improvements to the IFRS - cycle 2010-2012 and cycle 2011-2013.
- Defined benefit plans: Contributions - Changes to IAS 19.

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

x. New accounting pronouncements effective from January 1, 2015

A new number of standards, amendments and interpretations to the accounting policies have been published, which are not effective for reporting periods at December 31, 2015, and have not been adopted in advance by the Company. The Company's assessment of the effects of these new standards and interpretations are detailed below:

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

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

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

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

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

- Depending on the contractual agreement, contracts that are currently considered as separate might have to be combined.
- The Company will have to identify, in customer contracts, the promises of goods and services qualifying as different compliance obligations and compliance obligations might arise additional to those currently considered, or vice versa, which may result in changes at the time of the revenue recognition. Upon the distribution of revenues among each compliance obligation not previously identified, based on their related fair value, the amount of revenues to be recorded for each compliance obligation might also change, which could change the time of recognition of the compliance obligation, even though there is no change in the total amount of revenues per contract.
- In the case of goods and services that under the new standard do not qualify as compliance obligations that may be separated, the costs to comply with the contract, such as production costs associated with these goods and services, may have to be capitalized instead of recognized as expenses when incurred. Also, the incremental costs to acquire contracts, such as commissions, might have to be deferred and recognized during the term of the contract instead of being recognized immediately in income.
- The company is assessing if in any of the cases the time of revenue recognition might change from "at a point in time", to "through time", in case all standard conditions are met, when dealing with the manufacturing of goods without any alternative use for other customer, when there is a collection right for the work done.

At this stage, it is not possible for the Company to estimate the impact of this new standard in its financial statements. The Company will perform a more detailed assessment of the impact in the next 12 months.

The standard is effective for periods starting in or after January 1, 2018; however, its advance application is allowed.

IFRS 16 "Leases". The IASB issued in January 2016 a new standard for lease accounting. This standard will replace current standard IAS 17, which classifies leases into financial and operating. IAS 17 identifies leases as financial in nature when the risks and benefits of an asset are transferred, and identifies the rest as operating leases. IFRS 16 eliminates the classification between financial and operating leases and requires the recognition of a liability showing future payments and assets for "right of use" in most leases. The IASB has included some exceptions in short-term leases and in low-value assets. The aforementioned amendments are applicable to the lease accounting of the lessee, while the lessor maintains similar conditions to those currently available. The most significant effect of the new requirements is shown in an increase in leasing assets and liabilities, also affecting the statement of income in depreciation expenses and financing of recorded assets and liabilities, respectively, and decreasing expenses relative to leases previously recognized as operating leases. At the date of issuance of these financial statements, the Company has not quantified the impact of the new requirements. The standard is effective for periods starting on or after January 1, 2019, allowing for the advance adoption if the IFRS 15 is also adopted.

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

Note 4 - Financial risk management:

4.1 Financial risk factors

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

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

ALFA (the holding company) has a Risk Management Committee, which is formed by the Chairman of the Board, the Chief Executive Officer, the Chief Financial Officer of ALFA and a Financial Executive of ALFA who acts as technical secretary. The Committee oversees derivatives transactions proposed by the Company in which the maximum possible loss exceeds US$1. This Committee supports both the Executive Director and the Chairman of the Company. All new derivative transactions that the Company proposes to make, and the renewal of existing derivatives, require approval by both the Company and ALFA in accordance with the following schedule of authorizations:

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

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

(a) Market risk

i. Exchange rate risk

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

The respective exchange rates of the Mexican peso, the U.S. dollar and the euro are very important factors for the Company due to the effect they have on their results. Nemak estimates that approximately 62% of its sales are U.S dollar denominated and 31% in Euro, either because they come from products that are exported from Mexico or because they come from products that are manufactured and sold abroad, or because even if sold in Mexico the price of such products are set based on international prices in foreign currencies such as the U.S. dollar or the Euro.

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

The Company participates in operations with derivative financial instruments on exchange rates for the purpose of controlling the total comprehensive cost of its financing and the volatility associated with exchange rates. Additionally, it is important to note the high "dollarization" and "eurization" of the Company's revenues, providing a natural hedge against its obligations in dollars and euros with respect to the level of income of such currencies. Based on the overall exchange rate exposure at December 31, 2015 and 2014, a 5% increase /decrease in the exchange rate MXN/US$, holding all other variables constant, would result in an effect on the income statement by Ps 23 and Ps 28, respectively.

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

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

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

ii. Interest rate and cash flow risk

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

During 2015 and 2014, floating rate loans are mainly denominated in US dollars. At December 31, 2015, 40% of financing are denominated at fix rate, and 60% at floating rate. See Note 15.

At December 31, 2015 and 2014 if the interest rates on floating rate loans were increased/decreased by 10%, interest expense would increase/decrease by Ps 10 and Ps 14, respectively.

(b) Credit risk

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

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board. The use of credit risk is monitored regularly.

During 2015 and 2014, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

The impairment provision for doubtful accounts represents estimated losses resulting from the inability of customers to make required payments. In determining the allowance for doubtful accounts, significant estimates have to be made. Nemak performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current creditworthiness, as determined by a review of their current credit information.

In addition, the Company considers a number of factors to determine the size and appropriate timing for the recognition and amount of allowances, including historical collection experience, customer base, current economic trends and the ageing of the accounts receivable portfolio.

(c) Liquidity risk

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, as well as keeping some flexibility through available committed and uncommitted credit lines.

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

The Company's treasury invests those funds in overnight deposits whose maturities or liquidity allow flexibility to meet the cash needs of the Company. At December 31, 2015 and 2014, the Company had overnight deposits of Ps 523 and Ps 57, respectively, which are considered sufficient to adequately manage liquidity risk.

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

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

	Less than 3 months	From 3 months to 1 year	From 1 year to 2 years	From 2 years to 5 years	More than 5 years
December 31, 2015					
Trade and other accounts payable	Ps 16,236	Ps 1,222	Ps -	Ps -	Ps -
Bank loans	420	577	1,676	9,370	3,463
Senior notes	118	365	473	1,446	9,602
Notes payables	2	6	6	31	32
Derivative financial instruments	-	-	-	-	-
Financial leases	4	13	15	34	130

	Less than 3 months	From 3 months to 1 year	From 1 year to 2 years	From 2 years to 5 years	More than 5 years
December 31, 2014					
Trade and other accounts payable	Ps 12,947	Ps 612	Ps -	Ps -	Ps -
Bank loans	3,422	1,131	678	4,362	47
Senior notes	202	202	405	1,214	8,776
Peso bond	54	336	1,718	1,818	-
Notes payables	-	13	11	40	6
Derivative financial instruments	11	32	385	446	-
Financial leases	8	25	92	61	9

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

At December 31, 2015 and 2014, the Company has uncommitted short term credit lines unused for more than US$600 (Ps 10,324) and US$168 (Ps 2,891), respectively. Additionally, at December 31, 2015 and 2014, Nemak has committed medium-term credit lines of US$302 (Ps 5,196) and US$192 (Ps 3,304), respectively.

(d)Price risk of raw materials and derivatives

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

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

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

Based on the exposure of aluminum price at December 31, 2015 and 2014, a hypothetical increase (decrease) of 10% applied at fair value and maintaining all other variables constant, such as exchange rates, the increase (decrease) would result in an impact at December 31, 2015 and 2014 in the income statement of Ps 2 and Ps 5, respectively.

4.2 Equity risk management

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

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

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

The financial ratio of total liabilities/total equity was 1.58 and 1.76, at December 31, 2015 and 2014, respectively.

4.3 Fair value estimation

The following is an analysis of financial instruments measured by the fair value valuation method. The three different levels used are presented below:

- Level 1: Quoted prices for identical instruments in active markets.
- Level 2: Other valuations including quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in inactive markets, and valuations using models where all significant data are observable in active markets.
- Level 3: Valuations made through techniques wherein one or more of their significant data inputs are unobservable.

The following table presents the Nemak assets and liabilities that are measured at fair value at December 31, 2015:

	Level 1	Level 2	Level 3	Total
Assets				
Financial assets at fair value through profit or loss:				
Derivatives used for hedging	Ps -	Ps -	Ps -	Ps -
Financial assets available for sale	-	-	70	70
Total assets	Ps -	Ps -	Ps 70	Ps 70
Liabilities				
Financial liabilities at fair value through profit or loss				
Derivatives used for cash flow hedging	Ps -	Ps -	Ps -	Ps -
Total liabilities	Ps -	Ps -	Ps -	Ps -

The following table presents the Nemak assets and liabilities that are measured at fair value at December 31, 2014:

	Level 1		Level 2		Level 3		Total	
Assets								
Financial assets at fair value through profit or loss:								
Derivatives used for hedging	Ps	-	Ps	35	Ps	-	Ps	35
Financial assets available for sale		-		-		70		70
Total assets	Ps	-	Ps	35	Ps	70	Ps	105
Liabilities								
Financial liabilities at fair value through profit or loss								
Derivatives used for cash flow hedging	Ps	-	Ps	(874)	Ps	-	Ps	(874)
Total liabilities	Ps	-	Ps	(874)	Ps	-	Ps	(874)

There are no transfers between Levels 1 and 2, or between Levels 2 and 3 in the reported periods.

Level 1

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

Level 2

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

The valuation information used in the Company's financial statements to measure the fair value includes the market prices of natural gas, as well as the exchange rate interest rates.

In order to determine the fair value, natural gas market price quotations in the NYMEX Exchange and in other markets were used.

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

Level 3

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

Specific valuation techniques used to value financial instruments include:

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

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

The following table presents the movement in Level 3 instruments for the year ended December 31, 2015 and 2014:

		Financial assets available for sale
Final balance at December 31, 2013	Ps	70
Exchange difference		0
Final balance at December 31, 2014 (Note 14)		70
Exchange difference		0
Final balance at December 31, 2015 (Note 14)	Ps	70

Note 5 - Critical accounting estimates and judgments:

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

5.1 Critical accounting estimates and judgments

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

a. Estimated impairment of goodwill

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

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

b. Income tax

The Company is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made. As part of the preparation processes of the financial statements, the Company is required to calculate income tax. This process involves estimating the real exposure of the current tax, as well as evaluating the temporary differences resulting from treating items differently, such as impairment of trade accounts receivable, deferred assets, inventories, property, plant and equipment, accumulated expenses and tax loss carryforwards, for tax and accounting purposes.

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

c. Pension benefits

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

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

Other key assumptions for pension obligations are based, partly on current market conditions.

d. Commitments and contingencies

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

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

5.2 Critical judgments in applying the entity's accounting policies

Revenue recognition

The Company has recognized revenue amounting to Ps 70,891 and Ps 61,490, for the sale of products to OEM's during 2015 and 2014, respectively. The buyer has the right to return the goods if they are dissatisfied. The Company believes that, based on past experience with similar sales, the rate of returned products will not exceed 3% of revenue. The Company has, therefore, recognized revenue on these transactions with a corresponding provision for estimated returns. If the estimate changes by 1%, the revenue would have been reduced/increased by Ps 709 and Ps 614, during 2015 and 2014, respectively.

Note 6 - Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	December 31, 2015		December 31, 2014	
Cash at bank and in hand	Ps	1,270	Ps	919
Short-term bank deposits		523		57
Total cash and cash equivalents (excluding bank overdrafts)	Ps	1,793	Ps	976

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

	December 31, 2015		December 31, 2014	
Cash and cash equivalents	Ps	1,793	Ps	976
Bank overdrafts (Note 17)		(1)		-
Cash and cash equivalents at end of year	Ps	1,792	Ps	976

Note 7 - Restricted cash and cash equivalents:

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

	December 31, 2015	December 31, 2014
Current [1]	Ps 323	Ps 390
Non-current (Note 13)	10	9
Restricted cash and cash equivalents	Ps 333	Ps 399

[1] The Company has certain legal disputes with the Brazilian tax authorities. The main dispute is related to the application of certain taxes and other minor contingencies related to labor and social security issues. In this process, the company made deposits by the amounts in dispute and is waiting for a final decision to their claims. The amounts mentioned above are Ps 323 in 2015 and Ps 390 in 2014. See Note 28b.

Note 8 - Trade and other receivables, net:

	December 31, 2015	December 31, 2014
Current:		
Trade receivables	Ps 4,304	Ps 4,026
Value-added tax and other taxes	2,811	1,311
Sundry debtors	231	401
Receivables from related parties (Note 26)	3,407	1,192
Provision for impairment	(33)	(28)
	Ps 10,720	Ps 6,902
Non-current:		
Non-current related parties receivables (Note 26)	Ps -	Ps 513

Customers and other accounts receivable include past-due balances of Ps 1,014 and Ps 1,070 at December 31, 2015 and 2014, respectively.

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

	December 31, **2015** Past due balances			
	1 to 30 days	30 to 90 days	90 to 180 days	More than 180 days
Trade receivables	Ps 638	Ps 141	Ps 100	Ps 135

	December 31, 2014 Past due balances			
	1 to 30 days	30 to 90 days	90 to 180 days	More than 180 days
Trade receivables	Ps 610	Ps 243	Ps 103	Ps 114

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

		2015		2014
Initial balance (January 1)	Ps	(28)	Ps	(43)
Provision for impairment of customers and other receivables		(34)		(23)
Receivables written off during the year		18		17
Unused amounts reversed		11		21
Final balance (December 31)	Ps	(33)	Ps	(28)

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

At December 31, 2015 and 2014, the maximum risk of accounts receivable is their carrying value.

Note 9 - Inventories:

		December 31, 2015		2014
Raw material and other consumables	Ps	7,026	Ps	4,496
Production in process		1,416		2,630
Finished goods		1,225		1,346
	Ps	9,667	Ps	8,472

The cost of inventories recorded in income and included in cost of sales amounted to Ps 59,143 and Ps 52,456, for 2015 and 2014, respectively.

In the years ended on December 31, 2015 and 2014, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of Ps 26 and Ps 45, respectively.

At December 31, 2015 and 2014, there were no inventories provided in guarantee.

Note 10 - Financial Instruments:

a. Financial instruments by category

	At December 31, **2015**				
	Receivables and liabilities at amortized cost	Financial assets and liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total
Financial assets:					
Cash and cash equivalents	Ps 1,793	Ps -	Ps -	Ps -	Ps 1,793
Restricted cash	333	-	-	-	333
Trade and other accounts receivable	10,720	-	-	-	10,720
Derivative financial instruments	-	-	-	-	-
Advanced payments	277	-	-	-	277
Financial assets available for sale	-	-	70	-	70
	Ps 13,113	Ps -	Ps 70	Ps -	Ps 13,183
Financial liabilities:					
Debt	Ps 22,710	Ps -	Ps -	Ps -	Ps 22,710
Trade and other payables	16,515	-	-	-	16,515
Derivative financial instruments	-	-	-	-	-
	Ps 39,225	Ps -	Ps -	Ps -	Ps 39,225

	At December 31, 2014				
	Receivables and liabilities at amortized cost	Financial assets and liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total
Financial assets:					
Cash and cash equivalents	Ps 976	Ps -	Ps -	Ps -	Ps 976
Restricted cash and cash equivalents	399	-	-	-	399
Trade and other accounts receivable	7,415	-	-	-	7,415
Derivative financial instruments	-	35	-	-	35
Advanced payments	250	-	-	-	250
Financial assets available for sale	-	-	70	-	70
	Ps 9,040	Ps 35	Ps 70	Ps -	Ps 9,145
Financial liabilities:					
Debt	Ps 19,871	Ps -	Ps -	Ps -	Ps 19,871
Trade and other payables	12,737	-	-	-	12,737
Derivative financial instruments	-	67	-	740	807
	Ps 32,608	Ps 67	Ps -	Ps 740	Ps 33,415

b. Credit quality of financial assets

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

	December 31, 2015		2014	
Trade and other receivables and related parties				
Counterparties with external credit rating				
"A+"	Ps	218	Ps	137
"A"		16		62
"A-"		48		115
"BBB-"		2,088		1,179
"BBB+"		243		139
"BB-"		740		-
"BB+"		-		359
Other categories		10		149
		3,363		2,140
Counterparties without external credit rating				
"Type X clients"		-		-
"Type Y clients"		7,390		5,303
Other accounts receivable type Z		-		-
		7,390		5,303
Total unimpaired accounts receivable	Ps	10,753	Ps	7,443
Cash and cash equivalents				
"A+"	Ps	28	Ps	55
"A"		47		2
"A-"		217		691
"BBB+"		128		5
"BBB"		592		3
"BBB-"		5		147
"BB+"		93		4
Other categories		683		69
	Ps	1,793	Ps	976
Derivative financial instruments				
"A+"	Ps	-	Ps	-
"A"		-		35
Without rating		-		-
	Ps	-	Ps	35

Group X - new clients/related parties (less than 6 months).

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

Group Z - clients/current related parties (more than 6 months) with some noncompliance in the past. All non-compliances were fully recovered.

c. Fair value of financial assets and liabilities

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

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

	At December 31, **2015**		At December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:				
Non-current accounts receivable	Ps -	Ps -	Ps 513	Ps 458
Financial liabilities:				
Bank loans	13,611	13,652	5,722	6,056
Peso bond and other liabilities	8,876	8,930	11,122	11,293

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

d. Derivative financial instruments

The effectiveness of derivative financial instruments designated as hedges is measured periodically. At December 31, 2014 the Company's management has assessed the effectiveness of its hedges for accounting purposes and has concluded that they are highly effective. At December 31, 2015, the Company has no derivative financial instruments operation contracted.

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

At December 31, 2014, the principal obligations which the Company was subject to, depend on the type of contract and the conditions established in each one of the derivative financial instruments in force at this date.

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

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

a. Cancellation of Cross Currency Swap Ps / US$:

In December 2015, the Company paid in advance the total of its Peso bond amounting to Ps 3,500. Consistent with this prepayment, it also fully canceled the "Cross Currency Swap" which converted via derivatives, the loan from Ps to US$. The "Cross Currency Swap" was acquired as a hedging transaction at an average exchange rate of Ps 12.30, therefore Ps 3,500 were converted to US$285 (Ps 4,904).

The cancellation of the derivative resulted in an cash outflow of US$83 (Ps 1,412); however, it should be noted that the exchange rate MXN / US$ at the time of completion was Ps 17.01, so Ps 3,500 equivalent at that time to US$206 (Ps 3,504). These derivatives were designated as fair value hedges. See Note 2.

b. Cancellation of Cross Currency Swap EUR-US$:

In November 2015, the Company terminated in advance a trading derivative that had contracted since 2012 in order to increase exposure to the EUR, given the growing activities in that region. The transaction was agreed at a level of exchange of US$1.25 per euro. The instrument had a remaining balance of €41 and final maturity in 2016. At the time of cancellation, the exchange rate US$ / EUR was approximately 1.06 resulting in a cash redemption value in favor of Nemak of US$5.3 (Ps 89).

c. Cancellation of natural gas derivative:

In December 2015, Nemak early terminated a hedge operation on approximately 40% of its volume of consumption of energy for its operations in North America that had been contracted for the period 2016-2020. The early cancellation was decided in anticipation of further declines in the price of this commodity. The termination of these hedges resulted in a cash outflow for Nemak of US$27.7 (Ps 476). At 31 December 2015, the balance in accumulated other comprehensive income related to this coverage is Ps 329. This amount will be reclassified to income statement as the forecasted transaction were to take place.

In the year ended December 31, 2015 and 2014, the Company had no effects from ineffective portions of fair value and cash flows hedges.

a. Forward exchange contracts (Amounts in millions of Mexican pesos)

At December 31, 2014								
		Value of underlying asset			Maturity per year			
Type of derivative, value or contract	Notional amount	Units	Reference	Fair value	2015	2016	2017+	Collateral / guarantee
Hedging purposes:								
US$/Ps (CCS [1]) [2]	3,500	Ps/Dollar	14.72	Ps (755)	Ps (38)	Ps (340)	Ps (377)	Ps -
Trading purposes:								
US$/EUR (CCS)	925	Dollar/Euro	1.21	35	14	21	-	-
				Ps (720)	Ps (24)	Ps (319)	Ps (377)	Ps -

[1] Cross currency swap

[2] Fair value hedge

b. Commodities (Amounts in millions of Mexican pesos)

At December 31, 2014								
		Value of underlying asset			Maturity per year			
Type of derivative, value or contract	Notional amount	Units	Reference	Fair value	2015	2016	2017+	Collateral / guarantee
Hedging purposes:								
Natural gas [3]	99	Dollar/MBTU	4.29	Ps (119)	Ps (3)	Ps (46)	Ps (70)	Ps -
				Ps (119)	Ps (3)	Ps (46)	Ps (70)	Ps -

[3] Cash flow hedge

At December 31, 2014, the net fair value of derivative financial instruments above amounts to (Ps 839), which is shown in the statements of financial position as follows:

	At December 31, 2014		
	Fair value	Initial position	Net value recorded
Current assets	Ps 8	Ps -	Ps 8
Non-current assets	27	-	27
Current liabilities	(3)	-	(3)
Non-current liabilities	(871)	67	(804)
Net position	Ps (839)	Ps 67	Ps (772)

Note 11 - Property, plant and equipment:

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment
Year ended December 31, 2014				
Opening net book amount	Ps 883	Ps 5,206	Ps 18,650	Ps 59
Exchange differences	62	380	1,459	5
Additions	12	3	38	-
Disposals and write downs	-	(10)	(66)	-
Depreciation charge for the year	-	(286)	(3,027)	(33)
Transfers	14	441	3,553	20
	971	5,734	20,607	51
At December 31, 2014				
Cost	971	8,543	45,394	240
Accumulated depreciation	-	(2,809)	(24,787)	(189)
Net value in books at December 31, 2014	Ps 971	Ps 5,734	Ps 20,607	Ps 51
Year ended December 31, 2015				
Opening net book amount	Ps 971	Ps 5,734	Ps 20,607	Ps 51
Exchange differences	104	635	2,435	6
Additions	174	6	3	-
Disposals and write downs	(5)	(1)	(66)	-
Depreciation charge for the year	-	(319)	(3,612)	(32)
Transfers	2	546	4,319	36
	1,246	6,601	23,687	61
At December 31, **2015**				
Cost	1,246	10,379	52,842	266
Accumulated depreciation	-	(3,778)	(29,155)	(205)
Net value in books at December 31, **2015**	Ps 1,246	Ps 6,601	Ps 23,687	Ps 61

Of the total depreciation expense, Ps 3,932 and Ps 3,292, were charged to cost of sales, Ps 1 and Ps 2, to selling expenses and Ps 175 and Ps 150, to administrative expenses in 2015 and 2014, respectively.

At December 31, 2015 and 2014 there were no pledged property, plant and equipment.

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

	December 31, **2015**	2014
Cost - capitalized financial lease	Ps 414	Ps 379
Accumulated depreciation	(174)	(167)
Carrying value, net	Ps 240	Ps 212

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

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

Furniture and office equipment	Construction in progress	Other fixed assets	Total
Ps 281	Ps 3,633	Ps 612	Ps 29,324
15	256	6	2,184
10	4,504	16	4,583
(2)	(1)	(33)	(113)
(98)	-	-	(3,445)
163	(4,120)	(71)	-
369	4,272	530	32,534
1,169	4,272	814	61,365
(798)	-	(284)	(28,831)
Ps 369	Ps 4,272	Ps 530	Ps 32,534
Ps 370	Ps 4,272	Ps 530	Ps 32,535
46	342	3	3,572
1	6,129	32	6,344
-	-	(7)	(79)
(146)	-	-	(4,108)
176	(5,195)	117	-
446	5,548	675	38,263
1,433	5,548	675	72,388
(987)	-	-	(34,125)
Ps 446	Ps 5,548	Ps 675	Ps 38,263

Note 12 - Goodwill and intangible assets, net:

	Development costs	Customer relationship	Software and licenses	Trademarks and patents	Goodwill	Total
Cost						
At January 1, 2015	Ps 3,078	Ps 549	Ps 665	Ps 80	Ps 4,764	Ps 9,136
Exchange differences	404	290	(169)	13	423	961
Additions	966	-	22	-	-	988
Disposals	-	-	(3)	-	-	(3)
At December 31, **2015**	4,448	839	515	93	5,187	11,082
At January 1, 2014	2,195	554	731	71	4,621	8,172
Exchange differences	267	(5)	(130)	9	143	284
Additions	616	-	67	-	-	683
Disposals	-	-	(3)	-	-	(3)
At December 31, 2014	3,078	549	665	80	4,764	9,136
Accumulated amortization						
At January 1, 2015	(1,256)	(508)	(381)	(80)	-	(2,225)
Amortizations	(388)	(63)	(48)	-	-	(499)
Disposals	-	-	3	-	-	3
Exchange differences	(257)	(35)	(24)	(13)	-	(329)
At December 31, **2015**	(1,901)	(606)	(450)	(93)	-	(3,050)
At January 1, 2014	(916)	(446)	(327)	(58)	-	(1,747)
Amortizations	(219)	(63)	(46)	(12)	-	(340)
Disposals	-	-	3	-	-	3
Exchange differences	(121)	1	(11)	(10)	-	(141)
At December 31, 2014	(1,256)	(508)	(381)	(80)	-	(2,225)
Net carrying value						
Cost	Ps 4,448	Ps 839	Ps 515	Ps 93	Ps 5,187	Ps 11,082
Accumulated amortization	(1,901)	(606)	(450)	(93)	-	(3,050)
At December 31, **2015**	Ps 2,547	Ps 233	Ps 65	Ps -	Ps 5,187	Ps 8,032
Cost	Ps 3,078	Ps 549	Ps 665	Ps 80	Ps 4,764	Ps 9,136
Accumulated amortization	(1,256)	(508)	(381)	(80)	-	(2,225)
At December 31, 2014	Ps 1,822	Ps 41	Ps 284	Ps -	Ps 4,764	Ps 6,911

Of the total amortization expense, Ps 351 and Ps 214, were charged to cost of sales, Ps 143 and Ps 125, to administrative expenses, Ps 5 and Ps 1 to selling expenses, in 2015 and 2014, respectively.

Research expenses incurred and recorded in the results of 2015 and 2014 were Ps 4, respectively.

Certain customer relationship that had been capitalized in the past as a result of a business combinations have been written off based on the end of relationships with clients and are shown as write downs.

Impairment testing of goodwill

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

	North America	Europe	Rest of world	Total
Closing balance December 31, 2013	Ps 2,149	Ps 1,898	Ps 574	Ps 4,621
Exchange differences	47	68	28	143
Closing balance December 31, 2014	Ps 2,196	Ps 1,966	Ps 602	Ps 4,764
Exchange differences	45	271	107	423
Closing balance December 31, **2015**	Ps 2,241	Ps 2,237	Ps 709	Ps 5,187

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

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

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

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

The key assumptions used in calculating the fair value less costs of disposal in 2014 were as follows:

	North America	Europe	Rest of world
Estimated gross margin	21.10%	18.44%	10.25%
Growth rate	1.95%	5.97%	7.46%
Discount rate	11.81%	12.02%	12.34%

With regard to the calculation of the fair value of the cash generating units, the Company considers that a possible change in the key assumptions used, would not cause the carrying value to materially exceed their value in use. Measurements of the fair values are classified as Level 3 fair value hierarchy.

Note 13 - Other non-current assets:

	At December 31,			
		2015		2014
Restricted cash	Ps	10	Ps	9
Available for sale financial assets (1)		70		70
Investment in associates		303		217
Other assets (2)		1,240		639
Total other non-current assets	Ps	1,623	Ps	935

(1) Available for sale financial assets are investment in shares of companies not listed on the market (See Note 4.3). No impairment loss was recognized as of December 31, 2015 and 2014.

(2) At December 31, 2015 and 2014, the Company has recognized other assets by Ps 1,184 and Ps 622, respectively, related to the costs incurred to obtain new contracts with some OEMs; and this amount will be recognized in the statement of income over the life of such contracts which ranges between 5 and 9 years. During 2015 and 2014, the amount expensed was Ps 13 and Ps 9 respectively.

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

		2015		2014
Comprehensive income, equal to net profit	Ps	48	Ps	39

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

Note 14 - Trade and other payables:

	At December 31, 2015	2014
Suppliers	Ps 11,992	Ps 8,798
Advance from customers	687	595
Other taxes and social security benefits	682	531
Related parties (Note 26)	50	24
Other accounts and accumulated expenses payables	3,104	2,789
	Ps 16,515	Ps 12,737

Note 15 - Debt:

	At December 31, 2015	2014
Current:		
Bank loans [1]	Ps 228	Ps 3,056
Current portion of non-current debt	725	1,728
Notes payable [1]	-	-
Current debt	Ps 952	Ps 4,784
Non-current:		
Secured bank loans	Ps -	Ps -
Unsecured bank loans	13,566	5,660
Financial lease	197	195
Other:		
In foreign currency:		
Senior notes	8,644	7,382
Related parties (Note 26)	-	-
In local currency:		
Peso bond, unsecured	-	3,510
Other	76	68
	22,483	16,815
Less: current portion of non-current debt	(725)	(1,728)
Non-current debt	Ps 21,758	Ps 15,087

[1] At December 31, 2015 and 2014, short-term bank loans and notes payable bore interest at an average rate of 3.65% and 3.86%, respectively.

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

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

Description	Currency	Contractual value	Costs of debt issuance	Interest payable	Balance at december 31, **2015**	Balance at december 31, 2014	Inception date DD/MM/YYYY	Maturity date DD/MM/YYYY	Interest rate
Club Deal (Citi) (2)	US$	4,097	(31)	7	4,073	4,656	02/12/2013	02/12/2018	1.92%
Club Deal-(Citi) (2)	EUR	822	(8)	1	814	1,019	02/12/2013	02/12/2018	1.50%
Club Deal-(BBVA)	US$	4,345	(34)	5	4,316	-	13/11/2015	13/11/2020	1.85%
Club Deal-(BBVA)	EUR	841	(6)	1	835	-	13/11/2015	13/11/2020	1.25%
Bancomext LP	US$	2,065	(10)	8	2,062	-	23/12/2015	23/12/2025	3.39%
Nafin LP	US$	1,377	(5)	4	1,376	-	29/12/2015	29/12/2025	3.40%
Other		65	-	23	88	75			
Unsecured bank loans		13,612	(94)	49	13,564	5,660			
Senior notes	US$	8,603	(133)	174	8,644	7,382	28/02/2013	28/02/2023	5.50%
Peso bond (1)	MXP	-	-	-	-	3,510	30/10/2009	10/11/2017	5.83%
Financial lease:									
Spain	EUR	1	-	-	1	9	13/11/2008	09/02/2016	1.49%
U.S.	US$	4	-	-	4	6	01/01/2013	01/09/2017	10.64%
China	RMB	190	-	-	190	180	06/09/2006	28/02/2023	6.45%
Russia	RUR	2	-	-	2	-	01/08/2014	30/04/2018	4.05%
Total financial lease					196	195			
Other liabilities		77	-	-	77	68			
Total		22,487	(228)	223	22,483	16,815			
Less: current portion of non-current debt					(725)	(1,728)			
Non-current debt					Ps 21,758	Ps 15,087			

(1) On December 2015, the Company fully prepaid its Peso bond,"Nemak-07". See Note 2.

(2) The Club Deal (Citi) in US$ and EUR accrues interest at a base rate of LIBOR + 1.5% and EURIBOR 1.5% respectively. Senior note accrues interest at a fixed rate of 5.5%

At December 31, 2015, the annual maturities of non-current debt are as follows:

	2016	2017	2018	2019 onwards	Total
Bank loans (1)	Ps 462	Ps 1,326	Ps 4,584	Ps 7,239	Ps 13,611
Senior notes (2)	-	-	-	8,603	8,603
Other loans	8	5	12	50	76
Financial lease	18	15	17	147	197
	Ps 488	Ps 1,326	Ps 4,613	Ps 16,039	Ps 22,487

(1) Interest bore by bank loans will be paid quarterly.

(2) Interest bore by Senior notes will be paid semiannually.

Covenants:

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

a. Interest coverage ratio: which is defined as profit before financial result, income taxes, depreciation and amortization (EBITDA) 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: is defined as consolidated debt at that date, being net debt, divided by consolidated EBITDA for the period of the last four complete quarters.

Additionally to the aforementioned agreements, there are commitments related to the Senior notes issued in February 2013, among the most important of which is the limitation to contract debt or increase it in the event that it does not comply with the fixed-charges coverage ratio at a rate of at least 2.25 times.

During 2015 and 2014, the financial ratios mentioned above were calculated in accordance with the formulas established in the effective debt agreements.

At December 31, 2015 and the date of issuance of these financial statements, the Company is in compliance with all obligations and covenants contained in its credit agreements; such obligations, among other conditions are subject to certain exceptions, and require or limit the ability of the Company to:

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

As of December 31, 2015 and 2014 there are no assets pledged as collateral for any of the subsidiaries, except for:

1. Some assets, pledged as collateral in a long-term debt granted by a Brazilian government entity to promote investment (“BNDES”). At December 31, 2015 the outstanding balance and the value of the pledged assets are approximately US$3.7 (Ps 63.6) and US$3.9 (Ps 67.1).

2. Various minor loans to finance equipment acquisitions in several subsidiaries with liens accumulated by approximately US$2.8 (Ps 48.2).

Significant debt transactions:

a. During December 2015, Nemak completed the following financings:

    • A bank facility amounting to US$300 (Ps 5,162) with a group of banks (BBVA Bancomer as agent bank) with a final maturity of 5 years and average life of 3.6 years. Interests will be payable quarterly at a variable interest rate of Libor+1.25% (effective interest rate 2.10%). Proceeds of this loan were used to prepay all of the unsecured Peso bond “Nemak -07” by Ps 3,500 that would expire at the end of 2017.

    • Financing amounting to US$200 (Ps 3,441), with two banks (Bancomext and Nacional Financiera) with a total term of 10 years and average life of 7.9 years. Interests will be payables quarterly at a variable interest rate of Libor+2.80% (effective interest rate 3.50%). Resources were used to prepay substantially all short-term debt of the Company.

    • The company increased its midterm committed credit lines in US$110, from US$192 (Ps 3,304) at end-2014 to US$ 302 (Ps 5.196) at the end of 2015. The total amount of these revolving committed lines matures during December 2018. At December 31, 2015, the committed credit lines were totally available.

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

	December 31, 2015		2014	
Obligation for financial leases - minimal payments, gross				
- Less than 1 year	Ps	70	Ps	33
- More than 1 year and less than 5 years		103		116
- More than 5 years		99		125
Future finance charges on financial lease liabilities		(75)		(79)
Present value of liabilities from financial lease	Ps	195	Ps	195

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

	December 31, 2015		2014	
Less than 1 year	Ps	29	Ps	18
More than 1 year and less than 5 years		72		15
More than 5 years		96		162
	Ps	197	Ps	195

Note 16 - Deferred taxes:

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

	December 31, 2015		2014	
Deferred tax asset:				
- To be recovered in more than 12 months	Ps	840	Ps	791
- To be recovered within 12 months		481		382
		1,321		1,173
Deferred tax liability:				
- To be covered in more than 12 months		(2,852)		(2,248)
- To be covered within 12 months		86		292
		(2,765)		(1,956)
Deferred tax liabilities, net	Ps	(1,444)	Ps	(783)

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

	2015		2014	
At January 1	Ps	(783)	Ps	(174)
Exchange differences		(115)		(13)
Charge to income statement		(659)		(643)
Tax related to components of other comprehensive income		113		48
At December 31	Ps	(1,444)	Ps	(783)

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

	Assets (liabilities) December 31, 2015	2014
Inventories	Ps 36	Ps 32
Intangible assets	52	56
Reserve for valuation of assets	9	17
Valuation of derivative financial instruments	35	230
Liability provisions	483	863
Tax loss carryforwards	1,531	1,366
Other temporary differences, net	574	207
Deferred tax asset	2,720	2,770
Inventories	-	(6)
Property, plant and equipment	(3,423)	(2,927)
Intangible assets	(804)	(602)
Cost of debt issuance	(68)	(59)
Reserve for valuation of assets	(2)	(3)
Other temporary differences, net	133	44
Deferred tax liabilities	(4,164)	(3,553)
Deferred tax liabilities, net	Ps (1,444)	Ps (783)

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

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

	Balance at December 31, 2013	(Charged) credited to the income statement	(Charged) credited to the comprehensive income	Balance at December 31, 2014
Inventories	Ps 29	Ps 3	Ps -	Ps 32
Intangible assets	78	(22)	-	56
Reserve for valuation of assets	5	12	-	17
Valuation of derivative financial instruments	111	-	119	230
Liability provisions	600	263	-	863
Tax loss carryforwards	1,410	(44)	-	1,366
Other temporary differences, net	244	(38)	-	207
Deferred tax asset	2,477	174	119	2,770
Inventories	(6)	-	-	(6)
Property, plant and equipment	(1,930)	(997)	-	(2,927)
Intangible assets	(305)	(297)	-	(602)
Cost of debt issuance	(58)	(1)	-	(59)
Reserve for valuation of assets	-	(3)	-	(3)
Other temporary differences, net	(352)	396	-	44
Deferred tax liabilities	(2,651)	(902)	-	(3,553)
Deferred tax liabilities, net	Ps (174)	Ps (728)	Ps 119	Ps (783)

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

Tax losses at December 31, 2015 expire in the following years:

Year of maturity	Amount
2016	Ps 1,270
2017	378
2018	432
2019	95
2020	82
2021 and onwards	3,897
	Ps 6,154

Optional regime for company groups in Mexico (incorporation regime)

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

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

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

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

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

The effects of the divestiture of the incorporation regime were as follows:

a) Income tax for the year 2014

Because of the disincorporation, Nemak SAB and its Mexican subsidiaries paid the updated deferred income tax for the year 2014 for the period from the month in which they should have made tax payments but were not taxed under the regime and until the date of divestiture according to what is established in Article 68 of the Income Tax Law . For this purpose, the amount paid was Ps 165.

b) Income tax prepayments 2015

Considering that at the date of the divestitures referred to in this report, there were no guidelines in the Income Tax Law to establish how companies should pay the deferred Income tax prepayments, Nemak SAB and its Mexican subsidiaries paid the deferred payment of accumulated and historical in July 2015; the payment made was Ps 97.

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

Note 17 - Other liabilities:

	December 31,			
	2015		2014	
Current:				
Other taxes and withholdings	Ps	670	Ps	342
Deferred income [1]		51		236
Employees' profit sharing payable		138		98
Share-based employee benefits (Note 20)		54		54
Bank overdrafts		1		-
Other		79		116
Total other liabilities	Ps	993	Ps	846
Non-current:				
Deferred income [1]	Ps	-	Ps	51
Other		6		6
Total	Ps	6	Ps	57

[1] At December 31, 2015, it includes Ps 51 current deferred income, received from the cancellation of energy supply contracts from the supplier.

Note 18 - Employee benefits:

The valuation of employee benefits for retirement plans (covering approximately 82% of workers in 2015 and 84% in 2014) and is based primarily on their years of service, current age and estimated salary at retirement date.

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

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

	December 31,			
	2015		2014	
Mexico	Ps	247	Ps	170
United States		39		33
Canada		114		138
Poland		81		87
Austria		191		158
Germany		72		73
Others		35		31
Total	Ps	779	Ps	690

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

	December 31, 2015		December 31, 2014	
Liabilities in the balance sheet for:				
Pension benefits	Ps	662	Ps	566
Post-employment medical benefits		117		124
Liabilities in the balance sheet		779		690
Charge in the income statements for:				
Pension benefits		(124)		(121)
Post-employment medical benefits		(7)		(9)
		(131)		(130)
Remeasurements recognized in the statement of other comprehensive income for the period				
Pension benefits		(18)		(52)
Post-employment medical benefits		6		13
		(12)		(39)
Cumulative remeasurements recognized in other comprehensive income	Ps	(113)	Ps	(101)

Pension benefits

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

Amounts recognized in the balance sheet are determined as follows:

	December 31, 2015		December 31, 2014	
Present value of defined benefit obligations	Ps	1,154	Ps	1,041
Fair value of plan assets		(492)		(475)
Liabilities in balance sheet	Ps	662	Ps	566

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

	2015		2014	
At January 1	Ps	1,041	Ps	880
Current service cost		79		86
Interest cost		39		41
Employee contributions		1		-
Remeasurements:				
Financial actuarial (losses)/gains		14		63
Past service cost				
Benefits paid		(55)		(52)
Reductions		-		2
Settlements		-		(2)
Exchange differences		35		23
At December 31	Ps	1,154	Ps	1,041

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

		2015		2014
At January 1	Ps	(475)	Ps	(421)
Interest Income		(14)		(22)
Remeasurements - expected return on plan assets, excluding interest income		4		(11)
Exchange differences		(14)		(20)
Employer contributions		(13)		(22)
Employee contributions		(1)		(1)
Benefits paid		21		22
Settlements		-		-
At December 31	Ps	(492)	Ps	(475)

Amounts recorded in the statement of income are as follows:

		2015		2014
Current service cost	Ps	(79)	Ps	(86)
Financial costs, net		(25)		(19)
Effect from reduction or settlement		(20)		(16)
Total included in personal costs	Ps	(124)	Ps	(121)

The principal ranges of actuarial assumptions were as follows:

	December 31, 2015	2014
Discount rate		
Mexico	6.75%	6.75%
Canada	3.99%	3.75%
Austria	2.00%	2.50%
Inflation rate	4.25%	4.25%
Salary increase rate	5.25%	5.25%
Future salary increase	4.25%	4.25%
Medical inflation rate	7.50%	7.50%

The average life of defined benefit obligations is of 18 and 17 years at December 31, 2015 and 2014, respectively.

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

	Effect in defined benefit obligations		
	Change in assumptions	Increase in assumptions	Decrease in assumptions
Discount rates	1.0%	Decreases by Ps 20	Increases by Ps 25

Post-employment medical benefits

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

Amounts recognized in the balance sheet are determined as follows:

	December 31, 2015		2014	
Present value of obligations equal to liabilities in balance sheet	Ps	117	Ps	124

The movements of defined benefit obligations are as follows:

	2015		2014	
At January 1	Ps	124	Ps	123
Current service cost		3		4
Interest cost		4		6
Financial actuarial (losses)/gains		(10)		(13)
Employee contributions				
Exchange differences		(2)		7
Past service cost				
Benefits paid		(2)		(3)
At December 31	Ps	117	Ps	124

Amounts recorded in the statement of income are as follows:

	2015		2014	
Current service cost	Ps	(3)	Ps	(3)
Interest cost		(4)		(6)
Past service cost		-		-
Total included in personal costs	Ps	(7)	Ps	(9)

Note 19 - Equity:

At December 31, 2015, the nominal capital stock, subscribed and paid in of Ps 6,607, was represented by 3,080,747,324 common, nominative shares, “Class 1” of Series “A”, with no par value, entirely subscribed and paid.

At December 31, 2014, the nominal capital stock, subscribed and paid in of Ps 874 was represented by common, nominative shares with a par value of one peso each and was divided in Series “A” and “A-1”” shares and Series “B” and “B-12” shares, as follows:

Series	Portion	Number of shares	Amount	
Series “A”	Fixed minimum	25,500	Ps	0
Series “B”	Fixed minimum	24,500		0
Series “A-1”	Variable	442,818,605		443
Series “B-1”	Variable	427,512,667		427
Total nominal		870,381,272		870
Increase from restatement				4
Capital stock at December 31, 2014			Ps	874

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

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

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

	Note	Number of shares
Shares at December 31,2014		870,381,272
Split effect [1]		1,615,533,207
Result of the share split		2,485,914,479
Shares issued in IPO	2d	537,600,000
Shares issued in overallotment	2d	57,232,845
Shares at December 31, **2015**		3,080,747,324

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

At December 31, 2015, the outstanding shares are integrated as follow:

Shareholder	Number of shares	Amount
ALFA	2,317,921,869	Ps 4,971
FORD	167,992,610	360
Public float	594,832,845	1,276
	3,080,747,324	Ps 6,607

The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock. At December 31, 2015 and 2014, the legal reserve amounted to Ps 174, which is included in retained earnings.

The dividends paid in 2015 and 2014 were Ps 1,253 (Ps 0.48 per share) and Ps 836 (Ps 0.96 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 2015. 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, 2015, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to Ps 5,266 and Ps 8,992, respectively.

In October 2013 the Chamber of Senators and Deputies approved the issuance of a new Income Tax Law (LISR), which became effective on January 1, 2014. Among other aspects, this law establishes a tax of 10% for profits generated as from 2014 on dividends paid to foreign residents and Mexican individuals. It is also established that for fiscal years 2001 to 2013, the net tax profit will be determined under the LISR terms effective in the corresponding fiscal year. In November 2015, an article of temporary duration by which a fiscal stimulus is given to individuals residing in Mexico that are subject to additional payment of 10% on dividends or profits distributed are issued. The stimulus is applicable provided that such dividends or profits were generated in 2014, 2015, 2016 and are reinvested in the legal entity that generated such profits, and consists of a tax credit equal to the amount obtained by applying the dividend or utility is distributed, which corresponds to year percentage distribution as follows:

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

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

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

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

Entities distributing dividends or profits in respect of shares placed among the investing public should inform brokerage firms, credit institutions, investment operators, the people who carry out the distribution of shares of investment companies, or any other intermediary market, the exercises from which the dividends so that these brokers carry the corresponding withholding. For the year ended at 31 December 2015, the company generated profit of Ps 4,599 which may be subject to this stimulus. During 2014 the company had no individuals among its investors.

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

The movements in cumulative other comprehensive income for 2015 and 2014 are presented below:

	Effect of cash flow hedge derivatives instruments	Effect from foreign currency translation	Total
At December 31, 2013	Ps (9)	Ps 731	Ps 722
Losses on fair value	(72)	-	(72)
Gains on foreign currency translation	-	451	451
At December 31, 2014	(81)	1,182	1,101
Losses on fair value	(248)	-	(248)
Gains on translation of foreign entities	-	1,390	1,390
At December 31, **2015**	Ps (329)	Ps 2,572	Ps 2,243

Foreign currency translation

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

Effect of derivative financial instruments

The effect of derivative financial instruments contracted as cash flow hedges contains the effective portion of cash flow hedges in force at the reporting date.

Note 20 - Share based payments:

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

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

The program consists of determining a number of shares on which the executives shall be based. The bonus will be paid in cash over the next five years, i.e. 20% each year at the average price of the share at the end of each year. The average price of the share in 2015 and 2014 was 34.30 and 37.32, respectively.

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

	December 31, 2015	2014
Short-term	Ps 18	Ps 18
Long-term	36	36
Total carrying value	Ps 54	Ps 54

Note 21 - Expenses classified by their nature:

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

	2015	2014
Raw materials	Ps (29,520)	Ps (26,707)
Maquila (production outsourcing)	(6,019)	(5,121)
Employee benefit expenses (Note 24)	(10,194)	(8,832)
Personnel expenses	(1,920)	(1,640)
Maintenance	(3,659)	(3,182)
Depreciation and amortization	(4,609)	(3,784)
Freight charges	(16)	(7)
Advertising expenses	(871)	(683)
Consumption of energy and fuel	(2,554)	(2,770)
Travel expenses	(281)	(224)
Operating leases	(362)	(224)
Technical assistance, professional fees and administrative services	(1,397)	(1,179)
Other	(2,134)	(1,690)
Total	Ps (63,536)	Ps (56,043)

Note 22 - Other revenues, net:

	2015	2014
Loss on sale of property, plant and equipment	Ps (12)	Ps (18)
Customer reimbursements	9	77
Other	46	2
Total other revenues, net	Ps 43	Ps 61

Note 23 - Financial result, net:

	2015	2014
Financial income:		
- Interest income in short term bank deposits	Ps 8	Ps 3
- Intercompany financial income	24	11
- Other financial income [1]	13	19
Total financial income, excluding foreign exchange gain	45	33
Foreign exchange gain	6,200	266
Total financial income	Ps 6,245	Ps 299
Financial expenses:		
- Interest expense on bank loans	Ps (1,097)	Ps (906)
- Intercompany financial costs	-	(22)
- Other financial costs [2]	(75)	(70)
Total financial costs, excluding foreign exchange loss	(1,172)	(998)
Foreign exchange loss	(6,366)	-
Financial expense	(7,538)	(998)
Financial result, net	Ps (1,293)	Ps (699)

[1] Includes mainly the yield on plan assets and other concepts.

[2] Includes mainly the financial costs of employee benefits and interest paid to suppliers.

Note 24 - Employee benefit expenses:

	2015	2014
Salaries, wages and benefits	Ps 8,360	Ps 7,290
Contributions to social security	1,435	1,215
Employee benefits (Note 18)	103	106
Other contributions	296	221
Total	Ps 10,194	Ps 8,832

Note 25 - Income tax for the year:

	2015	2014
Tax currently payable:		
Income tax on profits of the period	Ps (871)	Ps (826)
Adjustment for previous years	(21)	16
Total tax currently payable	(893)	(810)
Deferred tax:		
Origination and reversal of temporary differences	(659)	(643)
Total deferred tax	(659)	(643)
Income taxes charged to income	Ps (1,552)	Ps (1,453)

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

	2015	2014
Profit before taxes	Ps 6,153	Ps 4,848
Share of gain of associates recognized through equity method	48	39
Income before equity in associates	6,105	4,808
Statutory rate	30%	30%
Tax at statutory rate	(1,831)	(1,442)
(Add) deduct tax effect of:		
Difference based on the comprehensive financial result	(120)	(188)
Non-deductible	12	56
Tax losses not recognized in prior years	-	(82)
Non taxable exchange rate effects	287	154
Other permanent differences, net	100	49
Total provision for income taxes charged to income	Ps (1,552)	Ps (1,453)
Effective rate	25%	30%

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

	2015			2014		
	Before taxes	Tax payable/ (receivable)	After taxes	Before taxes	Tax payable/ (receivable)	After taxes
Translation effect of foreign entities	Ps 1,390	Ps -	Ps 1,390	Ps 452	Ps -	Ps 452
Remeasurement of obligations for employee benefits	(11)	1	(10)	(39)	15	(24)
Effect of derivative financial instruments hired as cash flow hedges	(359)	111	(248)	(105)	33	(72)
Other items of comprehensive income	Ps 1,020	Ps 112	Ps 1,132	Ps 308	Ps 48	Ps 356
Deferred taxes		Ps 112			Ps 48	

Note 26 - Related party transactions:

Transactions with related parties during the years ended December 31, 2015 and 2014, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

		December 31, **2015** Loans granted to related parties				
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YYYY	Interest rate
Parent	Ps -	Ps 655	Ps 9	US$	01/08/2016	4.42%
Affiliates	8	-	-			
Associates	-	-	34	EUR	04/08/2015	6.00%
Ford	2,701	-	-			
Total	Ps 2,709	Ps 655	Ps 43			

		December 31, 2014 Loans granted to related parties				
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YYYY	Interest rate
Parent	Ps -	Ps 513	Ps 5	US$	01/08/2016	3.8%
Affiliates	2	-	-			
Associates	44	-	9	EUR	04/08/2015	6.0%
Ford	1,132	-	-			
Total	Ps 1,178	Ps 513	Ps 14			

	December 31, **2015** Loans received from related parties				
Accounts payable	Amount	Interest	Currency	Maturity date DD/MM/YYYY	Interest rate
Ps -	Ps -	Ps -			
50	-	-			
-	-	-			
-	-	-			
Ps 50	Ps -	Ps -			

	December 31, 2014 Loans received from related parties				
Accounts payable	Amount	Interest	Currency	Maturity date DD/MM/YYYY	Interest rate
Ps -	Ps -	Ps -			
24	-	-			
-	-	-			
-	-	-			
Ps 24	Ps -	Ps -			

Sales revenues and other related parties:

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

	Year ended December 31, 2014			
	Finished goods	Interest	Dividends	Others
Parent	Ps -	Ps 11	Ps -	Ps -
Ford	22,312	-	-	-
Affiliates	-	-	-	4
Associates	-	-	-	147
Total	Ps 22,312	Ps 11	Ps -	Ps 151

Cost of sales and other expenses with related parties:

	Year ended December 31, **2015**			
	Interest	Administrative services	Other cost and expenses	Dividends paid
Parent	Ps -	Ps -	Ps -	Ps 1,112
Affiliates	-	87	225	-
Associates	-	-	215	-
Ford	-	-	-	81
Total	Ps -	Ps 87	Ps 440	Ps 1,192

	Year ended December 31, 2014			
	Interest	Administrative services	Other cost and expenses	Dividends paid
Parent	Ps 18	Ps -	Ps -	Ps 779
Affiliates	4	70	174	-
Associates	-	-	143	-
Ford	-	-	-	57
Total	Ps 22	Ps 70	Ps 317	Ps 836

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

At December 31, 2015 and 2014, the Company has recognized other non-current assets related with Ford by Ps 608 and Ps 216, respectively. See Note 13.

For the year ended December 31, 2014, wages and benefits received by top officials of the Company were Ps 200 (Ps 230 in 2014), an amount comprising base salary, social benefits and supplemented mainly by a variable compensation program governed by the results of the Company and by the average price of the Alfa's shares.

Note 27 - Financial information by segments:

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

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

Firstly North America; in which Mexican, Canadian and United States operations are grouped. Europe operations include the plants in Germany, Spain, Hungary, Czech Republic, Austria, Poland and Slovakia.

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, India and Russia), South America (including plants in Brazil and Argentina), and other less significant operations, are added and shown under the “Rest of World”.

Transactions between operating segments are performed at market value, and the accounting policies for which the financial information by segments is prepared, are consistent with those described in Note 4.

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

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

For the year ended December 31, 2015 (amounts in millions of Mexican pesos)

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

For the year ended December 31, 2014

	North America	Europe	Rest of World	Eliminations	Total
Income statement					
Sales by segment	Ps 38,246	Ps 19,194	Ps 4,876	Ps (826)	Ps 61,490
Inter-segment sales	(586)	(209)	(31)	826	-
Sales from external customers	37,660	18,985	4,845	-	61,490
EBITDA					
Operating profit	3,786	1,944	(181)	(41)	5,508
Depreciation and amortization	2,373	1,093	318	-	3,784
Non-current assets write-down	11	1	-	-	12
Adjusted EBITDA	6,170	3,038	137	(41)	9,304
Capital expenditures (CAPEX)	Ps 2,019	Ps 1,664	Ps 788	Ps -	Ps 4,471

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

	December 31, 2015	2014
Adjusted EBITDA	Ps 12,006	Ps 9,304
Depreciation and amortization	(4,609)	(3,784)
Non-current assets write-down	1	(12)
Operating profit	7,398	5,508
Financial result	(1,293)	(699)
Share of gain of associates	48	39
Profit before tax	Ps 6,153	Ps 4,848

For the year ended December 31, 2015

	Property plant and equipment	Goodwill	Intangible assets
North America	Ps 22,909	Ps 2,074	Ps 1,552
Europe	11,117	3,114	828
Rest of World	4,237	-	464
Total	Ps 38,263	Ps 5,187	Ps 2,844

For the year ended December 31, 2014

	Property plant and equipment	Goodwill	Intangible assets
North America	Ps 19,517	Ps 1,799	Ps 1,220
Europe	9,346	2,965	623
Rest of World	3,671	-	304
Total	Ps 32,534	Ps 4,764	Ps 2,147

Nemak’s clients are automotive companies, known as OEMs (Original Equipment Manufacturer). The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 34% and 36%, General Motors 26% and 25% and Fiat-Chrysler 13% and 13%, in 2015 and 2014, respectively.

Note 28 - Commitments and contingencies:

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

a. In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would have a material adverse effect on its results of operations or financial position.

b. The Company has certain legal disputes with the Brazilian tax authorities. The main dispute is related to the application of certain taxes and other minor contingencies related to labor and social security issues. In this process, the company made deposits by the amounts in dispute and is waiting for a final decision to their claims. The amounts mentioned above are Ps 323 in 2015 and Ps 390 in 2014.

c. The Company leases various plant and machinery under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

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

	December 31,			
		2015		2014
No later than 1 year	Ps	221	Ps	216
Later than 1 year and no later than 5 years		421		412
Later than 5 years		527		541

Note 29 - Foreign currency position:

At February 2, 2016, the date of issuance of these financial statements, the exchange rate was 18.29 Mexican pesos per dollar.

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

At December 31, 2015 and 2014 had the following assets and liabilities in foreign currencies:

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

	As of December 31, 2014				
	Dollars (US$)		Other currencies		
	US$	Millions of Mexican pesos	US$	Millions of Mexican Pesos	Total Millions of Mexican Pesos
Monetary assets	Ps 206	Ps 3,034	Ps 472	Ps 6,941	Ps 9,975
Monetary liabilities:					
Current	(387)	(5,695)	(903)	(13,290)	(18,985)
Non-current	(729)	(10,734)	(483)	(7,113)	(17,846)
Monetary position in foreign currencies	Ps (910)	Ps (13,395)	Ps (914)	Ps (13,462)	Ps (26,856)

Note 30 - Subsequent events:

In the preparation of the financial statements, the Company has assessed the events and transactions for their recognition or subsequent disclosure as of December 31, 2015 and up to February 2, 2016 (date of issuance of these financial statements) and it has concluded that there are no subsequent events affecting the financial statements.

Armando Tamez Martínez
Chief Executive Officer

Alberto Sada Medina
Chief Financial Officer

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Stock Exchange and Symbol

NEMAK

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