

**Nemak, S. A. B. de C. V. and  
Subsidiaries**

Consolidated Financial Statements as of  
and for the Years Ended December 31,  
2021, 2020 and 2019, and Independent  
Auditors' Report Dated January 31,  
2022



**Nemak, S. A. B. de C. V. and Subsidiaries**

# **Independent Auditors' Report and Consolidated Financial Statements as of and for the Years Ended December 31, 2021, 2020 and 2019**

| <b>Table of contents</b>                                   | <b>Page</b> |
|------------------------------------------------------------|-------------|
| Independent Auditors' Report                               | 1           |
| Consolidated Statements of Financial Position              | 6           |
| Consolidated Statements of Income                          | 7           |
| Consolidated Statements of Comprehensive Income            | 8           |
| Consolidated Statements of Changes in Stockholders' Equity | 9           |
| Consolidated Statements of Cash Flows                      | 10          |
| Notes to the Consolidated Financial Statements             | 11          |



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

## **Opinion**

We have audited the consolidated financial statements of Nemak, S. A. B. de C. V. and Subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2021, 2020 and 2019, and the consolidated statements of income, the consolidated statements of comprehensive income, the consolidated statements of changes in stockholders' equity and the consolidated statements of cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2021, 2020 and 2019 and their consolidated financial performance and their cash flows for the years then ended, in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

## **Basis for Opinion**

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

## **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most importance in our audit of the 2021 consolidated financial statements. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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

As described in Notes 3 j., 3 l., 3 m., 10, 11 and 12 to the consolidated financial statements, the Company performs impairment tests to its goodwill and intangibles with indefinite useful lives; in addition, it performs impairment tests when there are indicators that the value of long-lived assets, such as property, plant and equipment, intangible assets with finite useful lives and right-of-use assets, will not be recovered.



We have identified the long-lived assets and goodwill review as a key audit matter, mainly due to the fact that impairment tests involve the application of judgments and significant estimates by the Company's management in determining the assumptions of valuation and financial projections, cash flows, budgeted income, and the selection of discount rates used to estimate the recoverable value of the cash generating units ("CGUs") of the Company, as well as changes in the current economic environment caused by the global coronavirus pandemic (COVID-19) in the business, as well as the semiconductor chip shortage affecting the industry where it operates, in addition to the importance of the goodwill balance of \$6,096 million and of \$60,345 million of pesos of long-lived assets in the consolidated financial statements of the Company. Therefore, our review procedures require a high degree of professional judgment, a significant increase in the degree of audit effort, and the incorporation of our valuation specialists.

We performed the following audit procedures on the significant assumptions that the Company considered when estimating future projections to evaluate the recoverable value of goodwill as well as long-lived assets, among others; projections of income and expenses, expected gross and operating profit margins, discount rate, the industry growth rate, discount rate, comparison of the expected gross profit margin, projected flows considering the effects originated by the COVID-19 and the semiconductor chips shortage within the Company's industry. Such procedures are listed as follows:

- We tested the design, implementation and the operating effectiveness of internal controls in the determination of the recoverable value and the assumptions used in the valuation.
- With the assistance of our valuation specialists, we assessed the reasonableness of the methodology to determine the recoverable value of tangible, intangible assets with indefinite useful lives and goodwill and reviewed the financial projections including the impacts of COVID-19 and the semiconductor chips shortage of the OEMs on business operations, comparing them with performance and historical business trends, corroborating the explanations of the variations with management. Likewise, we assessed the internal processes used by management to calculate projections, including timely monitoring and analysis by the Board of Directors, and whether the projections are consistent with the budgets approved by the Board.
- We reviewed the significant assumptions used in the impairment calculation model, specifically including income and cash flow projections, the projected industry growth rate and the projected long-term growth rate; gross and operating margins, as well as the multiple of earnings before interest, taxes, depreciation and amortization ("EBITDA"). Additionally, we tested the mathematical accuracy and integrity of the impairment model, the sensitivity calculations of the significant assumptions of the calculation for all CGUs, calculating an independent estimate to conclude whether the assumptions used would need to be modified and the probability that such modifications happen.
- We evaluated the discount rates independently and compared such rates with the estimates used by management.
- We evaluated the factors and variables used to determine the CGUs, among which were considered: the analysis of operating cash flows and indebtedness policies, analysis of the legal structure, allocation of production and understanding of the operation of the commercial and sales areas.

The results of our procedures were satisfactory, and we agree that the determination of the recoverable value of the CGUs and the assumptions used are reasonable.

### ***Assessment of the recoverability of deferred income tax assets***

The Company records deferred income tax assets derived from tax losses. Management performed an assessment of the probability of recovering the tax loss carryforwards to generate an economic and tax benefit in the future, to support the deferred tax assets recognized in its consolidated financial statements.



Due to the significance of the deferred income tax asset balance derived from tax losses as of December 31, 2021 amounting to \$592 million of pesos (Note 25), and the significant judgments and estimates to determine future projections of the Company's taxable income, we focused on this line item, among others, and performed the following procedures:

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

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

### ***Emphasis Paragraphs***

Merger of the Company with Controladora Nemark, S.A.B. de C.V. ("Controladora Nemark")

As mentioned in Note 2 e., on June 29, 2021, the Company announced a proposal to merge Controladora Nemark into the Company; this proposal was approved by the shareholders of each company on July 29, 2021. Controladora Nemark would cease to exist and its shares would be canceled, while the Company would remain as the subsisting entity and its number of shares would remain outstanding without any changes.

As of September 6, 2021 (the "Merger Effective Date"), the 2,317,921,869 common, registered shares, without par value, representing the capital of the Company, that were held by Controladora Nemark, were transferred to Controladora Nemark's stockholders at an exchange factor of 0.472157717310754 the Company's shares per Controladora Nemark share. On this same date, the listing of the shares representing the capital stock of Controladora Nemark on the Mexican Stock Exchange was canceled and the merger process was concluded. This transaction did not have any effects on the financial information of the Company.

COVID-19 impact and semiconductor chips shortage impact

As mentioned in Note 2 a. and 2 b. to the consolidated financial statements, on March 11, 2020, the World Health Organization declared the SARS-COV2 virus ("COVID-19") as a pandemic; after this event, the spread of COVID-19 caused a slowdown in the automotive industry in which the Company operates, having effects on the consolidated financial and operational information during 2021 and 2020. The Company's management continues to implement measures to address the economic conditions of the market. Our opinion has not been modified by this matter.

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

Company's management is responsible for additional information. Additional information includes: i) the information that will be incorporated in the Annual Report that the Company is required to prepare in accordance with Article 33, section I, subsection b) of Title Four, Chapter One of the General Provisions Applicable to Issuers and other Participants of the Stock Market in Mexico and the Instructions that accompany these provisions (the "Provisions") and ii) the other additional information, which is a measure that is not required by IFRS and has been incorporated to provide an additional explanation to its investors and main readers of its consolidated financial statements to evaluate the performance of each of the operating segments and other indicators on the capacity to meet obligations regarding the earnings before interest, taxes, depreciation, amortization and impairment of assets (adjusted "EBITDA") of the Company; this information is presented in Note 27. Our opinion on the consolidated financial statements will not cover the additional information and we will not express any form of assurance about it.



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

### ***Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements***

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

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

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

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

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

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

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



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

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

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



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

January 31, 2022



**Nemak, S. A. B. de C. V. and Subsidiaries**

# **Consolidated Statements of Financial Position**

**As of December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

|                                             |             | <b>As of December 31</b> |                         |                         |
|---------------------------------------------|-------------|--------------------------|-------------------------|-------------------------|
|                                             | <b>Note</b> | <b>2021</b>              | <b>2020</b>             | <b>2019</b>             |
| <b>Assets</b>                               |             |                          |                         |                         |
| Current assets:                             |             |                          |                         |                         |
| Cash and cash equivalents                   | 6           | \$ 5,799                 | \$ 8,720                | \$ 5,883                |
| Restricted cash                             | 7           | 100                      | 121                     | 120                     |
| Trade and other accounts receivable, net    | 8           | 10,389                   | 9,229                   | 7,860                   |
| Inventories                                 | 9           | 16,995                   | 12,630                  | 11,146                  |
| Assets held for sale                        | 3x          | 185                      | 55                      | -                       |
| Prepaid expenses                            | 3w          | 400                      | 436                     | 394                     |
| Total current assets                        |             | <u>33,868</u>            | <u>31,191</u>           | <u>25,403</u>           |
| Non-current assets:                         |             |                          |                         |                         |
| Property, plant and equipment, net          | 10          | 52,679                   | 51,491                  | 48,140                  |
| Right-of-use assets, net                    | 11          | 1,867                    | 1,797                   | 1,763                   |
| Goodwill and intangible assets, net         | 12          | 11,895                   | 12,221                  | 11,182                  |
| Deferred income tax                         | 25          | 125                      | 1,030                   | 1,057                   |
| Other non-current accounts receivable       | 8, 26       | -                        | -                       | 2                       |
| Other non-current assets                    | 13          | 961                      | 1,002                   | 1,197                   |
| Total non-current assets                    |             | <u>67,527</u>            | <u>67,541</u>           | <u>63,341</u>           |
| Total assets                                |             | <u><u>\$101,395</u></u>  | <u><u>\$ 98,732</u></u> | <u><u>\$ 88,744</u></u> |
| <b>Liabilities and Stockholders' Equity</b> |             |                          |                         |                         |
| Liabilities                                 |             |                          |                         |                         |
| Current liabilities:                        |             |                          |                         |                         |
| Debt                                        | 15          | \$ 4,116                 | \$ 4,490                | \$ 2,297                |
| Lease liability                             | 16          | 441                      | 422                     | 372                     |
| Trade and other accounts payable            | 14          | 28,186                   | 24,985                  | 21,166                  |
| Income taxes payable                        |             | 718                      | 682                     | 883                     |
| Other current liabilities                   | 17          | 392                      | 416                     | 614                     |
| Total current liabilities                   |             | <u>33,853</u>            | <u>30,995</u>           | <u>25,332</u>           |
| Non-current liabilities:                    |             |                          |                         |                         |
| Debt                                        | 15          | 26,466                   | 26,723                  | 24,440                  |
| Lease liability                             | 16          | 1,642                    | 1,554                   | 1,481                   |
| Employee benefits                           | 18          | 1,454                    | 1,568                   | 1,408                   |
| Deferred income taxes                       | 25          | 2,242                    | 1,951                   | 1,955                   |
| Other non-current liabilities               | 17          | 225                      | 273                     | 184                     |
| Total non-current liabilities               |             | <u>32,029</u>            | <u>32,069</u>           | <u>29,468</u>           |
| Total liabilities                           |             | <u>65,882</u>            | <u>63,064</u>           | <u>54,800</u>           |
| Stockholders' equity                        |             |                          |                         |                         |
| Capital stock                               | 19          | 6,553                    | 6,599                   | 6,599                   |
| Share premium                               |             | 10,434                   | 10,434                  | 10,434                  |
| Retained earnings                           |             | 9,970                    | 10,201                  | 11,373                  |
| Other reserves                              |             | 8,556                    | 8,434                   | 5,538                   |
| Total stockholders' equity                  |             | <u>35,513</u>            | <u>35,668</u>           | <u>33,944</u>           |
| Total liabilities and stockholders' equity  |             | <u><u>\$101,395</u></u>  | <u><u>\$ 98,732</u></u> | <u><u>\$ 88,744</u></u> |

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



**Nemak, S. A. B. de C. V. and Subsidiaries**

**Consolidated Statements of Income**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

|                                                                          | <b>Note</b> | <b>2021</b>    | <b>2020</b>      | <b>2019</b>     |
|--------------------------------------------------------------------------|-------------|----------------|------------------|-----------------|
| Revenues                                                                 | 27          | \$ 77,078      | \$ 66,325        | \$ 77,363       |
| Cost of sales                                                            | 21          | (67,526)       | (58,343)         | (66,276)        |
| Gross profit                                                             |             | 9,552          | 7,982            | 11,087          |
| Administrative and sales expenses                                        | 21          | (5,001)        | (4,980)          | (5,328)         |
| Other income (expenses), net                                             | 22          | 111            | (1,035)          | (795)           |
| Operating income                                                         |             | <u>4,662</u>   | <u>1,967</u>     | <u>4,964</u>    |
| Financial income                                                         | 23          | 71             | 76               | 242             |
| Financial expenses                                                       | 23          | (2,259)        | (1,746)          | (1,576)         |
| Exchange fluctuation loss, net                                           | 23          | (405)          | (1,020)          | (34)            |
| Financial results, net                                                   | 23          | <u>(2,593)</u> | <u>(2,690)</u>   | <u>(1,368)</u>  |
| Equity in (loss) income of associates recognized using the equity method | 13          | (22)           | (29)             | 41              |
| Income (loss) before income taxes                                        |             | 2,047          | (752)            | 3,637           |
| Income taxes                                                             | 25          | (1,962)        | (181)            | (1,144)         |
| Net consolidated income (loss)                                           |             | <u>\$ 85</u>   | <u>\$ (933)</u>  | <u>\$ 2,493</u> |
| Basic and diluted earnings (loss) per share, in Mexican pesos            |             | <u>\$ 0.03</u> | <u>\$ (0.30)</u> | <u>\$ 0.81</u>  |
| Weighted average outstanding shares (millions)                           | 19          | <u>3,055</u>   | <u>3,077</u>     | <u>3,077</u>    |

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



**Nemak, S. A. B. de C. V. and Subsidiaries**

# **Consolidated Statements of Comprehensive Income**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

|                                                                                         | <b>Note</b> | <b>2021</b>   | <b>2020</b>     | <b>2019</b>     |
|-----------------------------------------------------------------------------------------|-------------|---------------|-----------------|-----------------|
| Net consolidated income (loss)                                                          |             | <u>\$ 85</u>  | <u>\$ (933)</u> | <u>\$ 2,493</u> |
| Other comprehensive income for the year:                                                |             |               |                 |                 |
| <i>Items that will not be reclassified to the consolidated statements of income:</i>    |             |               |                 |                 |
| Remeasurement of employee benefit obligations, net of taxes                             | 25          | 159           | (13)            | (115)           |
| <i>Items that could be reclassified to the consolidated statements of income:</i>       |             |               |                 |                 |
| Effect of derivative financial instruments contracted as cash flow hedges, net of taxes | 25          | (20)          | -               | -               |
| Cumulative translation effect of foreign entities                                       | 25          | (63)          | 2,909           | (1,846)         |
| Total comprehensive income (loss) of the year                                           |             | <u>76</u>     | <u>2,896</u>    | <u>(1,961)</u>  |
| Consolidated comprehensive income                                                       |             | <u>\$ 161</u> | <u>\$ 1,963</u> | <u>\$ 532</u>   |

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



**Nemak, S. A. B. de C. V. and Subsidiaries**

## **Consolidated Statements of Changes in Stockholders' Equity**

**For the years ended December 31, 2021, 2020 and 2019**

**In millions of Mexican pesos**

|                                              | <b>Capital<br/>stock</b> | <b>Share<br/>premium</b> | <b>Retained<br/>earnings</b> | <b>Other<br/>reserves</b> | <b>Total<br/>stockholders'<br/>equity</b> |
|----------------------------------------------|--------------------------|--------------------------|------------------------------|---------------------------|-------------------------------------------|
| Balances as of December 31, 2018             | \$ 6,604                 | \$ 10,434                | \$ 11,567                    | \$ 7,499                  | \$ 36,104                                 |
| Transactions with stockholders:              |                          |                          |                              |                           |                                           |
| Others                                       | (5)                      | -                        | 14                           | -                         | 9                                         |
| Dividends declared (Notes 19 and 26)         | -                        | -                        | (2,439)                      | -                         | (2,439)                                   |
|                                              | <u>6,599</u>             | <u>10,434</u>            | <u>9,142</u>                 | <u>7,499</u>              | <u>33,674</u>                             |
| Net income                                   | -                        | -                        | 2,493                        | -                         | 2,493                                     |
| Total other comprehensive loss of the year   | -                        | -                        | -                            | (1,961)                   | (1,961)                                   |
| Comprehensive income                         | -                        | -                        | 2,493                        | (1,961)                   | 532                                       |
| Effect of Adoption of IFRIC 23               | -                        | -                        | (262)                        | -                         | (262)                                     |
| Balances as of December 31, 2019             | 6,599                    | 10,434                   | 11,373                       | 5,538                     | 33,944                                    |
| Transactions with stockholders:              |                          |                          |                              |                           |                                           |
| Dividends declared (Notes 19 and 26)         | -                        | -                        | (239)                        | -                         | (239)                                     |
|                                              | <u>6,599</u>             | <u>10,434</u>            | <u>11,134</u>                | <u>5,538</u>              | <u>33,705</u>                             |
| Net loss                                     | -                        | -                        | (933)                        | -                         | (933)                                     |
| Total other comprehensive income of the year | -                        | -                        | -                            | 2,896                     | 2,896                                     |
| Comprehensive income                         | -                        | -                        | (933)                        | 2,896                     | 1,963                                     |
| Balances as of December 31, 2020             | 6,599                    | 10,434                   | 10,201                       | 8,434                     | 35,668                                    |
| Transactions with stockholders:              |                          |                          |                              |                           |                                           |
| Others                                       | (46)                     | -                        | (316)                        | 46                        | (316)                                     |
|                                              | <u>6,553</u>             | <u>10,434</u>            | <u>9,885</u>                 | <u>8,480</u>              | <u>35,352</u>                             |
| Net income                                   | -                        | -                        | 85                           | -                         | 85                                        |
| Total other comprehensive income of the year | -                        | -                        | -                            | 76                        | 76                                        |
| Comprehensive income                         | -                        | -                        | 85                           | 76                        | 161                                       |
| Balances as of December 31, 2021             | <u>\$ 6,553</u>          | <u>\$ 10,434</u>         | <u>\$ 9,970</u>              | <u>\$ 8,556</u>           | <u>\$ 35,513</u>                          |

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



**Nemak, S. A. B. de C. V. and Subsidiaries**

# **Consolidated Statements of Cash Flows**

For the years ended December 31, 2021, 2020 and 2019

In millions of Mexican pesos

|                                                            | 2021            | 2020            | 2019            |
|------------------------------------------------------------|-----------------|-----------------|-----------------|
| <b>Cash flows from operating activities</b>                |                 |                 |                 |
| Income (loss) before income taxes                          | \$ 2,047        | \$ (752)        | \$ 3,637        |
| Depreciation and amortization                              | 6,718           | 6,826           | 6,079           |
| Gain on sale of property, plant and equipment              | (1)             | (6)             | (4)             |
| Impairment of property, plant and equipment                | 141             | 133             | 915             |
| Exchange fluctuation, net                                  | 405             | 1,020           | 34              |
| Interest expense, net                                      | 2,078           | 1,535           | 1,166           |
| Other                                                      | 279             | 276             | 152             |
| Movements in working capital:                              |                 |                 |                 |
| Trade receivables and other accounts receivable            | (972)           | (1,232)         | 1,309           |
| Inventories                                                | (4,433)         | (631)           | 1,048           |
| Suppliers and related parties                              | 2,744           | 1,800           | (558)           |
| Income taxes paid                                          | (897)           | (366)           | (1,945)         |
| Net cash flows generated by operating activities           | <u>8,109</u>    | <u>8,603</u>    | <u>11,833</u>   |
| <b>Cash flows from investing activities</b>                |                 |                 |                 |
| Interest collected                                         | 60              | 66              | 189             |
| Cash flow in acquisitions of property, plant and equipment | (6,250)         | (4,439)         | (5,102)         |
| Cash flow in acquisition of intangible assets              | (1,093)         | (1,216)         | (1,513)         |
| Dividends received                                         | 24              | 24              | -               |
| Restricted cash                                            | 25              | -               | 986             |
| Other assets                                               | 51              | (87)            | 766             |
| Net cash flows used in investing activities                | <u>(7,183)</u>  | <u>(5,652)</u>  | <u>(4,674)</u>  |
| <b>Cash flows from financing activities</b>                |                 |                 |                 |
| Proceeds from debt                                         | 18,168          | 15,851          | 7,164           |
| Payments of debt                                           | (18,884)        | (13,410)        | (7,584)         |
| Lease payments                                             | (698)           | (298)           | (380)           |
| Interest paid                                              | (2,225)         | (1,498)         | (1,368)         |
| Repurchase of shares and others                            | (124)           | 5               | (22)            |
| Dividends paid                                             | -               | (306)           | (2,439)         |
| Net cash flows (used in) generated by financing activities | <u>(3,763)</u>  | <u>344</u>      | <u>(4,629)</u>  |
| Net (decrease) increase in cash and cash equivalents       | (2,837)         | 3,295           | 2,530           |
| Exchange fluctuation of cash and cash equivalents          | (84)            | (458)           | (202)           |
| Cash and cash equivalents at the beginning of the year     | <u>8,720</u>    | <u>5,883</u>    | <u>3,555</u>    |
| Cash and cash equivalents at the end of the year           | <u>\$ 5,799</u> | <u>\$ 8,720</u> | <u>\$ 5,883</u> |

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



## Nemak, S. A. B. de C. V. and Subsidiaries

# Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2021, 2020 and 2019

Millions of Mexican pesos, except where otherwise indicated

### 1. General information

Nemak, S. A. B. de C. V. and subsidiaries (“Nemak” or the “Company”), formerly a subsidiary of Controladora Nemak, S.A.B. de C. V. (“Controladora Nemak”), with which it merged on August 18, 2021 (Note 2 e.), with Nemak remaining as the merging and surviving Company, is a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, e-mobility and structural applications. Nemak’s main offices are located at Libramiento Arco Vial Km. 3.8, García, Nuevo León, 66017, Mexico.

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

Nemak SAB is a publicly traded corporation whose shares are listed on the Mexican Stock Exchange. The entire subscribed and paid-in capital of Nemak is represented by Class “I” shares in the “A” Series, common, registered, and without par value, which are listed under the ticker symbol “NEMAK”.

In the following notes to the consolidated financial statements, reference to pesos, Mexican pesos, or “\$” refers to millions of Mexican pesos. Reference to “US\$” or dollars is in relation to millions of US dollars. Finally, reference to “EUR” or euros will refer to millions of euros.

### 2. Significant events

#### 2021

#### *a. COVID-19 impact*

On March 11, 2020, the World Health Organization declared a pandemic due to the infectious disease caused by the SARS-COV2 virus (hereinafter “COVID-19”). COVID-19 had and continues to have strong impacts on health, economic, and social systems worldwide, extending into 2021.

Through its subsidiaries, the Company takes steps to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on (i) strengthening financial and operating performance by constantly monitoring its cost structure, key business processes, and a commitment to its employees, focusing specifically on remote-working experiences; (ii) maintaining a solid liquidity structure through detailed cash flow management; and (iii) constantly monitoring its financial position to ensure compliance with its established affirmative and negative covenants, as well as its key financial ratios.

As of December 31, 2021, the Company continues to monitor the development of its business, in accordance with the government regulations of the different countries where it operates and responding in a timely manner to changes that emerge.

#### *b. Impact of the semiconductor chip shortage*

Due to the global semiconductor chip shortage, since early 2021, light vehicle production among Nemak’s clients has been impacted, which has in turn influenced the demand for parts that the Company produces. In response, the Company has implemented a variety of financial flexibility and operational efficiency initiatives, helping to mitigate the effects of this situation. The Company continues to monitor the situation, responding to changes that emerge in a timely manner.

#### *c. Announcement of greenhouse gas emissions reduction targets by 2030*

On March 31, 2021, Nemak announced targets to reduce by 28% its greenhouse gas (GHG) emissions by 2030. After completing a rigorous validation process with the Science-Based Targets initiative, Nemak has committed to achieving a 28% absolute reduction in Scope 1 and 2 GHG emissions (direct and certain indirect emissions, respectively) by 2030, from a 2019 baseline year. Nemak has also committed to reducing absolute Scope 3 GHG emissions from purchased goods and services by 14% over the same timeframe.



d. *Placement of the first sustainability-linked bond in dollars*

On June 23, 2021, Nemak announced the successful placement of its first sustainability-linked bond in international markets. The placement consisted of an issuance of senior notes for US\$500, with a 10-year maturity and 3.625% coupon; the proceeds were used to prepay Senior Notes with maturity date in 2025. Prior to the placement of this issuance, Nemak published a sustainability-linked bond framework in accordance with the Sustainability-Linked Bond Principles 2020, with a commitment to GHG reduction targets of 28% by 2030, approved by the Science-Based Targets initiative in March 2021. Nemak reaffirms its commitment to reduce Scopes 1 and 2 GHG emissions by incorporating in this placement a target of 18% reduction by 2026 (relative to a 2019 baseline).

e. *Merger with Controladora Nemak S.A.B. de C.V.*

On June 29, 2021, Nemak announced a proposal to merge Controladora Nemak into Nemak SAB; this proposal was approved by the shareholders of each company on July 29, 2021. Controladora Nemak would cease to exist and its shares would be canceled, while Nemak SAB would remain as the surviving entity, and its number of shares would remain outstanding without any changes.

As of September 6, 2021 (the “Merger Effective Date”), the 2,317,921,869 common, registered shares, without par value, representing the capital of Nemak SAB, that had been owned by Controladora Nemak, were transferred to Controladora Nemak’s stockholders at an exchange factor of 0.472157717310754 Nemak shares per Controladora Nemak share. On this same date, the listing of the shares representing the capital stock of Controladora Nemak on the Mexican Stock Exchange was canceled and the merger process was concluded.

f. *Placement of the first sustainability-linked bond in euros*

On July 7, 2021, Nemak announced the successful placement in international markets of its first sustainability-linked bond in euros. The placement consisted of a EUR 500 issuance of 7-year senior notes, bearing a coupon of 2.25%; the proceeds were used to finance a cash tender to purchase Nemak’s 3.25% 2024 notes, which have an outstanding balance for the same amount, and the remainder was used to prepay outstanding debt and for general corporate purposes. This second placement adheres to the sustainability-linked bond framework and is in accordance with the Sustainability-Linked Bond Principles 2020. The Company reaffirms its commitment to reduce Scope 1 and 2 GHG emissions by incorporating in this placement a target of 18% reduction by 2026 (relative to a 2019 baseline) in accordance with its plans to achieve a 28% reduction by 2030, which were approved by the Science-Based Targets initiative in March 2021. This operation originated a transaction that did not generate any cash flow for the Company of \$5,563 (EUR 236).

2020

g. *COVID-19 impacts*

On March 11, 2020, the World Health Organization declared a pandemic due to the infectious disease caused by the SARS-COV2 virus (hereinafter “COVID-19”). COVID-19 had and continues to have strong impacts on health, economic, and social systems worldwide.

As a result of the pandemic, along with emergency declarations issued in certain jurisdictions where the Company operates, it suspended production for several months in 2020 at all its plants worldwide; it simultaneously implemented measures aimed at optimizing costs, expenses and cash flows, through the use of committed and uncommitted credit lines (Note 4), the reduction of work hours, early vacations and honoring salary commitments with Western European government support, among other measures (Note 18). The main impacts occurred in the months of April and May, which was reflected in a 60% decrease in sales in the second quarter of 2020 and with respect to the second quarter of the previous year.

In response to this situation, the Company reduced the size of its total workforce by 9% in 2020, incurring a termination benefits expense and other COVID-19 related expenses of US\$36. It also announced cancellation of payment of the remaining balance of dividends declared at its General Shareholders’ Meeting held on February 25, 2020 (Note 19).

h. *Spin-off of ALFA’s stake in Nemak and creation of Controladora Nemak S.A.B. de C.V.*

On August 17, 2020, Nemak announced that the shareholders of its former parent company (ALFA) approved a spin-off proposal to transfer ALFA’s entire shareholding stake in Nemak, to a newly created company denominated Controladora Nemak, S.A.B de C.V., to be listed on the Mexican Stock Exchange.



On December 4, 2020, Nemark announced that the National Banking and Securities Commission ("CNBV") had granted authorization to register the shares of Controladora Nemark, S.A.B de C.V. in the National Securities Registry. As a result of the transaction, ALFA shareholders received one share of Controladora Nemark for each of their ALFA shares as of market close on December 11, 2020. The number of Nemark shares remained unchanged. Controladora Nemark began trading on the Mexican Stock Exchange on December 14, 2020, as of which date ALFA no longer consolidates Nemark's operations in its consolidated financial statements.

## 2019

### *i. Closure of manufacturing operations in Windsor, Canada*

On July 16, 2019, Nemark announced its decision to close its manufacturing operations in Windsor, Canada, whose final day of operations was October 16, 2020. The operation represented approximately 1% of the Company's consolidated sales. The decision was made due to the early phase-out of an export program for a customer in China. Therefore, for the year ended December 31, 2020 and 2019, Nemark acknowledged an impairment of \$110 and \$714 and reorganization expenses of \$21 and \$80, respectively, in other expenses, net (Note 22).

## **3. Summary of significant accounting policies**

The following are the most significant accounting policies followed by Nemark 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 Nemark have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). IFRS include all International Accounting Standards ("IAS") in effect and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), including those previously issued by the Standing Interpretations Committee ("SIC").

The consolidated financial statements have been prepared on a historical cost basis, except for the cash flow hedges, which are measured at fair value and the net assets and the results of the operations of the Company in Argentina, an economy that is considered hyperinflationary, which are expressed in terms of the unit of current measurement as of the closing date of the reporting period.

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

### **b. Consolidation**

#### *i. Subsidiaries*

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

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

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



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

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

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

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

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

As of December 31, 2021, 2020 and 2019 the subsidiaries included in the consolidated financial statements of Nemak were as follows:

|                                                                            | Country <sup>(1)</sup> | Percentage of ownership (%) <sup>(2)</sup> | Functional currency   |
|----------------------------------------------------------------------------|------------------------|--------------------------------------------|-----------------------|
| Nemak, S. A. B. de C. V. (Holding)                                         | Mexico                 |                                            | U.S. dollar           |
| Nemak Mexico, S. A. <sup>(3)</sup>                                         | Mexico                 | 100                                        | U.S. dollar           |
| Modellbau Schönheide GmbH                                                  | Germany                | 100                                        | Euro                  |
| Corporativo Nemak, S. A. de C. V. (Administrative services) <sup>(3)</sup> | Mexico                 | 100                                        | Mexican peso          |
| Nemak Canada, S. A. de C. V. (Holding)                                     | Mexico                 | 100                                        | Mexican peso          |
| Nemak of Canada Corporation                                                | Canada                 | 100                                        | Canadian dollar       |
| Nemak Gas, S. A. de C. V.                                                  | Mexico                 | 100                                        | Mexican peso          |
| Nemak Automotive, S. A. de C. V. <sup>(3)</sup>                            | Mexico                 | 100                                        | U.S. dollar           |
| Camen International Trading, Inc.                                          | USA                    | 100                                        | U.S. dollar           |
| Nemak Europe GmbH                                                          | Germany                | 100                                        | Euro                  |
| Nemak Exterior, S. L. (Holding)                                            | Spain                  | 100                                        | Euro                  |
| Nemak Dillingen GmbH                                                       | Germany                | 100                                        | Euro                  |
| Nemak Dillingen Casting GmbH & Co. KG                                      | Germany                | 100                                        | Euro                  |
| Nemak Wernigerode GmbH                                                     | Germany                | 100                                        | Euro                  |
| Nemak Wernigerode GmbH & Co. KG                                            | Germany                | 100                                        | Euro                  |
| Nemak Linz GmbH                                                            | Austria                | 100                                        | Euro                  |
| Nemak Győr Kft                                                             | Hungary                | 100                                        | Euro                  |
| Nemak Poland Sp. Z.o.o.                                                    | Poland                 | 100                                        | Euro                  |
| Nemak BSEU Sp. Z.o.o.                                                      | Poland                 | 100                                        | Euro                  |
| Nemak Slovakia, S. r. o.                                                   | Slovakia               | 100                                        | Euro                  |
| Nemak Czech Republic, S.r.o.                                               | Czech Republic         | 100                                        | Euro                  |
| Nemak Spain, S. L.                                                         | Spain                  | 100                                        | Euro                  |
| Nemak Rus, LLC.                                                            | Russia                 | 100                                        | Russian ruble         |
| Nemak Pilsting GmbH                                                        | Germany                | 100                                        | Euro                  |
| Nemak Alumínio do Brazil Ltda.                                             | Brazil                 | 100                                        | Brazilian real        |
| Nemak Argentina, S. R. L.                                                  | Argentina              | 100                                        | Argentinean peso      |
| Nemak Nanjing Automotive Components Co., Ltd.                              | China                  | 100                                        | Chinese renminbi yuan |
| Nemak Chongqing Automotive Components, Co. Ltd.                            | China                  | 100                                        | Chinese renminbi yuan |
| Nemak Shanghai Management Co., Ltd.                                        | China                  | 100                                        | Chinese renminbi yuan |
| Nemak Aluminum Casting India Private, Ltd.                                 | India                  | 100                                        | Indian rupee          |
| Nemre Insurance Pte Ltd.                                                   | Singapore              | 100                                        | U.S. dollar           |
| Nemak Commercial Services, Inc.                                            | USA                    | 100                                        | U.S. dollar           |
| Nemak USA, Inc.                                                            | USA                    | 100                                        | U.S. dollar           |
| Nemak USA Services Inc.                                                    | USA                    | 100                                        | U.S. dollar           |
| Nemak Automotive Castings, Inc.                                            | USA                    | 100                                        | U.S. dollar           |
| Nemak Izmir Döküm Sanayi A. Ş.                                             | Turkey                 | 100                                        | Euro                  |
| Nemak Izmir Dis Ticaret A. Ş.                                              | Turkey                 | 100                                        | Euro                  |



- (1) Country of company's incorporation.
- (2) Direct and indirect ownership percentage of Nemak SAB. Share ownership percentages as of December 31, 2021, 2020 and 2019.
- (3) Corporativo Nemak S.A. de C.V. and Nemak Automotiva, S.A. de C.V. merged into Nemak México, S.A. on August 1, 2021.

As of December 31, 2021, 2020 and 2019, there are no significant restrictions on investment in shares of the subsidiary companies mentioned above.

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

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

#### iii. Sale or disposal of subsidiaries

When the Company ceases to have control any retained interest in the entity is re-measured at fair value, and the change in the carrying amount is recognized in the consolidated statement of income. The fair value is the initial carrying value for accounting purposes 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 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 comprehensive income are reclassified to income for the year, where appropriate.

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

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

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



**c. Foreign currency translation**

**i. Functional and presentation currency**

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

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

**ii. Transactions and balances**

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

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

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

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

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

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

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

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

The results and financial position of all Nemak entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows, depending on whether the functional currency comes from a non-hyperinflationary or hyperinflationary environment:



#### *Non-hyperinflationary environment*

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

#### *Hyperinflationary environment*

- a. Assets, liabilities and equity in the statement of financial position, as well as income and expenses in the income statement, are translated at the closing exchange rate of the statement of financial position, after being restated in its functional currency (Note 3 d.); and
- b. Assets, liabilities, equity, income and expenses of the comparative period, are maintained according to the amount obtained in the translation of the year in question, that is, the financial statements of the preceding period. These amounts are not adjusted to subsequent exchange rates because the Company presents its financial information in Mexican pesos, which correspond to a currency of a non-hyperinflationary environment.

Goodwill and fair value adjustments arising on the acquisition date of a foreign transaction to measure them at their fair value are recognized as assets and liabilities of the foreign entity and are converted to the closing exchange rate. The exchange differences that arise are recognized in the consolidated statement of comprehensive income.

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

|                |                       | Local currency to Mexican pesos       |       |       |                                       |       |       |
|----------------|-----------------------|---------------------------------------|-------|-------|---------------------------------------|-------|-------|
|                |                       | Closing exchange rate at December 31, |       |       | Average exchange rate at December 31, |       |       |
| Country        | Local currency        | 2021                                  | 2020  | 2019  | 2021                                  | 2020  | 2019  |
| Canada         | Canadian dollar       | 16.29                                 | 15.66 | 14.53 | 16.23                                 | 16.03 | 14.56 |
| United States  | U.S. dollar           | 20.58                                 | 19.95 | 18.85 | 20.28                                 | 21.49 | 19.26 |
| Brazil         | Brazilian real        | 3.69                                  | 3.84  | 4.69  | 3.78                                  | 4.16  | 4.91  |
| Argentina      | Argentinean peso      | 0.20                                  | 0.24  | 0.31  | 0.21                                  | 0.31  | 0.41  |
| Czech Republic | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Germany        | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Austria        | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Hungary        | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Poland         | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Slovakia       | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| Spain          | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |
| China          | Chinese renminbi yuan | 3.24                                  | 3.06  | 2.71  | 3.16                                  | 3.12  | 2.80  |
| India          | Indian rupee          | 0.28                                  | 0.27  | 0.26  | 0.28                                  | 0.29  | 0.27  |
| Russia         | Russian ruble         | 0.27                                  | 0.27  | 0.30  | 0.28                                  | 0.30  | 0.30  |
| Singapore      | U.S. dollar           | 20.58                                 | 19.95 | 18.85 | 20.28                                 | 21.49 | 19.26 |
| Turkey         | Euro                  | 23.41                                 | 24.41 | 21.15 | 23.99                                 | 24.51 | 21.56 |

#### **d. Hyperinflationary effects**

As of July 1, 2018, the cumulative inflation from the prior 3 years in Argentina exceeded 100%; consequently, the Argentine peso was classified as a currency of a hyperinflationary economic environment. As a result, the financial statements of the subsidiaries located in that country, whose functional currency is the Argentine peso, have been restated and adjusted for inflation in accordance with the requirements of the International Accounting Standard 29, Financial Information in Hyperinflationary Economies ("IAS 29"), and have been consolidated in compliance with the requirements of IAS 21. The purpose of applying these requirements is to consider changes in the general purchasing power of the Argentine peso in order to present the financial statements in the measuring unit effective at the date of the statement of financial position. The financial statements before including any inflation adjustments were prepared using the historical cost method.



The Company determined the inflation adjustments in its consolidated financial statements in the following manner:

- a. The amounts corresponding to non-monetary items of each statement of financial position, which are not measured at the date of the statement of financial position at their fair value or net realizable value, as the case may be, are restated by applying to their historical cost the change of a general price index from the date of acquisition or the date of its last measurement at fair value, to the date of the statement of financial position;
- b. The amounts corresponding to monetary items of the statement of financial position are not restated;
- c. The components of stockholders' equity of each statement of financial position are restated:
  - 1) At the beginning of the first period of application of IAS 29, except for retained earnings, by applying the change of a general price index from the dates the components were originated to the date of restatement. Restated retained earnings are derived from all the other balances in the statement of financial position;
  - 2) At the end of the first period and in subsequent periods, all components of stockholders' equity are restated by applying a general price index from the beginning of the period or the date of contribution, if later.
- d. Revenues and expenses are restated by applying the change in the general price index, from the date on which the expenses and revenues were recognized, up to the reporting date.
- e. Gains or losses arising from the net monetary position are recognized in the consolidated statement of income.

The Company reflects the effects of hyperinflation on the financial information of its subsidiaries in Argentina using price indexes that are considered appropriate in accordance with Resolution 539/19 JG (the "Resolution") of the Argentine Federation of Professional Councils of Economic Sciences. This resolution establishes that a combination of price indices should be used in the calculation of the effects of restatement of financial statements. Therefore, the Company has decided to use the Consumer Price Index ("CPI") to restate balances and transactions.

The effects of the restatement of the financial statements of the subsidiaries located in Argentina were not material, and they were included in the "Financial result, net" line item of the year ended December 31, 2021.

**e. *Cash and cash equivalents***

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

**f. *Restricted cash***

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

**g. *Financial instruments***

Financial assets

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

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



### *Classes of financial assets*

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

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

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

Financial assets at fair value through other comprehensive income are financial assets: i) held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and ii) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the amount of outstanding principal. As of December 31, 2021, 2020 and 2019, the Company does not have financial assets to be measured at fair value through other comprehensive income.

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

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

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

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

As of December 31, 2021, 2020 and 2019, the Company has not made any of the irrevocable designations described above.

### *Impairment of financial assets*

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

#### *a. Trade receivables*

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

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

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



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

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

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

b. Other financial instruments

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

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

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

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

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

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

*Financial liabilities*

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

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

*Derecognition of financial liabilities*

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



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

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

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

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

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

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

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

#### *Fair value hedges*

Changes in the fair value of derivative financial instruments are recorded in the consolidated statement of income. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the consolidated statement of income in the same line item as the hedged position. As of December 31, 2021, 2020 and 2019, the Company has no derivative financial instruments classified as fair value hedges.

#### *Cash flow hedges*

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

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

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

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

#### *Suspension of hedge accounting*

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



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

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

**i. Inventories**

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

**j. Property, plant and equipment**

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

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

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

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

|                                |                |
|--------------------------------|----------------|
| Buildings and constructions    | 20 to 50 years |
| Machinery and equipment        | 10 to 30 years |
| Vehicles                       | 4 to 20 years  |
| Furniture and office equipment | 6 to 15 years  |
| Other assets                   | 10 to 20 years |

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

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



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

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

As of December 31, 2020 and 2019, the Company made changes in the estimated useful life of its fixed assets as will generate future economic benefits for a period longer than previously estimated which were recognized prospectively, representing a profit of \$327 and \$768, respectively, in the consolidated statement of income, with respect to the depreciation that would have been recognized without such revisions in the estimate. The Company did not make any changes in the estimated useful life of its fixed assets as of December 31, 2021.

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

**k. Leases**

*The Company as lessee*

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

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

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

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

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



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

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

#### *The Company as lessor*

Leases where the Company acts as lessor are classified as financial or operating leases. As long as the terms of the contract substantially transfer all risks and benefits of the ownership to the lessee, the contract is classified as a financial lease. Remaining leases are classified as operating leases.

Revenues from operating leases are recognized in a straight-line basis during the term of the corresponding lease. The initial direct costs incurred in the negotiation and organization of an operating lease are added to the carrying amount of the leased asset and are recognized on a straight-line basis during the term of the lease. Operating lease balances are recognized as accounts receivable for the amount of the Company's net investment in such leases.

### **I. Intangible assets**

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

Intangible assets are classified as follows:

#### *(i) Indefinite useful life*

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2021, 2020 and 2019, 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 10 years  |
| Relationships with customers | 5 to 17 years  |
| Software and licenses        | 3 to 11 years  |
| Trademarks and patents       | 15 to 20 years |

#### **a. Goodwill**

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



b. Development costs

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

c. Other relationships with customers

The Company has recognized certain relationships with customers corresponding to the costs incurred to obtain new agreements with certain OEMs (Original Equipment Manufacturers), and which will be recognized as a revenue reduction over the term of these agreements. The amortization method used is based on the volume of units produced. As of December 31, 2021, 2020 and 2019, the Company recorded a reduction in revenues associated with the amortization of these assets of \$155, \$168 and \$165 for this item, respectively.

**m. Impairment of non-financial assets**

Assets that have an indefinite useful life, for example goodwill, are not depreciable or amortizable and are subject to annual impairment tests. Assets that are subject to amortization are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels at which there are separately identifiable cash flows (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.

**n. Income tax**

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

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

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

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

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

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



***o. Employee benefits***

***i. Pension plans***

Defined contribution plans:

A defined contribution plan is a pension plan under which the Company pays fixed contributions to 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. Contributions are recognized as employee benefit expense on the date the contribution is required.

Defined benefit plans

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

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

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

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

Past-service costs are recognized immediately in the consolidated statements of income.

***ii. Post-employment medical benefits***

The Company provides medical benefits to retired employees after termination of employment. Eligibility for these benefits usually depends on the employee having worked up to the retirement age and having completed a minimum number 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 the Company terminates the employment contract before the normal retirement date or when the employee accepts voluntary severance in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 and it involves the payment of termination benefits. If there is an offer that promotes the termination of the employment relationship voluntarily by employees, termination benefits are valued based on the number of employees expected to accept the offer. Benefits that will be paid in the long-term are discounted at their present value.

***iv. Short-term benefits***

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

***v. Employee participation in profit and bonuses***

The Company recognizes a liability and an expense for bonuses and employee profit sharing 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.



**p. 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 is a number of similar obligations, the likelihood that an outflow will be required for 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 item included in the same class of obligations may be remote.

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

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

**q. Share-based payments**

The Company has compensation plans based on the market value of Nemak and Alfa's shares (the latter was considered until the spin-off date) in favor of certain senior executives and subsidiaries (Note 20). The conditions for granting such compensation to the eligible executives include compliance with certain financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The Board of Directors has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of Nemak. Adjustments to this estimate are charged or credited to the consolidated statement of income.

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

**r. Treasury shares**

The Company's stockholders periodically authorize a maximum amount for the acquisition of the Company's own shares. Upon the occurrence of a repurchase of its own shares, they become treasury shares and the amount is presented as a reduction to stockholders' equity at the purchase price. These amounts are stated at their historical value. As of December 31, 2021 and 2019, \$46 and \$5 were repurchased, respectively.

**s. Capital stock**

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

**t. Comprehensive income**

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



**u. Segment reporting**

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

**v. Revenue recognition**

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

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

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

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

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

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

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

**w. Advanced payments**

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

**x. Assets held for sale**

Assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.



Assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

**y. Earnings per share**

Earnings per share are calculated by dividing the profit attributable to the stockholders of the parent by the weighted average number of common shares outstanding during the year. As of December 31, 2021, 2020 and 2019, there are no dilutive effects from financial instruments potentially convertible into shares.

**z. Changes in accounting policies and disclosures**

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

In the current year, the Company has applied a number of new and amended IFRS and interpretations issued by the International Accounting Standards Board (“IASB”) that are mandatorily effective for an accounting period that begins on or after January 1, 2020. The conclusions related to their adoption are described as follows:

**Amendments to IFRS 16, Rent Concessions Related to Covid-19 after June 30, 2021**

The amendments introduce a practical expedient that provides lessees the option not to assess whether a rent concession that meets certain conditions is a lease modification. The practical expedient is applicable to rent concessions occurring as a direct consequence of the Covid-19 pandemic and only if all of the following conditions are met:

- a. The change in the lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- b. Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (originally due on or before June 30, 2021); and
- c. There is no substantive change to other terms and conditions of the lease.

Additionally, the amendments include the following modifications:

- a. The lessee may apply those modifications for annual periods beginning on or after April 1, 2021.
- b. The lessees that apply those modifications may do it retrospectively, recognizing the cumulative effect of having initially applied the modifications as an adjustment to the initial balance of retained earnings at the beginning of the annual period in which the lessee applies these modifications.

The Company did not have any significant impacts on its consolidated financial statements due to the adoption of the amendment, as it did not receive significant concessions during the year.

• **Phase 2 of the benchmark interest rate reform (IBOR- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)**

Interbank offered rates (IBORs) are interest reference rates, such as LIBOR, EURIBOR and TIBOR, that represent the cost of obtaining unsecured funding, that have been questioned for their long-term viability as benchmarks. The Interest Rate Benchmark Reform on its phase 2, refers to the modification of financial assets, financial liabilities and lease liabilities, hedge accounting requirements and disclosure of financial instruments.

Regarding the modification of financial assets, financial liabilities and lease liabilities, the IASB introduced a practical expedient which implies updating the effective interest rate at the moment in which a fallback reserve clause is activated for the substitution of the reference rate defined in the contract, without requiring the recognition of a modification in the valuation of the financial instrument.



On the other hand, regarding the hedge accounting, the amendments to IFRS 9 allow accounting hedging relationships, where the hedged item is the LIBOR rate, not to be discontinued by the elimination of such reference rate.

The Company assessed its exposure to IBOR rates and is in process of formalizing the interest reference rate of the only loan bearing such rate. Additionally, the Company does not have any derivative financial instruments hedging the variability of the IBOR rates. Therefore, it did not have any significant impacts on its consolidated financial statements due to adopting the reform.

*ii. New, revised and issued IFRS, but not yet effective*

As of the authorization date of these financial statements, the Company has not applied the new, revised and issued IFRS, but not yet effective. The Company is in the process of determining the impact these amendments may have in its consolidated financial statements, however, only precision effects are expected in accounting policies:

- Amendments to IAS 16, Property, Plant and Equipment Proceeds before Intended Use <sup>(1)</sup>
- Amendments to IAS 37, Costs of fulfilling an onerous contract <sup>(1)</sup>
- Amendments to IFRS 9, Financial Instruments <sup>(1)</sup>
- Amendments to IAS 1, Classifying liabilities as current or non-current <sup>(2)</sup>
- Amendments to IAS 1 and IFRS Practice Statement 2, Disclosure of accounting policies <sup>(2)</sup>
- Amendments to IAS 8, Definition of accounting estimates <sup>(2)</sup>
- Amendments to IAS 12, Deferred tax related to assets and liabilities arising from a single transaction <sup>(2)</sup>
- Amendments to IFRS 17, Insurance contracts <sup>(2)</sup>

<sup>(1)</sup>Effective for annual reporting periods beginning on January 1, 2022

<sup>(2)</sup>Effective for annual reporting periods beginning on January 1, 2023

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

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

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

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

The Company's risk management policy indicates that the hedging positions should always be lower than the projected exposure to allow an acceptable margin of uncertainty. Unhedged operations are expressly prohibited. The Company's risk management policy indicates the maximum percentages must be hedged with respect to the projected exposure:

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



### *Capital management*

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

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

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

The financial ratio of total liabilities/total equity was 1.86, 1.77 and 1.61 as of December 31, 2021, 2020 and 2019, respectively, resulting in a leverage ratio that complies with the Company's management and risk policies.

### *Financial instruments by category*

Below are the Company's financial instruments by category:

As of December 31, 2021, 2020 and 2019, financial assets and liabilities consist of the following:

|                                                   | 2021             | 2020             | 2019             |
|---------------------------------------------------|------------------|------------------|------------------|
| Cash and cash equivalents                         | \$ 5,799         | \$ 8,720         | \$ 5,883         |
| Restricted cash                                   | 229              | 256              | 276              |
| Financial assets measured at amortized cost:      |                  |                  |                  |
| Trade and other accounts receivable               | 10,193           | 9,133            | 7,518            |
|                                                   | <u>\$ 16,221</u> | <u>\$ 18,109</u> | <u>\$ 13,677</u> |
| Financial liabilities measured at amortized cost: |                  |                  |                  |
| Debt                                              | \$ 30,582        | \$ 31,213        | \$ 26,737        |
| Lease liability                                   | 2,083            | 1,976            | 1,853            |
| Trade and accounts payable to related parties     | 20,674           | 17,451           | 16,061           |
|                                                   | <u>\$ 53,339</u> | <u>\$ 50,640</u> | <u>\$ 44,651</u> |

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

The amount of cash and cash equivalents, restricted cash, customers and other accounts receivable, other current assets, trade and other accounts payable, current debt, other current liabilities approximate their fair value, because their maturity date is less than twelve months. The net carrying amount of these accounts represents the expected cash flows to be received as of December 31, 2021, 2020 and 2019.

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

|                                                             | As of December 31, 2021 |            | As of December 31, 2020 |            | As of December 31, 2019 |            |
|-------------------------------------------------------------|-------------------------|------------|-------------------------|------------|-------------------------|------------|
|                                                             | Carrying amount         | Fair value | Carrying amount         | Fair value | Carrying amount         | Fair value |
| Financial assets:                                           |                         |            |                         |            |                         |            |
| Non-current accounts receivable                             | \$ -                    | \$ -       | \$ -                    | \$ -       | \$ 2                    | \$ 1       |
| Financial liabilities:                                      |                         |            |                         |            |                         |            |
| Non-current liabilities before issuance and obtaining costs | \$ 26,942               | \$ 26,330  | \$ 27,239               | \$ 27,959  | \$ 24,751               | \$ 25,606  |

Estimated fair values as of December 31, 2021, 2020 and 2019, were determined based on a discounted cash flow basis. Measurement at fair value of non-current accounts is considered within level 3 of the fair value hierarchy, whereas, for the financial debt, the measurement at fair value is considered within levels 1 and 2 of the hierarchy.



## Market risks

### (i) Exchange rate risk

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

The respective exchange rates of the Mexican peso, the U.S. dollar and the Euro are very important factors for the Company due to the effect they have on its consolidated results. Nemark estimates that approximately 51% of its sales are U.S dollars denominated, 37% in Euros, and the remaining 12% in other currencies since the price of its products is set based on such currencies.

The main risk of the Company associated with its financial instruments comes from its debt in foreign currency, mainly in euros, held by entities whose functional currency is the US dollar. In addition, the Company maintains assets and liabilities denominated in foreign currency in relation to the functional currency of the subsidiaries in Mexican pesos and Euros. The monetary position in euros has been converted to millions of Mexican pesos at the closing exchange rate of December 31, 2021:

|                                        | <b>MXP</b>        | <b>EUR</b>         |
|----------------------------------------|-------------------|--------------------|
| Financial assets                       | \$ 1,182          | \$ 173             |
| Financial liabilities                  | <u>(4,798)</u>    | <u>(11,809)</u>    |
| Financial position in foreign currency | <u>\$ (3,616)</u> | <u>\$ (11,636)</u> |

The exchange rate used to convert the financial position in foreign currency from Euros to Mexican pesos, is described on Note 3 c.

Based on the monetary positions in foreign currencies that the Company maintains, a hypothetical variation of 10% in the exchange rate USD/MXP and USD/EUR, maintaining all the other variables constant, will result in an effect of \$943 in the consolidated statement of income and of \$1,525 in equity.

### *Financial instruments to hedge net investments in foreign transactions*

The Company designates certain non-current debt instruments as hedges to net investments in foreign transactions in order to mitigate the variations in exchange rates arising between the functional currency for such transactions and the functional currency of the holding or sub-holding company that maintains these investments.

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



The Company maintains the following hedging relationships:

| As of December 31, 2021  |                     |                             |                        |          |                               |     | Net assets of the hedged item (Euros) |     |
|--------------------------|---------------------|-----------------------------|------------------------|----------|-------------------------------|-----|---------------------------------------|-----|
| Holding                  | Functional Currency | Hedging Instrument          | Notional Value (Euros) |          | Covered item                  |     |                                       |     |
| Nemak, S. A. B. de C. V. | USD                 | Sustainability-Linked Bonds | EUR                    | 249      | Nemak Dillingen GmbH          | EUR | 155                                   |     |
|                          |                     |                             |                        |          | Nemak Linz GmbH               |     | 31                                    |     |
|                          |                     |                             |                        |          | Nemak Gyor Kft.               |     | 136                                   |     |
|                          |                     |                             |                        |          | Nemak Slovakia, S.r.o.        |     | 67                                    |     |
|                          |                     |                             |                        |          | Nemak Wernigerode GmbH        |     | 67                                    |     |
|                          |                     |                             |                        |          | Nemak Czech Republic, S.r.o.  |     | 58                                    |     |
|                          |                     |                             |                        |          | Nemak Poland Sp.z.o.o.        |     | 45                                    |     |
|                          |                     |                             |                        |          | Nemak Spain, S.L.             |     | 24                                    |     |
|                          |                     |                             |                        |          | Nemak Pilsting GmbH           |     | 14                                    |     |
|                          |                     |                             |                        |          | Nemak Izmir Dokum Sanayi A.S. |     | 52                                    |     |
|                          |                     |                             |                        |          |                               | EUR | 249                                   | EUR |
| As of December 31, 2020  |                     |                             |                        |          |                               |     | Net assets of the hedged item (Euros) |     |
| Holding                  | Functional Currency | Hedging Instrument          | Notional Value (Euros) |          | Covered item                  |     |                                       |     |
| Nemak, S. A. B. de C. V. | USD                 | Senior Notes<br>Bank Loans  | EUR                    | 284<br>4 | Nemak Dillingen GmbH          | EUR | 126                                   |     |
|                          |                     |                             |                        |          | Nemak Linz GmbH               |     | 27                                    |     |
|                          |                     |                             |                        |          | Nemak Gyor Kft.               |     | 130                                   |     |
|                          |                     |                             |                        |          | Nemak Slovakia, S.r.o.        |     | 53                                    |     |
|                          |                     |                             |                        |          | Nemak Wernigerode GmbH        |     | 66                                    |     |
|                          |                     |                             |                        |          | Nemak Czech Republic, S.r.o.  |     | 56                                    |     |
|                          |                     |                             |                        |          | Nemak Poland Sp.z.o.o.        |     | 40                                    |     |
|                          |                     |                             |                        |          | Nemak Spain, S.L.             |     | 28                                    |     |
|                          |                     |                             |                        |          | Nemak Pilsting GmbH           |     | 11                                    |     |
|                          |                     |                             |                        |          | Nemak Izmir Dokum Sanayi A.S. |     | 50                                    |     |
|                          |                     |                             |                        |          |                               | EUR | 288                                   | EUR |
| As of December 31, 2019  |                     |                             |                        |          |                               |     | Net assets of the hedged item (Euros) |     |
| Holding                  | Functional Currency | Hedging Instrument          | Notional Value (Euros) |          | Covered item                  |     |                                       |     |
| Nemak, S. A. B. de C. V. | USD                 | Senior Notes<br>Bank Loans  | EUR                    | 211<br>4 | Nemak Dillingen GmbH          | EUR | 109                                   |     |
|                          |                     |                             |                        |          | Nemak Linz GmbH               |     | 29                                    |     |
|                          |                     |                             |                        |          | Nemak Gyor Kft.               |     | 125                                   |     |
|                          |                     |                             |                        |          | Nemak Slovakia, S.r.o.        |     | 43                                    |     |
|                          |                     |                             |                        |          | Nemak Wernigerode GmbH        |     | 67                                    |     |
|                          |                     |                             |                        |          | Nemak Czech Republic, S.r.o.  |     | 55                                    |     |
|                          |                     |                             |                        |          | Nemak Poland Sp.z.o.o.        |     | 45                                    |     |
|                          |                     |                             |                        |          | Nemak Spain, S.L.             |     | 36                                    |     |
|                          |                     |                             |                        |          | Nemak Pilsting GmbH           |     | 10                                    |     |
|                          |                     |                             |                        |          | Nemak Izmir Dokum Sanayi A.S. |     | 46                                    |     |
|                          |                     |                             |                        |          |                               | EUR | 215                                   | EUR |

The average coverage ratio of the Company amounted to 36.48%, 49.35% and 35.38% for the years ended December 31, 2021, 2020 and 2019, respectively. Therefore, the exchange rate fluctuation generated by the hedging instruments for the years ended December 31, 2021, 2020 and 2019 amounted to a net profit (loss) of \$371, \$(687) and \$84, respectively, which was recognized in other comprehensive income compensating the translation effect by each foreign investment. The results of the effectiveness of each hedging instrument confirms that the hedging relationships are highly effective due to the economic relationship between the hedging instruments and the hedging items.



*(ii) Price risk commodities*

a. Aluminum

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

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

b. Natural gas

Nemak is an entity that uses natural gas to carry out its operating processes and develop its products. This consumption has grown as the volume of their end products increase, which causes that an increase in the price of natural gas creates negative effects on the operating cash flows. In order to mitigate its exposure to the price of this material, the Entity conducts, some natural gas hedging transactions using derivative instruments. Therefore, according to its risk management program, the Company enters into hedges against the exposure to the increase in natural gas prices, for future purchases by entering into swaps where variable prices are received and a fixed price is paid. A strategy called roll-over has been implemented, through which it is analyzed each month if more derivatives should be contracted to expand the time or the amount of hedging. Given the volatility of gas prices, during October 2021, the Company entered into gas hedges for Mexico and the USA, that represented 25% of its consumption of December 2021 and January, February and March, 2022. In addition, the Company entered into hedges during December for Mexico of 50% of its consumption of January, February and March 2022. As of December 31, 2021, the fair value of the derivative financial instruments was \$18. As of December 31, 2020 and 2019, the Company did not have this type of derivative financial instruments.

*Interest rate risk*

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

As of December 31, 2021, if interest rates on variable rate are increased or decreased by 100 basis points in relation to the rate in effect, the income and stockholders' equity of the Company would change by \$326.

*Credit risk*

Credit risk represents a potential loss due to non-compliance of counterparts in their payment obligations. Credit risk is generated by cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposure to customers, including receivables and committed transactions.

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

Individual risk limits are determined based on internal and external ratings in accordance with limits set in the financial risk management policy. The use of credit risks is monitored regularly. During 2021, 2020 and 2019, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.



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

During the year ended December 31, 2021, there have been no changes in the techniques of estimation or assumption.

#### *Liquidity risk*

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

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

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

The following table analyzes the non-derivative financial instruments, grouped according to their maturity, from the date of the consolidated statement of financial position to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows, including future non-accrued interests and sustainability-linked bonds.

|                                                       | <b>Less than a<br/>year</b> | <b>From<br/>1 to 5 years</b> | <b>More than 5<br/>years</b> |
|-------------------------------------------------------|-----------------------------|------------------------------|------------------------------|
| As of December 31, 2021                               |                             |                              |                              |
| Trade and accounts payable to related parties         | \$ 20,674                   | \$ -                         | \$ -                         |
| Debt (excluding debt obtaining costs)                 | 4,093                       | 2,179                        | 2,767                        |
| Lease liability                                       | 441                         | 724                          | 918                          |
| Sustainability-linked bond (excluding issuance costs) | 669                         | 3,346                        | 21,996                       |
| Interest payable                                      | 146                         | -                            | -                            |
| As of December 31, 2020                               |                             |                              |                              |
| Trade and accounts payable to related parties         | \$ 17,451                   | \$ -                         | \$ -                         |
| Debt (excluding debt obtaining costs)                 | 4,267                       | 1,741                        | 3,776                        |
| Lease liability                                       | 422                         | 1,189                        | 365                          |
| Senior Notes (excluding issuance costs)               | 870                         | 24,930                       | -                            |
| Interest payable                                      | 346                         | -                            | -                            |
| As of December 31, 2019                               |                             |                              |                              |
| Trade and accounts payable to related parties         | \$ 16,061                   | \$ -                         | \$ -                         |
| Debt (excluding debt obtaining costs)                 | 2,163                       | 1,937                        | 4,011                        |
| Lease liability                                       | 372                         | 1,151                        | 330                          |
| Senior Notes (excluding issuance costs)               | 791                         | 23,307                       | -                            |
| Interest payable                                      | 320                         | -                            | -                            |

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

As of December 31, 2021, 2020 and 2019, the Company has uncommitted short-term credit lines unused of more than US\$349 (\$7,184), US\$425 (\$8,478) and US\$734 (\$13,836), respectively. Additionally, as of December 31, 2021, 2020 and 2019, Nematik has committed medium-term credit lines available of US\$405 (\$8,335), US\$412 (\$8,215) and US\$404 (\$7,613) respectively. In order to maintain a solid liquidity position and have sufficient cash on hand to support operations and COVID-19 impacts, during the year ended December 31, 2020, Nematik disposed all of its committed lines for US\$412, settling them in November. On the other hand, the uncommitted lines were disposed for US\$250 during March 2020, partially liquidated in December 2020.



### *Fair value hierarchy*

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

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

The Company's assets and liabilities that are measured at fair value as of December 31, 2021, 2020 and 2019, are classified within the level 2 of the fair value hierarchy.

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

The specific valuation techniques used to value financial instruments include:

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

## **5. Critical accounting estimates and judgments**

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

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

### **a. Estimated impairment of goodwill**

The Company conducts annual tests to determine whether goodwill and intangible assets with indefinite useful lives have suffered any impairment (Note 12). For impairment testing, goodwill and intangibles assets with indefinite lives are allocated to those cash generating units ("CGUs") for which the Company has considered that economic and operational synergies of the business combinations are generated. The recoverable amounts of the groups of CGUs were determined based on the calculations of their value in use, which require the use of estimates, within which, the most significant are the following:

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

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

The Company has tax losses to be utilized, derived mainly from significant foreign exchange losses, which may be used in the subsequent years (Note 25). Based on income and tax revenue projections Nemak will generate in subsequent years through a structured and robust business plan, which includes the sale of non-strategic assets, new services to be provided to its subsidiaries, among others, the Company's management has considered that its tax loss carryforwards will be used before they expire and therefore it has been deemed appropriate to recognize a deferred tax asset for such losses.



c. Contingent liabilities

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

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

d. Long-lived assets

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

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

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

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

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

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

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

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



g. Estimate of the lease term

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

## 6. Cash and cash equivalents

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

|                                 | December 31    |                |                |
|---------------------------------|----------------|----------------|----------------|
|                                 | 2021           | 2020           | 2019           |
| Cash on hand and in banks       | \$1,939        | \$2,943        | \$2,150        |
| Short-term bank deposits        | 3,860          | 5,777          | 3,733          |
| Total cash and cash equivalents | <u>\$5,799</u> | <u>\$8,720</u> | <u>\$5,883</u> |

## 7. Restricted cash

The value of restricted cash is composed as follows:

|                                | December 31   |               |               |
|--------------------------------|---------------|---------------|---------------|
|                                | 2021          | 2020          | 2019          |
| Current                        | \$ 100        | \$ 121        | \$ 120        |
| Non-current (Note 13)          | 129           | 135           | 156           |
| Restricted cash <sup>(1)</sup> | <u>\$ 229</u> | <u>\$ 256</u> | <u>\$ 276</u> |

<sup>(1)</sup> In accordance with the provisions of a credit agreement, the Company has made long-term cash deposit pursuant to a preferential loan arranged in order to participate in a financing by a US agency to promote investment in rural / low-development regions in the USA.

## 8. Trade and other accounts receivables, net

|                                                                           | 2021            | December 31<br>2020 | 2019            |
|---------------------------------------------------------------------------|-----------------|---------------------|-----------------|
| Trade accounts receivable                                                 | \$ 6,549        | \$ 6,354            | \$ 4,790        |
| Due from related parties (Note 26)                                        | 1,431           | 1,076               | 779             |
| Recoverable taxes                                                         | 196             | 96                  | 342             |
| Sundry debtors                                                            | 2,441           | 1,946               | 2,179           |
| Allowance for impairment of trade accounts receivable and related parties | (228)           | (243)               | (230)           |
| Total                                                                     | <u>\$10,389</u> | <u>\$ 9,229</u>     | <u>\$ 7,860</u> |
| Non-current:                                                              |                 |                     |                 |
| Non-current receivables from related parties (Note 26)                    | <u>\$ -</u>     | <u>\$ -</u>         | <u>\$ 2</u>     |

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

|                                                       | 2021            | 2020            | 2019            |
|-------------------------------------------------------|-----------------|-----------------|-----------------|
| Opening balance as of January 1                       | \$ (243)        | \$ (230)        | \$ (251)        |
| Allowance for impairment of trade and related parties | (18)            | (43)            | -               |
| Receivables written off during the year               | 27              | 43              | 20              |
| Other                                                 | 6               | (13)            | 1               |
| Final balance as of December 31                       | <u>\$ (228)</u> | <u>\$ (243)</u> | <u>\$ (230)</u> |



The net change in the estimate of impairment of accounts receivable for the years ended December 31, 2021, 2020 and 2019 were \$15, \$(13) and \$21, respectively, it was mainly due to changes in the estimation of probabilities of default and the percentage of recovery, allocated to different customer groups in which the Company operates, which reflected an increase in credit risk over these financial assets.

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

| <b>As of December 31, 2021</b>     |                                     |                         |
|------------------------------------|-------------------------------------|-------------------------|
| <b>Clients or group of clients</b> | <b>Probability of default range</b> | <b>Severity of loss</b> |
| Automotive                         | 0.00% - 5.43% <sup>(1)</sup>        | 99.47%                  |
| Related parties                    | 0.00% - 0.23%                       | 99.85%                  |

| <b>As of December 31, 2020</b>     |                                     |                         |
|------------------------------------|-------------------------------------|-------------------------|
| <b>Clients or group of clients</b> | <b>Probability of default range</b> | <b>Severity of loss</b> |
| Automotive                         | 0.00% - 3.75% <sup>(1)</sup>        | 99.31%                  |
| Related parties                    | 0.00% - 0.61%                       | 99.09%                  |

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

(1) As of December 31, 2021 and 2020, the maximum probability of default range belongs to a single client. All the other clients of the Company maintain a maximum probability of default of 0.78% and 0.73%, respectively.

Increases and decreases in customer impairment estimation, when they do not imply the legal loss of an account receivable, are recognized in the consolidated statement of income within the heading of sales costs. On the other hand, when collection rights are legally lost, the Company cancels the accumulated doubtful collection estimate, with the gross amount of the account receivable

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

## 9. Inventories

|                                    | <b>December 31</b> |                 |                 |
|------------------------------------|--------------------|-----------------|-----------------|
|                                    | <b>2021</b>        | <b>2020</b>     | <b>2019</b>     |
| Raw material and other consumables | \$ 7,906           | \$ 5,969        | \$ 5,310        |
| Work in process                    | 5,465              | 4,134           | 3,969           |
| Finished goods                     | 3,624              | 2,527           | 1,867           |
|                                    | <u>\$16,995</u>    | <u>\$12,630</u> | <u>\$11,146</u> |

For the years ended on December 31, 2021, 2020 and 2019, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of \$32, \$78 and \$65, respectively.

At December 31, 2021, 2020 and 2019, there were no inventories pledged as collateral.



## 10. Property, plant and equipment, net

|                                             | Land            | Buildings and constructions | Machinery and equipment | Vehicles     | Furniture and equipment | Constructions in progress | Other fixed assets | Total            |
|---------------------------------------------|-----------------|-----------------------------|-------------------------|--------------|-------------------------|---------------------------|--------------------|------------------|
| <b>For the year ended December 31, 2019</b> |                 |                             |                         |              |                         |                           |                    |                  |
| Opening balance, net                        | \$ 1,685        | \$ 9,197                    | \$ 32,911               | \$ 48        | \$ 819                  | \$ 5,860                  | \$ 1,109           | \$ 51,629        |
| Reclassifications to right-of-use asset     | -               | (534)                       | -                       | (7)          | (22)                    | -                         | -                  | (563)            |
| Translation effect                          | (84)            | (414)                       | (1,611)                 | 5            | (38)                    | (307)                     | (56)               | (2,505)          |
| Additions                                   | -               | 9                           | 348                     | -            | 26                      | 4,697                     | 226                | 5,306            |
| Disposals                                   | -               | (1)                         | (7)                     | -            | (23)                    | (10)                      | (11)               | (52)             |
| Impairment charge recognized in the year    | -               | (73)                        | (832)                   | -            | 1                       | -                         | (11)               | (915)            |
| Depreciation charge recognized in the year  | -               | (477)                       | (4,011)                 | (23)         | (227)                   | -                         | (22)               | (4,760)          |
| Transfers                                   | 6               | 663                         | 4,350                   | 19           | 123                     | (5,182)                   | 21                 | -                |
|                                             | <u>\$ 1,607</u> | <u>\$ 8,370</u>             | <u>\$ 31,148</u>        | <u>\$ 42</u> | <u>\$ 659</u>           | <u>\$ 5,058</u>           | <u>\$ 1,256</u>    | <u>\$ 48,140</u> |
| As of December 31, 2019                     |                 |                             |                         |              |                         |                           |                    |                  |
| Cost                                        | \$ 1,607        | \$ 14,608                   | \$ 78,708               | \$ 201       | \$ 2,362                | \$ 5,058                  | \$ 1,314           | \$ 103,858       |
| Accumulated depreciation                    | -               | (6,238)                     | (47,560)                | (159)        | (1,703)                 | -                         | (58)               | (55,718)         |
| Net carrying amount as of December 31, 2019 | <u>\$ 1,607</u> | <u>\$ 8,370</u>             | <u>\$ 31,148</u>        | <u>\$ 42</u> | <u>\$ 659</u>           | <u>\$ 5,058</u>           | <u>\$ 1,256</u>    | <u>\$ 48,140</u> |
| <b>For the year ended December 31, 2020</b> |                 |                             |                         |              |                         |                           |                    |                  |
| Opening balance, net                        | \$ 1,607        | \$ 8,370                    | \$ 31,148               | \$ 42        | \$ 659                  | \$ 5,058                  | \$ 1,256           | \$ 48,140        |
| Translation effect                          | 71              | 730                         | 3,081                   | 5            | 98                      | 399                       | 96                 | 4,480            |
| Additions                                   | -               | -                           | 166                     | -            | 2                       | 4,168                     | 103                | 4,439            |
| Disposals                                   | -               | -                           | -                       | -            | (1)                     | -                         | (211)              | (212)            |
| Impairment charge recognized in the year    | -               | -                           | (133)                   | -            | -                       | -                         | -                  | (133)            |
| Depreciation charge recognized in the year  | -               | (522)                       | (4,438)                 | (17)         | (229)                   | -                         | (17)               | (5,223)          |
| Transfers                                   | -               | 430                         | 4,001                   | 11           | 97                      | (4,548)                   | 9                  | -                |
|                                             | <u>\$ 1,678</u> | <u>\$ 9,008</u>             | <u>\$ 33,825</u>        | <u>\$ 41</u> | <u>\$ 626</u>           | <u>\$ 5,077</u>           | <u>\$ 1,236</u>    | <u>\$ 51,491</u> |
| As of December 31, 2020                     |                 |                             |                         |              |                         |                           |                    |                  |
| Cost                                        | \$ 1,678        | \$ 16,351                   | \$ 89,480               | \$ 287       | \$ 2,726                | \$ 5,077                  | \$ 1,317           | \$ 116,916       |
| Accumulated depreciation                    | -               | (7,343)                     | (55,655)                | (246)        | (2,100)                 | -                         | (81)               | (65,425)         |
| Net carrying amount as of December 31, 2020 | <u>\$ 1,678</u> | <u>\$ 9,008</u>             | <u>\$ 33,825</u>        | <u>\$ 41</u> | <u>\$ 626</u>           | <u>\$ 5,077</u>           | <u>\$ 1,236</u>    | <u>\$ 51,491</u> |
| <b>For the year ended December 31, 2021</b> |                 |                             |                         |              |                         |                           |                    |                  |
| Opening balance, net                        | \$ 1,678        | \$ 9,008                    | \$ 33,825               | \$ 41        | \$ 626                  | \$ 5,077                  | \$ 1,236           | \$ 51,491        |
| Translation effect                          | 6               | 16                          | 367                     | -            | (8)                     | 15                        | (132)              | 264              |
| Additions                                   | -               | 3                           | 144                     | 1            | -                       | 6,101                     | 1                  | 6,250            |
| Disposals                                   | -               | -                           | -                       | -            | (6)                     | (2)                       | (38)               | (46)             |
| Impairment charge recognized in the year    | -               | -                           | (141)                   | -            | -                       | -                         | -                  | (141)            |
| Depreciation charge recognized in the year  | -               | (513)                       | (4,394)                 | (18)         | (199)                   | -                         | (15)               | (5,139)          |
| Transfers                                   | -               | 300                         | 3,934                   | 9            | 171                     | (4,426)                   | 12                 | -                |
|                                             | <u>\$ 1,684</u> | <u>\$ 8,814</u>             | <u>\$ 33,735</u>        | <u>\$ 33</u> | <u>\$ 584</u>           | <u>\$ 6,765</u>           | <u>\$ 1,064</u>    | <u>\$ 52,679</u> |
| As of December 31, 2021                     |                 |                             |                         |              |                         |                           |                    |                  |
| Cost                                        | \$ 1,684        | \$ 16,664                   | \$ 92,355               | \$ 275       | \$ 2,846                | \$ 6,765                  | \$ 1,151           | \$ 121,740       |
| Accumulated depreciation                    | -               | (7,850)                     | (58,620)                | (242)        | (2,262)                 | -                         | (87)               | (69,061)         |
| Net carrying amount as of December 31, 2021 | <u>\$ 1,684</u> | <u>\$ 8,814</u>             | <u>\$ 33,735</u>        | <u>\$ 33</u> | <u>\$ 584</u>           | <u>\$ 6,765</u>           | <u>\$ 1,064</u>    | <u>\$ 52,679</u> |



As of December 31, 2021, 2020 and 2019, the Company capitalized borrowing costs to qualifying assets for \$32, \$4 and \$38, respectively, which were not significant.

Of the total depreciation expense, \$4,796, \$4,902 and \$4,498 were charged to cost of sales, \$1, \$5 and \$1, to selling expenses and \$342, \$316 and \$261, to administrative expenses in 2021, 2020 and 2019, respectively.

As of December 31, 2021, 2020 and 2019, there were property, plant and equipment pledged as collateral (see Note 15).

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

## 11. Right-of-use assets, net

The Company leases a different set of fixed assets including, buildings, machinery and equipment, vehicles, and computer equipment. The average term of the lease contracts as of December 31, 2021, 2020 and 2019 is 12 years.

- a) The right of use recognized in the consolidated statement of financial position as of December 31, 2021, 2020 and 2019, is as follows:

|                                                | Buildings       | Machinery<br>and<br>equipment | Vehicles        | Other fixed<br>assets | Total           |
|------------------------------------------------|-----------------|-------------------------------|-----------------|-----------------------|-----------------|
| Cost:                                          |                 |                               |                 |                       |                 |
| Adoption effect                                | \$ 584          | \$ 170                        | \$ 114          | \$ 34                 | \$ 902          |
| Property, plant and equipment reclassification | 534             | -                             | 7               | 22                    | 563             |
| Initial balances as of January 1, 2019         | <u>\$ 1,118</u> | <u>\$ 170</u>                 | <u>\$ 121</u>   | <u>\$ 56</u>          | <u>\$ 1,465</u> |
| Final balances as of December 31, 2019         | <u>\$ 1,084</u> | <u>\$ 122</u>                 | <u>\$ 497</u>   | <u>\$ 60</u>          | <u>\$ 1,763</u> |
| Final balances as of December 31, 2020         | <u>\$ 1,264</u> | <u>\$ 135</u>                 | <u>\$ 343</u>   | <u>\$ 55</u>          | <u>\$ 1,797</u> |
| Final balances as of December 31, 2021         | <u>\$ 1,464</u> | <u>\$ 101</u>                 | <u>\$ 263</u>   | <u>\$ 39</u>          | <u>\$ 1,867</u> |
| Depreciation expense 2019                      | <u>\$ (139)</u> | <u>\$ (93)</u>                | <u>\$ (191)</u> | <u>\$ (19)</u>        | <u>\$ (442)</u> |
| Depreciation expense 2020                      | <u>\$ (217)</u> | <u>\$ (92)</u>                | <u>\$ (209)</u> | <u>\$ (30)</u>        | <u>\$ (548)</u> |
| Depreciation expense 2021                      | <u>\$ (227)</u> | <u>\$ (40)</u>                | <u>\$ (206)</u> | <u>\$ (32)</u>        | <u>\$ (505)</u> |

The additions to the net book value of the right of use assets for the years ended December 31, 2021, 2020 and 2019 amounted \$653, \$376 and \$771, respectively.

- b) Expenses recognized in the consolidated statements of income for the years ended December 31, 2021, 2020 and 2019, are as follows:

|                                                          | December 31 |        |        |
|----------------------------------------------------------|-------------|--------|--------|
|                                                          | 2021        | 2020   | 2019   |
| Rent expenses from short-term and low-value asset leases | \$ 268      | \$ 255 | \$ 319 |

The Company has not signed lease contracts, which at the date of the consolidated financial statements have not started.

During the year, the Company did not realize significant extensions to the term of its lease contracts.



## 12. Goodwill and intangible assets, net

|                                 | Development costs | Relationships with customers | Software and licenses | Intellectual property rights | Goodwill | Others   | Total      |
|---------------------------------|-------------------|------------------------------|-----------------------|------------------------------|----------|----------|------------|
| <b>Cost</b>                     |                   |                              |                       |                              |          |          |            |
| As of January 1, 2019           | \$ 8,652          | \$ 1,971                     | \$ 333                | \$ 112                       | \$ 5,850 | \$ 690   | \$ 17,608  |
| Translation effects             | (933)             | 231                          | (9)                   | (10)                         | (315)    | (57)     | (1,093)    |
| Additions                       | 1,564             | 35                           | 16                    | -                            | -        | 3        | 1,618      |
| Disposals                       | (12)              | (53)                         | (2)                   | -                            | -        | (1)      | (68)       |
| As of December 31, 2019         | \$ 9,271          | \$ 2,184                     | \$ 338                | \$ 102                       | \$ 5,535 | \$ 635   | \$ 18,065  |
| Translation effects             | 693               | 307                          | 16                    | 6                            | 659      | (11)     | 1,670      |
| Additions                       | 965               | 221                          | 13                    | -                            | -        | 17       | 1,216      |
| Disposals                       | -                 | -                            | (14)                  | -                            | -        | (6)      | (20)       |
| As of December 31, 2020         | \$ 10,929         | \$ 2,712                     | \$ 353                | \$ 108                       | \$ 6,194 | \$ 635   | \$ 20,931  |
| Translation effects             | 239               | (48)                         | 7                     | 3                            | (98)     | (8)      | 95         |
| Additions                       | 1,082             | -                            | 6                     | -                            | -        | 5        | 1,093      |
| Disposals                       | (249)             | (167)                        | (6)                   | -                            | -        | (114)    | (536)      |
| As of December 31, 2021         | \$ 12,001         | \$ 2,497                     | \$ 360                | \$ 111                       | \$ 6,096 | \$ 518   | \$ 21,583  |
| <b>Accumulated amortization</b> |                   |                              |                       |                              |          |          |            |
| January 1, 2019                 | \$ (4,294)        | \$ (1,239)                   | \$ (258)              | \$ (106)                     | \$ -     | \$ (404) | \$ (6,301) |
| Amortizations                   | (750)             | (218)                        | (27)                  | -                            | -        | (47)     | (1,042)    |
| Disposals                       | 12                | 13                           | 2                     | -                            | -        | -        | 27         |
| Translation effects             | 286               | 76                           | 14                    | 4                            | -        | 53       | 433        |
| As of December 31, 2019         | \$ (4,746)        | \$ (1,368)                   | \$ (269)              | \$ (102)                     | \$ -     | \$ (398) | \$ (6,883) |
| Amortizations                   | (931)             | (218)                        | (28)                  | -                            | -        | (46)     | (1,223)    |
| Disposals                       | -                 | -                            | 14                    | -                            | -        | 6        | 20         |
| Translation effects             | (418)             | (196)                        | (9)                   | (6)                          | -        | 5        | (624)      |
| As of December 31, 2020         | \$ (6,095)        | \$ (1,782)                   | \$ (292)              | \$ (108)                     | \$ -     | \$ (433) | \$ (8,710) |
| Amortizations                   | (1,022)           | (174)                        | (24)                  | -                            | -        | (9)      | (1,229)    |
| Disposals                       | 237               | 159                          | 6                     | -                            | -        | 7        | 409        |
| Translation effects             | (210)             | 54                           | 7                     | (3)                          | -        | (6)      | (158)      |
| As of December 31, 2021         | \$ (7,090)        | \$ (1,743)                   | \$ (303)              | \$ (111)                     | \$ -     | \$ (441) | \$ (9,688) |
| <b>Net carrying amount</b>      |                   |                              |                       |                              |          |          |            |
| Cost                            | \$ 9,271          | \$ 2,184                     | \$ 338                | \$ 102                       | \$ 5,535 | \$ 635   | \$ 18,065  |
| Accumulated amortization        | (4,746)           | (1,368)                      | (269)                 | (102)                        | -        | (398)    | (6,883)    |
| As of December 31, 2019         | \$ 4,525          | \$ 816                       | \$ 69                 | \$ -                         | \$ 5,535 | \$ 237   | \$ 11,182  |
| Cost                            | \$ 10,929         | \$ 2,712                     | \$ 353                | \$ 108                       | \$ 6,194 | \$ 635   | \$ 20,931  |
| Accumulated amortization        | (6,095)           | (1,782)                      | (292)                 | (108)                        | -        | (433)    | (8,710)    |
| As of December 31, 2020         | \$ 4,834          | \$ 930                       | \$ 61                 | \$ -                         | \$ 6,194 | \$ 202   | \$ 12,221  |
| Cost                            | \$ 12,001         | \$ 2,497                     | \$ 360                | \$ 111                       | \$ 6,096 | \$ 518   | \$ 21,583  |
| Accumulated amortization        | (7,090)           | (1,743)                      | (303)                 | (111)                        | -        | (441)    | (9,688)    |
| As of December 31, 2021         | \$ 4,911          | \$ 754                       | \$ 57                 | \$ -                         | \$ 6,096 | \$ 77    | \$ 11,895  |



Of the total amortization expense, \$896, \$869 and \$639, were charged to cost of sales, \$174, \$183 and \$232, to administrative expenses, \$4, \$3 and \$6 to selling expenses, \$155, \$168 and \$165 decreasing the revenues to costs incurred to obtain new agreements with clients in 2021, 2020 and 2019, respectively.

#### *Impairment testing of goodwill*

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

|                                 | <b>North America</b> | <b>Europe</b>   | <b>Total</b>    |
|---------------------------------|----------------------|-----------------|-----------------|
| Balance as of January 1, 2019   | \$ 2,103             | \$ 3,747        | \$ 5,850        |
| Translation effect              | (90)                 | (225)           | (315)           |
| Balance as of December 31, 2019 | 2,013                | 3,522           | 5,535           |
| Translation effect              | 117                  | 542             | 659             |
| Balance as of December 31, 2020 | \$ 2,130             | \$ 4,064        | \$ 6,194        |
| Translation effect              | 69                   | (167)           | (98)            |
| Balance as of December 31, 2021 | <u>\$ 2,199</u>      | <u>\$ 3,897</u> | <u>\$ 6,096</u> |

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

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

The key assumptions used in calculating the value in use in 2021, 2020 and 2019 were as follows:

|               | <b>2021</b>          |               |                          |
|---------------|----------------------|---------------|--------------------------|
|               | <b>North America</b> | <b>Europe</b> | <b>Rest of the World</b> |
| Growth rate   | 1.50%                | 1.50%         | 2.50%                    |
| Discount rate | 10.32%               | 9.59%         | 10.66%                   |

  

|               | <b>2020</b>          |               |                          |
|---------------|----------------------|---------------|--------------------------|
|               | <b>North America</b> | <b>Europe</b> | <b>Rest of the World</b> |
| Growth rate   | 1.50%                | 1.50%         | 2.50%                    |
| Discount rate | 10.97%               | 10.15%        | 11.57%                   |

  

|               | <b>2019</b>          |               |                          |
|---------------|----------------------|---------------|--------------------------|
|               | <b>North America</b> | <b>Europe</b> | <b>Rest of the World</b> |
| Growth rate   | 1.50%                | 1.50%         | 2.50%                    |
| Discount rate | 12.90%               | 10.70%        | 9.74%                    |

The Company performed a sensitivity analysis considering an increase in the discount rate of 100 basis points, as well as a similar decrease in the long-term growth rate. As a result of the analysis, the Company concluded that there are no significant variations in the impairment calculations as of December 31, 2021.

### **13. Other non-current assets**

|                                       | <b>December 31</b> |                |                |
|---------------------------------------|--------------------|----------------|----------------|
|                                       | <b>2021</b>        | <b>2020</b>    | <b>2019</b>    |
| Restricted cash                       | \$ 129             | \$ 135         | \$ 156         |
| Equity investments <sup>(1)</sup>     | 71                 | 71             | 71             |
| Investments in associates             | 521                | 565            | 544            |
| Tax credits receivable <sup>(2)</sup> | 160                | 128            | 315            |
| Other assets                          | 80                 | 103            | 111            |
| Total other non-current assets        | <u>\$ 961</u>      | <u>\$1,002</u> | <u>\$1,197</u> |



- (1) Equity investments are investment in shares of non-publicly traded companies. No impairment loss was recognized as of December 31, 2021, 2020 and 2019.
- (2) The Company received formal notices from the Brazilian tax authorities corresponding to tax credits, related to their review of its operations in Brazil. Pending the resolution of these requirements, and by virtue of a court order, Nemak segregated bank balances which will be reimbursed to the Company upon final resolution. In the first semester of 2019, the Company obtained the final court decision related to its right to utilize tax credits of \$315 the last 15 years with no possibility of appeal from the Federal government, additionally the corresponding bank balances were refunded.

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

|                                                   | 2021    | 2020    | 2019  |
|---------------------------------------------------|---------|---------|-------|
| Net (loss) income and comprehensive income (loss) | \$ (22) | \$ (29) | \$ 41 |

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

#### 14. Trade and other accounts payable

|                                         | 2021             | December 31<br>2020 | 2019             |
|-----------------------------------------|------------------|---------------------|------------------|
| Trade account payable                   | \$ 20,628        | \$ 17,408           | \$ 16,008        |
| Advances from customers                 | 879              | 522                 | 521              |
| Other social security fees and benefits | 1,790            | 1,859               | 1,258            |
| Related parties (Note 26)               | 46               | 43                  | 53               |
| Other payables                          | 4,843            | 5,153               | 3,326            |
|                                         | <u>\$ 28,186</u> | <u>\$ 24,985</u>    | <u>\$ 21,166</u> |

#### 15. Debt

|                                                           | 2021             | December 31<br>2020 | 2019             |
|-----------------------------------------------------------|------------------|---------------------|------------------|
| Current:                                                  |                  |                     |                  |
| Bank loans <sup>(1) (2)</sup>                             | \$ 3,733         | \$ 3,894            | \$ 1,955         |
| Current portion of non-current debt                       | 237              | 250                 | 22               |
| Interest payable <sup>(1)</sup>                           | 146              | 346                 | 320              |
| Total current debt                                        | <u>\$ 4,116</u>  | <u>\$ 4,490</u>     | <u>\$ 2,297</u>  |
| Non-current debt:                                         |                  |                     |                  |
| Secured bank loans                                        | \$ 4             | \$ 5                | \$ 9             |
| Unsecured bank loans                                      | 4,942            | 5,057               | 4,743            |
| <u>In U.S dollars:</u>                                    |                  |                     |                  |
| Sustainability-linked bonds / Senior Notes                | 10,292           | 9,974               | 9,422            |
| <u>In Euros:</u>                                          |                  |                     |                  |
| Sustainability-linked bonds / Senior Notes                | 11,704           | 12,203              | 10,577           |
| Non-current debt before debt issuance and obtaining costs | 26,942           | 27,239              | 24,751           |
| Less: Debt issuance and obtaining costs                   | (239)            | (266)               | (289)            |
| Less: current portion of other debts                      | (237)            | (250)               | (22)             |
| Non-current debt                                          | <u>\$ 26,466</u> | <u>\$ 26,723</u>    | <u>\$ 24,440</u> |

(1) As of December 31, 2021, 2020 and 2019, short-term bank loans bore interest at an average rate of 3.55%, 3.97% and 4.27%, respectively. The short-term interest payable balance is \$19 as of December 31, 2021.

(2) The fair value of bank loans approximates their current book value, due to their short maturity.



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

| Description                                                    | Contractual currency | Value (MXP)      | Debt issuance and obtaining costs | Interest paid | Balance as of December 31, 2021 | Balance as of December 31, 2020 | Balance as of December 31, 2019 | Inception date MM/DD/YYYY | Maturity date MM/DD/YYYY | Interest rate   |
|----------------------------------------------------------------|----------------------|------------------|-----------------------------------|---------------|---------------------------------|---------------------------------|---------------------------------|---------------------------|--------------------------|-----------------|
| Brazil                                                         | BRL                  | \$ 4             | \$ -                              | \$ -          | \$ 4                            | \$ 5                            | \$ 9                            | 01/31/2016                | 01/20/2025               | 6.00%           |
| Total secured bank loans                                       |                      | 4                | -                                 | -             | 4                               | 5                               | 9                               |                           |                          |                 |
| Bancomext LP                                                   | USD                  | 3,845            | 19                                | 2             | 3,828                           | 3,788                           | 3,599                           | 12/23/2019                | 12/23/2029               | Libor 3M +2.70% |
| Scotiabank Turkey                                              | EUR                  | 439              | -                                 | 1             | 440                             | 612                             | 530                             | 10/28/2019                | 10/28/2024               | 1.06%           |
| Spain                                                          | EUR                  | 69               | -                                 | 1             | 70                              | 86                              | 94                              | 08/13/2012                | 02/01/2028               | 1.50%           |
| USA                                                            | USD                  | 589              | 86                                | -             | 503                             | 476                             | 442                             | 04/06/2017                | 12/21/2025               | 1.32%           |
| Total unsecured bank loans                                     |                      | 4,942            | 105                               | 4             | 4,841                           | 4,962                           | 4,665                           |                           |                          |                 |
| Total bank loans                                               |                      | 4,946            | 105                               | 4             | 4,845                           | 4,967                           | 4,674                           |                           |                          |                 |
| Sustainability-linked bond / Senior Notes                      | USD                  | 10,292           | 67                                | -             | 10,225                          | 10,103                          | 9,535                           | 06/28/2021                | 06/28/2031               | 3.63%           |
| Sustainability-linked bond / Senior Notes                      | EUR                  | 11,704           | 67                                | 123           | 11,760                          | 12,249                          | 10,573                          | 07/20/2021                | 07/20/2028               | 2.25%           |
| Total Senior Notes                                             |                      | 21,996           | 134                               | 123           | 21,985                          | 22,352                          | 20,108                          |                           |                          |                 |
| Total                                                          |                      | 26,942           | 239                               | 127           | 26,830                          | 27,319                          | 24,782                          |                           |                          |                 |
| Less: current portion of non-current debt                      |                      | (237)            | -                                 | -             | (237)                           | (250)                           | (22)                            |                           |                          |                 |
| Non-current debt (including non-current interest debt payable) |                      | <u>\$ 26,705</u> | <u>\$ 239</u>                     | <u>\$ 127</u> | <u>\$ 26,593</u>                | <u>\$ 27,069</u>                | <u>\$ 24,760</u>                |                           |                          |                 |

As of December 31, 2021, the annual maturities of non-current debt, gross of debt issuance and obtaining costs are as follows:

|                                            | 2022          | 2023          | 2024          | 2025          | 2026          | 2027 and thereafter | Total            |
|--------------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------------|------------------|
| Bank loans <sup>(1)</sup>                  | \$ 237        | \$ 283        | \$ 457        | \$ 785        | \$ 417        | \$ 2,767            | \$ 4,946         |
| Sustainability-linked bonds <sup>(2)</sup> | -             | -             | -             | -             | -             | 21,996              | 21,996           |
|                                            | <u>\$ 237</u> | <u>\$ 283</u> | <u>\$ 457</u> | <u>\$ 785</u> | <u>\$ 417</u> | <u>\$ 24,763</u>    | <u>\$ 26,942</u> |

(1) Interest on bank loans will be paid quarterly.

(2) Interest on Sustainability-linked bonds will be paid semiannually.

Based on the expectation of decreased sales and generation of cash flow derived from COVID-19, Nemak decided to negotiate amendments with the banks with which it has committed credit line contracts (Note 4), to obtain flexibility in its financial obligations. The amendments to these contracts were made during the months of May and June of 2020, in such a way that Nemak was able to obtain flexibility in its financial obligations as of June 30, 2020 and until June 30, 2021. Derived from these amendments, Nemak paid a fee of US\$0.49, which was recognized in the consolidated statement of income. The amendments included modifications to the restrictive and unrestrictive covenants as mentioned below. Some of the loan contracts and debt agreements contain restrictions, primarily regarding the compliance with certain financial ratios, including:

- Interest coverage ratio: which is defined as EBITDA (See Note 27) for the period of the last four complete quarters <sup>(1)</sup> divided by financial expenses, net, for the last four quarters, which shall not be less than 3.0 times.



- b. Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt appropriate, divided by EBITDA (See Note 27) for the period of the last four complete quarters <sup>(1)</sup>, which shall not be more than 3.5, 4.75 and 3.5 times for the year ended December 31, 2021, 2020 and 2019, respectively.

<sup>(1)</sup> As part of the amendments to the debt contracts, EBITDA for the period of the last four quarters ended did not include expenses related to COVID-19.

During 2021, 2020 and 2019, the financial ratios mentioned above were calculated in accordance with the established formulas in the debt contracts.

In 2021, the Company issued 2 Senior Notes with the characteristic of “Sustainability-Linked Bonds”:

The first one was issued in June for US\$ 500 with a fixed rate of 3.625% and a 10-year maturity, and its use was to prepay the Senior Notes issued for the same amount in January 2018.

The second one was issued in July for EUR 500 with a fixed rate of 2.25% and a 7-year maturity, and its use was to prepay the Senior Notes issued for the same amount in March 2017.

Both issuances were contracted without financial obligations and without joint and several obligors under an investment grade structure.

Both issuances incorporate a measurement for the year concluding December 31, 2026 to achieve at least a 18% reduction of CO2 emissions, if the goal is not achieved, the interest coupons shall increase 25 basis points as of June 28, 2027, with respect to the Sustainability-Linked Bonds in dollars and as of July 20, 2027, with respect to the Sustainability-Linked Bond in euros. This goal is consistent with our sustainability commitment to reduce GHG emissions in 28% by 2030, which were approved by the Science-Based Targets initiative (SBTi) in 2021.

At December 31, 2021, 2020 and 2019 and the date of issuance of these consolidated financial statements, the Company is in compliance with all obligations and affirmative and negative 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, except for those that cannot be expected to have a substantially adverse effect;
- Comply with applicable laws, rules and regulations, whose compliance may have a substantially adverse effect;
- Incur additional indebtedness, except if it is in compliance with affirmative and negative covenants in debt contracts;
- Pay dividends (only applicable to Nemak SAB), except if it is in compliance with affirmative and negative covenants in debt contracts;
- Grant liens on assets when the amount of secured obligations exceeds a percentage of total consolidated assets, as defined in each case;
- Enter into certain transactions with affiliates that are not in market conditions;
- Perform a consolidation or merger, except if the Company is the surviving one, and
- Carry out sale of assets, including sale and lease-back operations, whose value exceeds the amount determined in each case, except if it involves obsolete or abandoned assets, or such sale is performed according to ordinary course of business, fair market price and market conditions.

As of December 31, 2021, 2020 and 2019, there are no assets pledged as collateral for any of the subsidiaries, except for some assets, pledged as collateral in a long-term debt granted by a Brazilian government entity to promote investment (“BNDES”). As of December 31, 2021, the outstanding balance and the value of the pledged assets are approximately US\$0.2 (\$3.7) and US\$0.2 (\$3.7), respectively. As of December 31, 2020, the outstanding balance and the value of the pledged assets are approximately US\$0.3 (\$5.1) and US\$0.3 (\$5.1). As of December 31, 2019, the outstanding balance and the value of the pledged assets are approximately US\$0.5 (\$8.8) and US\$0.6 (\$11.0), respectively.

On December 23, 2019, Nemak obtained financing with Bancomext for an amount of US\$190 at a rate of LIBOR + 2.70% with a 10-year maturity, the resources were used to prepay the existing debt held with Bancomext of US\$114.7 and with NAFIN of US\$76.60.



## 16. Lease liability

|                                          | December 31     |                 |                 |
|------------------------------------------|-----------------|-----------------|-----------------|
|                                          | 2021            | 2020            | 2019            |
| <u>Current portion:</u>                  |                 |                 |                 |
| USD                                      | \$ 234          | \$ 212          | \$ 70           |
| MXP                                      | -               | -               | 86              |
| EUR                                      | 153             | 186             | 169             |
| Other currencies                         | 54              | 24              | 47              |
| Current lease liability                  | <u>\$ 441</u>   | <u>\$ 422</u>   | <u>\$ 372</u>   |
| <u>Non-current portion:</u>              |                 |                 |                 |
| USD                                      | \$ 662          | \$ 458          | \$ 133          |
| MXP                                      | -               | -               | 294             |
| EUR                                      | 900             | 973             | 939             |
| Other currencies                         | 521             | 545             | 487             |
| Less; Current portion of lease liability | <u>(441)</u>    | <u>(422)</u>    | <u>(372)</u>    |
| Non-current lease liability              | <u>\$ 1,642</u> | <u>\$ 1,554</u> | <u>\$ 1,481</u> |

As of December 31, 2021, 2020 and 2019, changes in the lease liability related to the financing activities in accordance with the statement of cash flows consist of the following:

|                                       | 2021            | 2020            | 2019            |
|---------------------------------------|-----------------|-----------------|-----------------|
| Lease liability as of January 1,      | \$ -            | \$ -            | \$ 902          |
| Financial lease reclassification      | -               | -               | 705             |
| Beginning balance                     | <u>1,976</u>    | <u>1,853</u>    | <u>1,607</u>    |
| New contracts                         | 653             | 376             | 693             |
| Write-offs                            | (95)            | (9)             | (2)             |
| Adjustment to liability balance       | -               | -               | 15              |
| Interest expense from lease liability | 89              | 86              | 70              |
| Lease payments                        | (698)           | (298)           | (380)           |
| Exchange loss (income)                | 158             | (32)            | (150)           |
| Ending balance                        | <u>\$ 2,083</u> | <u>\$ 1,976</u> | <u>\$ 1,853</u> |

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

|                                   | December 31,<br>2021 |
|-----------------------------------|----------------------|
| Less than 1 year                  | \$ 441               |
| Over 1 year and less than 3 years | 507                  |
| Over 3 year and less than 5 years | 217                  |
| Over 5 years                      | 918                  |
| Total                             | <u>\$ 2,083</u>      |

## 17. Other liabilities

|                                   | December 31   |               |               |
|-----------------------------------|---------------|---------------|---------------|
|                                   | 2021          | 2020          | 2019          |
| <u>Current:</u>                   |               |               |               |
| Other taxes and withholdings      | \$ 144        | \$ 216        | \$ 409        |
| Statutory employee profit sharing | 214           | 170           | 167           |
| Share-based payment (Note 20)     | 14            | 12            | 10            |
| Derivative financial instruments  | 18            | -             | -             |
| Others                            | 2             | 18            | 28            |
| Total                             | <u>\$ 392</u> | <u>\$ 416</u> | <u>\$ 614</u> |
| <u>Non-current:</u>               |               |               |               |
| Other <sup>(1)</sup>              | \$ 225        | \$ 273        | \$ 184        |
| Total                             | <u>\$ 225</u> | <u>\$ 273</u> | <u>\$ 184</u> |

<sup>(1)</sup> It includes share-based payments (Note 20).



## 18. Employee benefits

In 2020, due to the COVID-19 pandemic (Note 2 g.), the Company carried out labor terminations representing 9% of the total workforce, resulting in the recognition of US\$36 for severance and other COVID-19 related expenses. In addition, Nemak received support from the European government for a total of US\$24, recognized in the operating income. This support did not entail any commitment from the Company. The Company did not receive any government support during 2021.

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

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

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

|               | December 31     |                 |                 |
|---------------|-----------------|-----------------|-----------------|
|               | 2021            | 2020            | 2019            |
| Country       |                 |                 |                 |
| Mexico        | \$ 635          | \$ 604          | \$ 562          |
| United States | 7               | 38              | 29              |
| Canada        | 110             | 168             | 184             |
| Poland        | 216             | 243             | 171             |
| Austria       | 204             | 228             | 220             |
| Germany       | 182             | 174             | 139             |
| Other         | 100             | 113             | 103             |
| Total         | <u>\$ 1,454</u> | <u>\$ 1,568</u> | <u>\$ 1,408</u> |

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

|                                                                                                        | December 31     |                 |                 |
|--------------------------------------------------------------------------------------------------------|-----------------|-----------------|-----------------|
|                                                                                                        | 2021            | 2020            | 2019            |
| Obligations in the consolidated statement of financial position:                                       |                 |                 |                 |
| Pension benefits                                                                                       | \$ 1,312        | \$ 1,426        | \$ 1,253        |
| Post-employment medical benefits                                                                       | <u>142</u>      | <u>142</u>      | <u>155</u>      |
| Liability recognized in the consolidated statement of financial position                               | <u>1,454</u>    | <u>1,568</u>    | <u>1,408</u>    |
| Charge in the consolidated statements of income for:                                                   |                 |                 |                 |
| Pension benefits                                                                                       | (141)           | (195)           | (84)            |
| Post-employment medical benefits                                                                       | <u>(10)</u>     | <u>(6)</u>      | <u>(6)</u>      |
|                                                                                                        | <u>(151)</u>    | <u>(201)</u>    | <u>(90)</u>     |
| Remeasurements from employee benefit obligations recognized in other comprehensive income for the year |                 |                 |                 |
| Pension benefits                                                                                       | 204             | (40)            | (117)           |
| Post-employment medical benefits                                                                       | <u>7</u>        | <u>26</u>       | <u>(20)</u>     |
|                                                                                                        | <u>211</u>      | <u>(14)</u>     | <u>(137)</u>    |
| Remeasurements accumulated in stockholders' equity                                                     | <u>\$ (141)</u> | <u>\$ (352)</u> | <u>\$ (338)</u> |

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



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

|                                                                     | <b>December 31</b> |                |                |
|---------------------------------------------------------------------|--------------------|----------------|----------------|
|                                                                     | <b>2021</b>        | <b>2020</b>    | <b>2019</b>    |
| Present value of the obligations                                    | \$2,187            | \$2,220        | \$2,035        |
| Fair value of plan assets                                           | <u>(733)</u>       | <u>(652)</u>   | <u>(627)</u>   |
| Net liabilities in the consolidated statement of financial position | <u>\$1,454</u>     | <u>\$1,568</u> | <u>\$1,408</u> |

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

|                                      | <b>2021</b>     | <b>2020</b>     | <b>2019</b>     |
|--------------------------------------|-----------------|-----------------|-----------------|
| As of January 1                      | \$ 2,220        | \$ 2,035        | \$ 1,802        |
| Current service cost                 | 298             | 157             | 54              |
| Interest cost                        | 52              | 57              | 56              |
| Contributions from plan participants | 1               | 1               | 1               |
| Remeasurements:                      |                 |                 |                 |
| Actuarial remeasurements             | (71)            | 341             | 172             |
| Settlements                          | -               | (4)             | -               |
| Benefits paid                        | (137)           | (246)           | (64)            |
| Exchange differences                 | <u>(176)</u>    | <u>(121)</u>    | <u>14</u>       |
| As of December 31,                   | <u>\$ 2,187</u> | <u>\$ 2,220</u> | <u>\$ 2,035</u> |

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

|                                               | <b>2021</b>     | <b>2020</b>     | <b>2019</b>     |
|-----------------------------------------------|-----------------|-----------------|-----------------|
| As of January 1                               | \$ (652)        | \$ (627)        | \$ (564)        |
| Interest income                               | (18)            | (22)            | (25)            |
| Remeasurements – return from plan assets, net | (65)            | (42)            | (55)            |
| Exchange differences                          | (22)            | (41)            | 4               |
| Contributions from plan participants          | (7)             | (5)             | (8)             |
| Employee contributions                        | (1)             | (1)             | (1)             |
| Benefits paid                                 | <u>32</u>       | <u>86</u>       | <u>22</u>       |
| As of December 31                             | <u>\$ (733)</u> | <u>\$ (652)</u> | <u>\$ (627)</u> |

The primary actuarial assumptions were as follows:

|                        | <b>December 31</b> |             |             |
|------------------------|--------------------|-------------|-------------|
|                        | <b>2021</b>        | <b>2020</b> | <b>2019</b> |
| Mexico:                |                    |             |             |
| Inflation rate         | 7.36%              | 3.15%       | 2.83%       |
| Wage increase rate     | 4.50%              | 4.50%       | 4.50%       |
| Future wage increase   | 3.50%              | 3.50%       | 3.50%       |
| Medical inflation rate | 7.00%              | 6.50%       | 6.50%       |
| Discount rate:         |                    |             |             |
| Mexico                 | 7.75%              | 6.75%       | 7.00%       |
| Canada                 | 3.07%              | 2.79%       | 3.11%       |
| Austria                | 1.00%              | 1.00%       | 2.00%       |
| United States          | 2.35%              | 3.05%       | 3.05%       |
| Germany                | 1.35%              | 1.60%       | 0.82%       |
| Poland                 | 3.20%              | 1.30%       | 3.30%       |



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

|               | <b>Impact on defined benefit obligations</b> |                                |                                |
|---------------|----------------------------------------------|--------------------------------|--------------------------------|
|               | <b>Change in assumptions</b>                 | <b>Increase in assumptions</b> | <b>Decrease in assumptions</b> |
| Discount rate | +1%                                          | \$ (169)                       | \$ 200                         |

*Pension benefit assets*

Plan assets are comprised of the following:

|                                             | <b>2021</b>   | <b>2020</b>   | <b>2019</b>   |
|---------------------------------------------|---------------|---------------|---------------|
| Equity instruments                          | \$ 496        | \$ 440        | \$ 425        |
| Short and long-term fixed-income securities | 237           | 212           | 202           |
|                                             | <u>\$ 733</u> | <u>\$ 652</u> | <u>\$ 627</u> |

## 19. Stockholders' equity

At December 31, 2021, 2020 and 2019, the fixed, capital stock of \$6,553, \$ 6,599 and \$ 6,599, respectively, was represented by 3,055, 3,077 and 3,077 million registered common shares, "Class I" of the Series "A", without face value, fully subscribed and paid, respectively.

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

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

As of December 31, 2020, the shares were represented as follows:

| <b>Stockholder</b>               | <b>Number of shares</b> |                 |
|----------------------------------|-------------------------|-----------------|
|                                  | <b>(In millions)</b>    | <b>Amount</b>   |
| Controladora Nemark              | 2,316                   | \$ 4,966        |
| Public investors                 | 761                     | 1,633           |
| Repurchase of shares             | -                       | -               |
| Balances as of December 31, 2020 | <u>3,077</u>            | <u>\$ 6,599</u> |

As of December 31, 2021, the shares were represented as follows:

| <b>Stockholder</b>               | <b>Number of shares</b> |                 |
|----------------------------------|-------------------------|-----------------|
|                                  | <b>(In millions)</b>    | <b>Amount</b>   |
| Public investors                 | 3,077                   | \$ 6,599        |
| Repurchase of shares             | (22)                    | (46)            |
| Balances as of December 31, 2021 | <u>3,055</u>            | <u>\$ 6,553</u> |

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

|                                | <b>Number of shares</b> |
|--------------------------------|-------------------------|
|                                | <b>(In millions)</b>    |
| Shares as of January 1, 2019   | 3,079                   |
| Repurchase of shares           | (2)                     |
| Shares as of December 31, 2019 | 3,077                   |
| Repurchase of shares           | -                       |
| Shares as of December 31, 2020 | 3,077                   |
| Repurchase of shares           | (22)                    |
| Shares as of December 31, 2021 | <u>3,055</u>            |



The profit for the period is subject to the legal provision requiring at least 5% of the profit for each period to be set aside to increase the legal reserve until it reaches an amount equivalent to 20% of the capital stock. As of December 31, 2021, 2020 and 2019, the legal reserve amounted to \$1,188, \$1,179 and \$1,049, respectively, which is included in retained earnings.

On February 25, 2020, the Annual Ordinary Shareholders' Meeting was held, at which the payment of a cash dividend of US\$0.0164 per outstanding share was approved, equivalent to approximately US\$51 (\$954). However, taking into account the effects derived from COVID-19, the Company approved at the Annual Ordinary Shareholders' Meeting held on June 19, 2020, to revoke the payments of the dividend declarations scheduled for July 1, October 1 and December 18, 2020, equivalent to US\$38 (\$715).

Dividends paid as of December 31, 2020 and 2019 were US\$13 (\$306) (\$0.10 per share) and US\$ 125 (\$2,439) (\$0.79 per share) which fully arise from the Net Tax Profit Account (CUFIN). The Company did not pay any dividends as of December 31, 2021.

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 2021. 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. As of December 31, 2021, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to \$22,188 and \$9,241, respectively.

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

| <b>Year of distribution of dividend or profit</b> | <b>Percentage of application to the amount of dividend or profit distributed.</b> |
|---------------------------------------------------|-----------------------------------------------------------------------------------|
| 2020                                              | 5%                                                                                |
| 2021                                              | 5%                                                                                |
| 2022 onwards                                      | 5%                                                                                |

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

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

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

Entities distributing dividends or profits in respect of shares placed among the investing public should inform brokerage firms, credit institutions, investment firms, the people who carry out the distribution of shares of investment companies, or any other intermediary, the necessary details for these brokers to be able to make the corresponding withholding. For the years ended December 31, 2021, 2020 and 2019, the Company generated taxable income (loss) of \$85, \$(933) and \$2,493, respectively, which may be subject to this withholding.

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

## **20. Share-based payments**

Nemak has a compensation plan referenced to the value of Nemak and ALFA's shares for senior executives of Nemak and its subsidiaries. From 2021, the compensation plan is only referenced to the value of Nemak's shares due to the Alfa spin-off in 2020. 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
- Tenure of the executives in the Company

The bonus will be paid in cash over the next five years, i.e. 20% each year based on the average price per share in pesos for the month of December of each year. The average share's price considered for the compensation's measurement in Mexican pesos in 2021, 2020 and 2019 for Nemak was \$6.07, \$6.41 and \$8.15 and for Alfa was \$15.39 and \$15.72, in 2020 and 2019, respectively.



Short and long-term liability consists of the following:

|                       | December 31  |              |              |
|-----------------------|--------------|--------------|--------------|
|                       | 2021         | 2020         | 2019         |
| Short-term            | \$ 14        | \$ 12        | \$ 10        |
| Long-term             | 35           | 31           | 27           |
| Total carrying amount | <u>\$ 49</u> | <u>\$ 43</u> | <u>\$ 37</u> |

## 21. Expenses classified by nature

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

|                                                                     | December 31        |                   |                   |
|---------------------------------------------------------------------|--------------------|-------------------|-------------------|
|                                                                     | 2021               | 2020              | 2019              |
| Raw materials                                                       | \$ (33,092)        | \$(24,699)        | \$(29,347)        |
| Maquila (production outsourcing)                                    | (5,058)            | (5,254)           | (6,068)           |
| Employee benefit expenses (Note 24)                                 | (15,938)           | (15,630)          | (17,166)          |
| Personnel expenses                                                  | (63)               | (54)              | (157)             |
| Maintenance                                                         | (3,928)            | (3,760)           | (4,263)           |
| Depreciation and amortization                                       | (6,718)            | (6,826)           | (6,079)           |
| Freight charges                                                     | (473)              | (451)             | (498)             |
| Advertising expenses                                                | (14)               | (9)               | (10)              |
| Consumption of energy and fuel                                      | (3,615)            | (3,253)           | (3,679)           |
| Travel expenses                                                     | (67)               | (73)              | (280)             |
| Operating leases                                                    | (268)              | (255)             | (319)             |
| Technical assistance, professional fees and administrative services | (1,243)            | (1,070)           | (1,293)           |
| Other                                                               | (2,050)            | (1,989)           | (2,445)           |
| Total                                                               | <u>\$ (72,527)</u> | <u>\$(63,323)</u> | <u>\$(71,604)</u> |

## 22. Other income (expenses), net

|                                               | 2021          | 2020              | 2019            |
|-----------------------------------------------|---------------|-------------------|-----------------|
| Gain on sale of property, plant and equipment | \$ 1          | \$ 6              | \$ 4            |
| Impairment of property, plant and equipment   | (141)         | (133)             | (915)           |
| Other income <sup>(1)</sup>                   | 251           | (908)             | 116             |
| Total other income (expenses), net            | <u>\$ 111</u> | <u>\$ (1,035)</u> | <u>\$ (795)</u> |

<sup>(1)</sup> As of December 31, 2020, it primarily includes COVID-19 related items.

## 23. Financial results, net

|                                               | 2021              | 2020              | 2019              |
|-----------------------------------------------|-------------------|-------------------|-------------------|
| Financial income:                             |                   |                   |                   |
| Interest income in short-term bank deposits   | \$ 29             | \$ 49             | \$ 32             |
| Intercompany financial income (Note 26)       | 5                 | 4                 | 46                |
| Other financial income <sup>(1)</sup>         | 37                | 23                | 164               |
| Total financial income                        | <u>71</u>         | <u>76</u>         | <u>242</u>        |
| Financial expenses:                           |                   |                   |                   |
| Interest expense on bank loans <sup>(3)</sup> | (2,154)           | (1,641)           | (1,534)           |
| Other financial expenses <sup>(2)</sup>       | (105)             | (105)             | (42)              |
| Total financial expense                       | <u>(2,259)</u>    | <u>(1,746)</u>    | <u>(1,576)</u>    |
| Exchange fluctuation gain (loss), net:        |                   |                   |                   |
| Exchange fluctuation gain                     | 2,462             | 8,484             | 5,336             |
| Exchange fluctuation loss                     | (2,867)           | (9,504)           | (5,370)           |
| Total exchange fluctuation loss, net          | <u>(405)</u>      | <u>(1,020)</u>    | <u>(34)</u>       |
| Financial results, net                        | <u>\$ (2,593)</u> | <u>\$ (2,690)</u> | <u>\$ (1,368)</u> |

<sup>(1)</sup> It mainly includes interest on plan assets and other items.

<sup>(2)</sup> It includes the financial cost of employee benefits.

<sup>(3)</sup> It includes debt prepayment costs of \$576 of Senior Notes.



## 24. Employee benefit expenses

|                                     | 2021            | 2020            | 2019            |
|-------------------------------------|-----------------|-----------------|-----------------|
| Salaries, wages and benefits        | \$13,283        | \$13,137        | \$14,586        |
| Contributions to social security    | 2,191           | 2,176           | 2,208           |
| Employee pension benefits (Note 18) | 298             | 157             | 54              |
| Other contributions                 | 166             | 160             | 318             |
| Total                               | <u>\$15,938</u> | <u>\$15,630</u> | <u>\$17,166</u> |

## 25. Income taxes

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

|                         | 2021  | 2020  | 2019  |
|-------------------------|-------|-------|-------|
| Germany                 | 30.0% | 30.0% | 30.0% |
| Austria                 | 25.0% | 25.0% | 25.0% |
| Brazil                  | 34.0% | 34.0% | 34.0% |
| China                   | 25.0% | 25.0% | 25.0% |
| Spain                   | 24.0% | 24.0% | 24.0% |
| Slovakia                | 21.0% | 21.0% | 21.0% |
| United State of America | 21.0% | 21.0% | 21.0% |
| Hungary                 | 9.00% | 9.0%  | 9.0%  |
| Poland                  | 19.0% | 19.0% | 19.0% |
| Turkey                  | 25.0% | 20.0% | 22.0% |

### a) Income tax recognized in the consolidated statements of income:

|                     | 2021             | 2020            | 2019             |
|---------------------|------------------|-----------------|------------------|
| Current tax         | \$ (890)         | \$ (513)        | \$(2,331)        |
| Deferred tax        | <u>(1,072)</u>   | <u>332</u>      | <u>1,187</u>     |
| Income tax expensed | <u>\$(1,962)</u> | <u>\$ (181)</u> | <u>\$(1,144)</u> |

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

|                                                                     | 2021             | 2020            | 2019             |
|---------------------------------------------------------------------|------------------|-----------------|------------------|
| Income before taxes                                                 | \$ 2,047         | \$ (752)        | \$ 3,637         |
| Equity in losses of associates recognized through the equity method | 22               | 29              | (41)             |
| Income before interests in associates                               | <u>2,069</u>     | <u>(723)</u>    | <u>3,596</u>     |
| Statutory rate                                                      | 30%              | 30%             | 30%              |
| Taxes at statutory rate                                             | <u>(621)</u>     | <u>217</u>      | <u>(1,079)</u>   |
| (Add) less tax effect on:                                           |                  |                 |                  |
| Inflation adjustments                                               | (527)            | (254)           | (199)            |
| Non-deductible expenses                                             | 71               | (330)           | (134)            |
| Tax loss recovery valuation reserve                                 | (1,031)          | -               | -                |
| Non-taxable exchange effects                                        | 49               | 286             | 220              |
| Other                                                               | <u>97</u>        | <u>(100)</u>    | <u>48</u>        |
| Total income tax expense                                            | <u>\$(1,962)</u> | <u>\$ (181)</u> | <u>\$(1,144)</u> |
| Effective rate                                                      | <u>96%</u>       | <u>24%</u>      | <u>31%</u>       |



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

|                                   | <b>December 31</b> |                   |                   |
|-----------------------------------|--------------------|-------------------|-------------------|
|                                   | <b>2021</b>        | <b>2020</b>       | <b>2019</b>       |
| Inventories                       | \$ -               | \$ 43             | \$ (12)           |
| Property, plant and equipment     | (107)              | (1,520)           | (1,109)           |
| Intangible assets                 | (47)               | (181)             | (108)             |
| Asset valuation reserve           | -                  | -                 | 8                 |
| Provisions                        | 202                | 1,236             | 1,042             |
| Tax loss carryforwards            | 588                | 1,137             | 1,350             |
| Other temporary differences, net  | (511)              | 315               | (114)             |
| Deferred tax asset                | <u>\$ 125</u>      | <u>\$ 1,030</u>   | <u>\$ 1,057</u>   |
| Inventories                       | \$ (9)             | \$ (13)           | \$ (8)            |
| Property, plant and equipment     | (3,551)            | (2,443)           | (2,362)           |
| Intangible assets                 | (588)              | (1,392)           | (1,414)           |
| Debt issuance and obtaining costs | -                  | -                 | (56)              |
| Provisions                        | 1,583              | 1,495             | 1,161             |
| Tax loss carryforwards            | 4                  | 77                | 3                 |
| Other temporary differences, net  | 319                | 325               | 721               |
| Deferred tax liability            | <u>\$ (2,242)</u>  | <u>\$ (1,951)</u> | <u>\$ (1,955)</u> |

Tax losses as of December 31, 2021 expire in the following years:

| <b>Expiration year</b> | <b>Amount</b>   |
|------------------------|-----------------|
| 2022                   | \$ 42           |
| 2023                   | 409             |
| 2024                   | 499             |
| 2025                   | 442             |
| 2026 and thereafter    | 1,879           |
| No maturity            | 2,856           |
|                        | <u>\$ 6,127</u> |

Additionally, as of December 31, 2021, the Company holds tax loss carryforwards of \$3,820 and has decided to reserve the total amount.

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

|                                                                 | <b>2021</b>         |                               |                    | <b>2020</b>         |                               |                    | <b>2019</b>         |                               |                    |
|-----------------------------------------------------------------|---------------------|-------------------------------|--------------------|---------------------|-------------------------------|--------------------|---------------------|-------------------------------|--------------------|
|                                                                 | <b>Before taxes</b> | <b>Tax charged/(credited)</b> | <b>After taxes</b> | <b>Before taxes</b> | <b>Tax charged/(credited)</b> | <b>After taxes</b> | <b>Before taxes</b> | <b>Tax charged/(credited)</b> | <b>After taxes</b> |
| Translation effect of foreign entities                          | \$ (63)             | \$ -                          | \$ (63)            | \$2,909             | \$ -                          | \$2,909            | \$(1,846)           | \$ -                          | \$(1,846)          |
| Remeasurements of obligations for employee benefits             | 211                 | (52)                          | 159                | (14)                | 1                             | (13)               | (137)               | 22                            | (115)              |
| Derivative financial instruments designated as cash flow hedges | (28)                | 8                             | (20)               | -                   | -                             | -                  | -                   | -                             | -                  |
| Other comprehensive income items                                | <u>\$120</u>        | <u>\$ (44)</u>                | <u>\$ 76</u>       | <u>\$2,895</u>      | <u>\$ 1</u>                   | <u>\$2,896</u>     | <u>\$(1,983)</u>    | <u>\$ 22</u>                  | <u>\$(1,961)</u>   |



## 26. Transactions with related parties

Transactions with related parties during the years ended December 31, 2021, 2020 and 2019, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

| December 31, 2021          |                     |                    |                      |          |                          |               |                  |
|----------------------------|---------------------|--------------------|----------------------|----------|--------------------------|---------------|------------------|
| Loans with related parties |                     |                    |                      |          |                          |               |                  |
|                            | Accounts receivable | Non-current Amount | Capital and Interest | Currency | Maturity date MM/DD/YYYY | Interest rate | Accounts payable |
| ALFA                       | \$ -                | \$ -               | \$ 83                | MXP      | 12/31/2022               | 6.42%         | \$ 23            |
| Associates                 | 69                  | -                  | 46                   | EUR      | 03/04/2022               | 4.35%         | 23               |
| Affiliates                 | 18                  | -                  | -                    | MXP      |                          |               | -                |
| Ford                       | 1,215               | -                  | -                    |          |                          |               | -                |
| Total                      | \$ 1,302            | \$ -               | \$ 129               |          |                          |               | \$ 46            |

| December 31, 2020          |                     |                    |                      |          |                          |               |                  |
|----------------------------|---------------------|--------------------|----------------------|----------|--------------------------|---------------|------------------|
| Loans with related parties |                     |                    |                      |          |                          |               |                  |
|                            | Accounts receivable | Non-current Amount | Capital and Interest | Currency | Maturity date MM/DD/YYYY | Interest rate | Accounts payable |
| ALFA                       | \$ -                | \$ -               | \$ 80                | MXP      | 08/16/2021               | 5.49%         | \$ -             |
| Associates                 | 73                  | -                  | 41                   | EUR      | 03/04/2021               | 4.35%         | 43               |
| Ford                       | 882                 | -                  | -                    |          |                          |               | -                |
| Total                      | \$ 955              | \$ -               | \$ 121               |          |                          |               | \$ 43            |

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

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

Sales revenues and other related parties:

| Year ended December 31, 2021 |                    |             |               |
|------------------------------|--------------------|-------------|---------------|
|                              | Finished goods     | Interest    | Other         |
| ALFA                         | \$ -               | \$ 3        | \$ -          |
| Ford                         | (19,506)           | -           | -             |
| Associates                   | -                  | 2           | 372           |
| Affiliates                   | -                  | -           | 18            |
| Total                        | <u>\$ (19,506)</u> | <u>\$ 5</u> | <u>\$ 390</u> |



|            | Year ended December 31, 2020 |             |               |
|------------|------------------------------|-------------|---------------|
|            | Finished goods               | Interest    | Other         |
| ALFA       | \$ -                         | \$ 2        | \$ -          |
| Ford       | 13,772                       | -           | -             |
| Associates | -                            | 2           | 266           |
| Total      | <u>\$ 13,772</u>             | <u>\$ 4</u> | <u>\$ 266</u> |

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

Cost of sales and other expenses with related parties:

|            | Year ended December 31, 2021 |                          |                |
|------------|------------------------------|--------------------------|----------------|
|            | Administrative services      | Other costs and expenses | Dividends paid |
| ALFA       | \$ 45                        | \$ -                     | \$ -           |
| Affiliates | 51                           | 39                       | -              |
| Total      | <u>\$ 96</u>                 | <u>\$ 39</u>             | <u>\$ -</u>    |

|            | Year ended December 31, 2020 |                          |                |
|------------|------------------------------|--------------------------|----------------|
|            | Administrative services      | Other costs and expenses | Dividends paid |
| ALFA       | \$ 43                        | \$ -                     | \$ 231         |
| Affiliates | -                            | 97                       | -              |
| Total      | <u>\$ 43</u>                 | <u>\$ 97</u>             | <u>\$ 231</u>  |

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

For the years ended December 31, 2021, 2020 and 2019, wages and benefits received by senior management of the Company were \$130, \$132 and \$142, respectively, an amount comprising base salary and other benefits associated with the Company's share-based payment plans.

## 27. Segment financial information

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



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

- North America; in which Mexican, Canadian and United States operations are grouped.
- Europe operations include the plants in Germany, Spain, Hungary, Czech Republic, Austria, Poland, Slovakia, Russia and Turkey.
- Operating segments that do not meet the threshold established by the standard itself to be reported separately, such as Asia (including plants in China and India), South America (including plants in Brazil and Argentina), and other less significant operations, are added and shown under the “rest of the world”.

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

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

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

Below is the condensed financial information on these operating segments:

For the year ended December 31, 2021

|                                             | <b>North<br/>America</b> | <b>Europe</b>   | <b>Rest of<br/>the world</b> | <b>Eliminations</b> | <b>Total</b>     |
|---------------------------------------------|--------------------------|-----------------|------------------------------|---------------------|------------------|
| Statement of income                         |                          |                 |                              |                     |                  |
| Income by segment                           | \$ 39,373                | \$30,610        | \$ 9,988                     | \$ (2,893)          | \$ 77,078        |
| Inter-segment income                        | (174)                    | (2,099)         | (620)                        | 2,893               | -                |
| Income from external customers              | <u>\$ 39,199</u>         | <u>\$28,511</u> | <u>\$ 9,368</u>              | <u>\$ -</u>         | <u>\$ 77,078</u> |
| EBITDA                                      |                          |                 |                              |                     |                  |
| Operating income                            | \$ 1,754                 | \$ 2,614        | \$ 294                       | \$ -                | \$ 4,662         |
| Depreciation and amortization               | 3,756                    | 2,347           | 615                          | -                   | 6,718            |
| Impairment                                  | 17                       | 74              | 50                           | -                   | 141              |
| Adjusted EBITDA                             | <u>\$ 5,527</u>          | <u>\$ 5,035</u> | <u>\$ 959</u>                | <u>\$ -</u>         | <u>\$ 11,521</u> |
| Capital investments (Capex and intangibles) | <u>\$ 4,215</u>          | <u>\$ 2,237</u> | <u>\$ 891</u>                | <u>\$ -</u>         | <u>\$ 7,343</u>  |

For the year ended December 31, 2020

|                                             | <b>North<br/>America</b> | <b>Europe</b>   | <b>Rest of<br/>the world</b> | <b>Eliminations</b> | <b>Total</b>     |
|---------------------------------------------|--------------------------|-----------------|------------------------------|---------------------|------------------|
| Statement of income                         |                          |                 |                              |                     |                  |
| Income by segment                           | \$ 34,586                | \$25,023        | \$ 8,461                     | \$ (1,745)          | \$ 66,325        |
| Inter-segment income                        | (76)                     | (1,013)         | (656)                        | 1,745               | -                |
| Income from external customers              | <u>\$ 34,510</u>         | <u>\$24,010</u> | <u>\$ 7,805</u>              | <u>\$ -</u>         | <u>\$ 66,325</u> |
| EBITDA                                      |                          |                 |                              |                     |                  |
| Operating income                            | \$ 1,348                 | \$ 825          | \$ (206)                     | \$ -                | \$ 1,967         |
| Depreciation and amortization               | 3,658                    | 2,407           | 761                          | -                   | 6,826            |
| Impairment                                  | 117                      | 12              | 4                            | -                   | 133              |
| Adjusted EBITDA                             | <u>\$ 5,123</u>          | <u>\$ 3,244</u> | <u>\$ 559</u>                | <u>\$ -</u>         | <u>\$ 8,926</u>  |
| Capital investments (Capex and intangibles) | <u>\$ 3,452</u>          | <u>\$ 1,875</u> | <u>\$ 328</u>                | <u>\$ -</u>         | <u>\$ 5,655</u>  |



For the year ended December 31, 2019

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

The reconciliation between “Adjusted EBITDA” and income (loss) before tax is as follows:

|                               | 2021            | 2020            | 2019            |
|-------------------------------|-----------------|-----------------|-----------------|
| Adjusted EBITDA               | \$11,521        | \$ 8,926        | \$11,958        |
| Depreciation and amortization | (6,718)         | (6,826)         | (6,079)         |
| Impairment                    | <u>(141)</u>    | <u>(133)</u>    | <u>(915)</u>    |
| Operating income              | 4,662           | 1,967           | 4,964           |
| Financial results, net        | (2,593)         | (2,690)         | (1,368)         |
| Equity in associates          | <u>(22)</u>     | <u>(29)</u>     | <u>41</u>       |
| Income (loss) before taxes    | <u>\$ 2,047</u> | <u>\$ (752)</u> | <u>\$ 3,637</u> |

For the year ended December 31, 2021

|                   | Property,<br>plant and<br>equipment,<br>net | Goodwill        | Intangible<br>assets and<br>right of use |
|-------------------|---------------------------------------------|-----------------|------------------------------------------|
| North America     | \$ 28,027                                   | \$ 2,199        | \$ 3,798                                 |
| Europe            | 20,051                                      | 3,897           | 2,972                                    |
| Rest of the world | <u>4,601</u>                                | <u>-</u>        | <u>896</u>                               |
| Total             | <u>\$ 52,679</u>                            | <u>\$ 6,096</u> | <u>\$ 7,666</u>                          |

For the year ended December 31, 2020

|                   | Property,<br>plant and<br>equipment,<br>net | Goodwill        | Intangible<br>assets and<br>right of use |
|-------------------|---------------------------------------------|-----------------|------------------------------------------|
| North America     | \$ 26,582                                   | \$ 2,130        | \$ 3,622                                 |
| Europe            | 20,754                                      | 4,064           | 3,224                                    |
| Rest of the world | <u>4,155</u>                                | <u>-</u>        | <u>978</u>                               |
| Total             | <u>\$ 51,491</u>                            | <u>\$ 6,194</u> | <u>\$ 7,824</u>                          |



For the year ended December 31, 2019

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

Nemak's clients are automotive companies, known as OEMs. The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 24%, 23% and 25%, General Motors 16%, 19% and 19%, Stellantis<sup>(1)</sup> 9%, 11% and 12% and Volkswagen Group 14%, 15% and 14% in 2021, 2020 and 2019, respectively.

<sup>(1)</sup> Stellantis" means Stellantis N.V. and its relevant subsidiaries in different countries, the new automotive group resulting from the merger of Fiat Chrysler Automobiles and PSA Group, effective as of January 2021.

## 28. Commitments and contingencies

In the normal course of its business, the Company is involved in disputes and litigation. Although the outcome of the disputes cannot be predicted, as of December 31, 2021, the Company does not believe that there are current or threatened actions, claims or legal proceedings against it or affecting the Company that, if determined adversely to it, would significantly damage its individual or overall results of operations or financial position.

As of December 31, 2021, 2020 and 2019, the Company had the following contingency:

Nemak México, S.A. received a claim from the Canada Revenue Agency (CRA) for a tax credit for refunds of Goods and Services Tax (GST) and the Harmonized Sales Tax (HST) for an approximate total amount, including interest, of US\$82. The CRA alleges that Nemak delivered certain assets in Canada that were subject to GST and HST. However, the Company filed an objection to the CRA's Audit Division arguing that its clients acted as importers in Canada and that Nemak delivered the goods to them outside such country. Based on a face-to-face meeting with the CRA in which the evidences and arguments required to support our objection were presented, management and its legal advisors consider that the case will be adjudicated favorably, therefore it has not recognized any provision in its statement of financial position.

## 29. Subsequent events

In preparing the consolidated financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2021 and through January 31, 2022, (issuance date of the consolidated financial statements), and has concluded that there are no subsequent events that require recognition or disclosure.

## 30. Authorization to issue the consolidated financial statements

On January 31, 2022, the issuance of the accompanying consolidated financial statements was authorized by Armando Tamez Martínez, Chief Executive Officer and Alberto Sada Medina, Chief Financial Officer.

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

