

***Tenedora Nemark, S. A. de C. V. and
subsidiaries***

(subsidiaries of Alfa, S. A. B. de C. V.)

Consolidated Financial Statements

December 31, 2013 and 2012

Tenedora Nemark, S. A. de C. V. and subsidiaries

Consolidated Financial Statements

Index

December 31, 2013 and 2012

<u>Contents</u>	<u>Page</u>
Report of the Independent Auditors.....	1 and 2
Consolidated Financial Statements:	
Consolidated statements of financial position	3
Consolidated statements of income	4
Consolidated statements of comprehensive income.....	5
Consolidated statements of changes in stockholders' equity	6
Consolidated statements of cash flows.....	7
Notes to the consolidated financial statements.....	8 to 70



Report of the Independent Auditors

Monterrey, N. L., February 25, 2014

To the Shareholders' Meeting of Tenedora Nemark, S. A. de C. V.

We have audited the accompanying consolidated financial statements of Tenedora Nemark, S. A. de C. V. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2013 and 2012, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Tenedora Nemark, S. A. de C. V. and its subsidiaries as at December 31, 2013 and 2012, and its financial performance and its cash flows for the years ended December 31, 2013 and 2012, in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

PricewaterhouseCoopers, S. C.

A handwritten signature in black ink, consisting of a large, stylized 'R' followed by several vertical strokes and a horizontal line at the bottom.

C.P.C. Ricardo Noriega Navarro
Audit Partner

Tenedora Nemak, S. A. de C. V. and subsidiaries
Consolidated Statements of Financial Position
(in thousands of Mexican Pesos)
December 31, 2013 and 2012

		<u>December 31,</u>	
	Note	<u>2013</u>	<u>2012</u> (Modified *)
Current Assets:			
Cash and cash equivalents	6	Ps 1,782,848	Ps 605,997
Restricted cash and cash equivalents	7	360,715	573,978
Trade and other receivables, net	8	4,342,574	3,471,654
Related parties	26	1,707,310	1,743,019
Inventories	9	6,912,341	6,539,730
Derivative financial instruments	10	-	22,169
Advanced payments		<u>241,519</u>	<u>238,619</u>
Total current assets		<u>15,347,305</u>	<u>13,195,166</u>
Non-current Assets:			
Property, plant and equipment	11	29,323,568	28,823,810
Goodwill and intangible assets, net	12	6,650,380	5,846,218
Deferred income tax	16	1,382,512	1,633,593
Other non-current assets	13	291,783	225,876
Related parties	26	<u>274,607</u>	<u>273,212</u>
Total non-current assets		<u>37,922,830</u>	<u>38,802,709</u>
Total Assets		<u>Ps 53,270,135</u>	<u>Ps 49,797,875</u>
Liabilities			
Current Liabilities:			
Current debt	15	Ps 1,893,390	Ps 2,102,548
Trade and other payables	14	11,648,698	9,339,543
Derivative financial instruments	10	68,230	63,994
Other liabilities	17	1,473,028	1,180,350
Related parties	26	<u>322,405</u>	<u>389,422</u>
Total current liabilities		<u>15,205,749</u>	<u>13,035,857</u>
Non-current Liabilities:			
Non-current debt	15	15,171,156	18,120,608
Derivative financial instruments	10	311,585	378,946
Deferred income tax	16	1,503,686	1,935,976
Employee benefits	18	581,084	627,246
Related parties	26	<u>2,035,572</u>	<u>2,417,084</u>
Total non-current liabilities		<u>19,603,083</u>	<u>21,479,842</u>
Total liabilities		<u>34,808,812</u>	<u>34,515,699</u>
Stockholders' equity			
Controlling interest:			
Capital stock	19	874,136	674,136
Retained earnings	19	16,853,788	14,162,493
Other reserves	19	<u>722,020</u>	<u>238,580</u>
Total controlling interest		<u>18,449,958</u>	<u>15,275,209</u>
Non-controlling interest		<u>11,885</u>	<u>6,987</u>
Commitments and contingencies		-	-
Total stockholders' equity		<u>18,461,323</u>	<u>15,282,176</u>
Total liabilities and stockholders' equity		<u>Ps 53,270,135</u>	<u>Ps 49,797,875</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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


Armando Tamez Martínez
Chief Executive Officer


Salvador Ramos Santos
Chief Financial Officer

Tenedora Nemak, S. A. de C. V. and subsidiaries

Consolidated Statements of Income

(in thousands of Mexican Pesos)

For the years ended December 31, 2013 and 2012

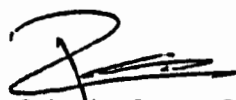
	Note	<u>2013</u>	<u>2012</u> (Modified *)
Revenue		Ps 56,298,887	Ps 51,384,561
Cost of sales	21	<u>(48,597,266)</u>	<u>(44,621,334)</u>
Gross profit		7,701,621	6,763,227
Selling expenses	21	(820,366)	(983,182)
Administrative expenses	21	(2,524,040)	(2,259,467)
Other revenues (expenses), net	22	<u>160,101</u>	<u>(331,754)</u>
Operating profit before non-recurring items		4,517,316	3,188,824
Non-recurring items	2	-	366,991
Operating profit		4,517,316	3,555,815
Financial income	23	39,055	56,055
Financial costs	23	<u>(1,494,932)</u>	<u>(1,448,867)</u>
Financial costs, net		<u>(1,455,877)</u>	<u>(1,392,812)</u>
Share of gain of associates	13	<u>19,284</u>	<u>37,984</u>
Profit before income tax		3,080,723	2,200,987
Income tax	25	<u>(459,490)</u>	<u>(1,037,445)</u>
Net consolidated profit		<u>Ps 2,621,233</u>	<u>Ps 1,163,542</u>
Profit attributable to:			
Controlling interest		2,616,819	1,162,848
Non-controlling interest		<u>4,414</u>	<u>694</u>
		<u>Ps 2,621,233</u>	<u>Ps 1,163,542</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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



Armando Tamez Martínez
Chief Executive Officer



Salvador Ramos Santos
Chief Financial Officer

Tenedora Nemark, S. A. de C. V. and subsidiaries

Consolidated Statements of Comprehensive Income

(in thousands of Mexican Pesos)

For the years ended December 31, 2013 and 2012

	<u>Note</u>	<u>2013</u>	<u>2012</u> (Modified*)
Net consolidated profit		Ps 2,621,233	Ps 1,163,542
Other comprehensive income (loss) for the year, net of tax:			
Items not to be reclassified to income statement			
Remeasurement of obligations for employee benefits	18	88,216	(46,928)
Items to be reclassified to income statement			
Effect of derivative financial instruments designated as cash flow hedges	10	38,918	24,269
Effect of translation of foreign entities	19	<u>444,522</u>	<u>(718,817)</u>
Total other comprehensive income (loss) for the year		<u>571,656</u>	<u>(741,476)</u>
Total comprehensive income for the year		<u>Ps 3,192,889</u>	<u>Ps 422,066</u>
Attributable to:			
Controlling interest		Ps 3,187,991	Ps 421,372
Non-controlling interest		<u>4,898</u>	<u>694</u>
Total comprehensive income for the year		<u>Ps 3,192,889</u>	<u>Ps 422,066</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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


Armando Tamez Martínez
Chief Executive Officer


Salvador Ramos Santos
Chief Financial Officer

Tenedora Nemak, S. A. de C. V. and subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
(in thousands of Mexican Pesos)

For the years ended December 31, 2013 and 2012

	Note	Capital stock	Retained earnings	Other reserves	Total controlling interest	Non- controlling interest	Total stockholders equity
Balances at December 31, 2011		<u>Ps 874,136</u>	<u>Ps 13,183,733</u>	<u>Ps 933,128</u>	<u>Ps 14,990,997</u>	<u>Ps 6,273</u>	<u>Ps 14,997,270</u>
Transactions with shareholders:	19						
Dividends declared			(137,160)	-	(137,160)	-	(137,160)
			(137,160)	-	(137,160)	-	(137,160)
Net profit			1,162,848		1,162,848	694	1,163,542
Other comprehensive income for the year		-	(46,928)	(694,548)	(741,476)	-	(741,476)
Total comprehensive income for the year		-	1,115,920	(694,548)	421,372	694	422,066
Balance at December 31, 2012 (Modified*)		874,136	14,162,493	238,580	15,275,209	6,967	15,282,176
Net profit			2,616,819		2,616,819	4,414	2,621,233
Other comprehensive income for the year			88,216	482,956	571,172	484	571,656
Total comprehensive income for the year			2,705,035	482,956	3,187,991	4,898	3,192,889
Other	3		(13,742)		(13,742)		(13,742)
Balances at December 31, 2013		<u>Ps 874,136</u>	<u>Ps 16,853,786</u>	<u>Ps 721,536</u>	<u>Ps 18,449,458</u>	<u>Ps 11,865</u>	<u>Ps 18,461,323</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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


Armando Tamez Martinez
Chief Executive Officer


Salvador Ramos Santos
Chief Financial Officer

Tenedora Nemark, S. A. de C. V. and subsidiaries

Consolidated Statements of Cash Flows

(in thousands of Mexican Pesos)

For the years ended December 31, 2013 and 2012

	<u>Note</u>	<u>2013</u>	<u>2012</u> (Modified *)
Cash flows from operating activities			
Profit before income tax		Ps 3,080,723	Ps 2,200,987
Depreciation and amortization	11,17	3,281,614	3,286,437
Non-recurrent items	2	-	(366,991)
Costs associated with seniority premiums and pension plan		47,017	(35,292)
Loss on sale of property, plant and equipment		36,741	214,033
Income tax paid		(647,412)	(659,790)
Finance result, net	23	1,455,877	1,392,812
Other, net		(115,314)	(103,870)
(Increase) decrease in customers and other accounts receivable		(475,362)	1,435,620
Increase in inventory		(389,111)	(593,416)
Increase in suppliers and other accounts payable		<u>2,106,404</u>	<u>159,132</u>
Net cash generated from operating activities		<u>8,381,177</u>	<u>6,929,764</u>
Cash flows from investing activities			
Interest received		25,657	47,651
Acquisition of property, plant and equipment	11	(3,310,960)	(3,555,733)
Purchases of intangible assets	12	(1,025,248)	(615,257)
Business acquisitions	2	-	(2,245,833)
Long-term financial investments		(29,409)	(550,255)
Dividends received		15,769	18,000
Restricted cash and other assets		<u>182,807</u>	<u>(273,994)</u>
Net cash used in investing activities		<u>(4,141,383)</u>	<u>(7,175,422)</u>
Cash flows from financing activities			
Proceeds from borrowings or debt	15	20,630,274	9,080,377
Payments of borrowings or debt	15	(22,681,170)	(8,005,398)
Interest paid		(1,121,623)	(892,743)
Dividends paid		<u>-</u>	<u>(137,160)</u>
Cash (used in) provided by investing activities		<u>(3,172,518)</u>	<u>45,076</u>
Increase (decrease) in cash and cash equivalents		1,067,276	(200,591)
Foreign exchange in cash and cash equivalents		49,811	(108,241)
Cash and cash equivalents at beginning of year	6	<u>601,833</u>	<u>910,666</u>
Cash and cash equivalents at end of year	6	<u>Ps 1,718,920</u>	<u>Ps 601,833</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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

Armando Tamez Martínez
Chief Executive Officer

Salvador Ramos Santos
Chief Financial Officer

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 1 – General information:

Tenedora Nemak, S. A. de C. V. and subsidiaries ("Tenedora Nemak" or "the Company"), subsidiary of ALFA, S. A. B. de C. V. ("ALFA"), is an intermediate holding company engaged in the manufacturing and sale of engine heads and aluminum monoblocks for the automotive industry.

Tenedora Nemak is located at Libramiento Arco Vial Km. 3.8, Col. Centro in Garcia, Nuevo Leon, Mexico.

The Company is 93.24% owned by Alfa, S.A. de C.V., and 6.76% owned by Ford Motor Company (who has significant influence over the Company). Alfa has the power to control the Company's affairs and policies. Alfa also controls the election of the Company's board of directors, the appointment of senior management, the entering into of mergers, acquisitions, sales of substantially all of the Company's assets and other extraordinary transactions.

In the following notes to the financial statements pesos or "Ps" refers to thousands of Mexican pesos. On the other hand, "US\$" or dollars, refers to millions of US dollars.

Note 2 – Significant Events:

2013

a) Debt refinancing

In December 2013, Nemak concluded the refinancing of its bank debt, which was authorized by the Board of Directors. This process included the bank debt of the main current contracts of Tenedora Nemak with Banks: "The Senior Unsecured Syndicated Loan Agreement", held in August 2011 and the "Senior Unsecured Loan Agreement" in June 2012. This refinancing process involved expenses incurred by the company of Ps50,877 that were recorded in the statement of financial position and will be amortized during the life of the loan. See note 15.

b) Issuance of debt of Nemak 144A

During February 2013, Nemak completed an issuance of debt obligations ("Senior Notes") in international markets for a nominal amount of US\$500 (Ps6,538,250) maturing in 2023. Interests of Senior Notes will be payable semi-annually at a 5.5% annual rate (effective interest rate of 5.68%) as from September 2013. Nemak capitalized debt costs of Ps117,993. The proceeds of the issuance were used partially to settle the Syndicated bank loan. This payment resulted in an advance amortization of issuance expenses amounting Ps99,683. See note 15.

c) Construction of plant in Russia by Nemak

Nemak planned the construction of an aluminum auto parts plant for engines in Russia. The investment for its construction will be of approximately US\$80 and it will supply aluminum heads and monoblocks for a new high technology engine to the Volkswagen group in Russia. The initial capacity of the plant will be of 600,000 equivalent units a year and will start production in 2015. At the date of issuance of these financial statements the company is in the process of signing the corresponding agreements.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

2012

d) Acquisition of J.L. French

During the second quarter of 2012, Nemak Exterior, S. L., a subsidiary of Tenedora Nemak, S. A. de C. V. (Tenedora Nemak) acquired 100% of the capital stock of J.L. French Automotive Castings, Inc. ("J.L. French"), company producing high-precision aluminum foundry pieces for the manufacturing of automotive components, with an emphasis on transmission parts. This transition has several significant advantages for Tenedora Nemak, featuring the expansion to other high-added value aluminum components, as structural and suspension parts. The company operates 3 manufacturing plants in the USA, Spain and China. The business acquisition is included in the segment of Nemak, see Note 27.

The allocation of the acquisition price reported at December 31, 2012, was determined in accordance with IFRS and it was restructured during 2013 to show the restructured information obtained in accordance with events and circumstances at the acquisition date. The final allocation of the acquisition price is shown in US dollars since it is the functional and recording currency of the acquired subsidiary, the exchange rate at the transaction date was of Ps13.99 pesos per US dollar, additionally, Note 3.c shows the principal exchange rates used and in the translation processes.

The following shows the consideration paid and the final fair values of acquired assets and assumed liabilities:

	<u>Previously reported</u>	<u>Adjustments to provisional fair value</u>	<u>Modified</u>
Current assets ⁽¹⁾	US\$ 64	US\$ -	US\$ 64
Property, plant and equipment	113	13	126
Intangible assets	1	-	1
Other assets	24	40	64
Current liabilities ⁽²⁾	(6)	-	(6)
Labor obligations	<u>(5)</u>	<u>-</u>	<u>(5)</u>
Net acquired assets	191	53	244
Paid consideration	<u>216</u>	<u>-</u>	<u>216</u>
Goodwill	25	(25)	-
Bargain purchase gain ⁽³⁾	-	(28)	(28)

(1) Current assets consist of cash and net working capital.

(2) Current liabilities consist of suppliers of US\$1 and other accounts payable for US\$5.

(3) This gain was presented in the consolidated statement of income as a non-recurring item.

The fair value of net acquired assets has been adjusted retrospectively. The consolidated financial statements of the Company at December 31, 2012 and for the year then ended, as well as the related notes, have been restructured to show the effects of these adjustments, considering the facts and circumstances at the date of acquisition. The aforementioned is due to the conclusion of the valuation from the recovery of deferred tax assets associated to operating losses and to the identification of future tax gains against which the deductible temporary differences may be used. This asset is presented as part of other assets.

The value of accounts receivable acquired approximates its fair value due to its short term maturity. It is estimated that acquired accounts receivable are recovered in the short term.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

No contingent liabilities have arisen from this acquisition that should be recorded. Neither are there any contingent consideration agreements. ALFA is not responsible for environmental liabilities except for those that may have their origin in or after the acquisition date.

The costs related to the acquisition amounts to Ps21,711 (US\$1.7) and were recorded in the statement of income under the item of other expenses.

Revenues contributed for the J.L. French business in the consolidated statement of income since the acquisition date and up to December 31, 2012 amounted to Ps273 million and a net profit of Ps4 million.

Note 3 - Summary of significant accounting policies:

The accompanying consolidated financial statements and notes were authorized for issuance on February 25, 2014, by officials with the legal power to sign the basic financial statements and accompanying notes.

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

a. Basis for preparation

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

In accordance with the amendments to the Rules for Mexican Public Companies and Other Securities Market Participants, issued by the National Banking and Securities Commission (CNBV in Spanish) on January 27, 2009, the Company is required to prepare its financial statements as of 2012 using IFRS as its accounting policy framework.

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

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.

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

b. Consolidation

i. Subsidiaries

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

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

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

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

Goodwill is initially measured as 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.

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

At December 31, 2013 and 2012, the principal subsidiaries of Tenedora Nemak were as follows:

	<u>Country</u> ⁽¹⁾	<u>Ownership percentage (%)</u> ⁽²⁾	<u>Functional currency</u>
Tenedora Nemak, S. A. de C. V. (Holding)	Mexico		US dollar
Nemak, S. A.	Mexico	100	US dollar
Modellbau Schönheide GMBH	Germany	90	Euro
Corporativo Nemak, S. A. de C. V. (servicios administrativos)	Mexico	100	Mexican peso
Nemak Canadá, S. A. de C. V. (holding)	Mexico	100	Mexican peso
Nemak of Canada Corporation	Canada	100	Canadian dollar
Camen International Trading, Inc.	USA	100	US dollar
Nemak Europe GmbH (holding)	Germany	100	Euro
Nemak Exterior, S. L. (holding)	Spain	100	Euro
Nemak Dillingen GmbH	Germany	100	Euro
Nemak Linz GmbH	Austria	100	Euro
Nemak Gyor Kft	Hungary	100	Euro
Nemak Poland Sp. z.o.o.	Poland	100	Euro
Nemak USA, Inc.	USA	100	US dollar
Nemak Alumínio do Brasil Ltda.	Brazil	100	Real
Nemak Nanjing Aluminum Foundry Co., Ltd.	China	100	Yuan
Nemak Argentina, S. R. L.	Argentina	100	Argentine peso
Nemak Slovakia, S. r. o.	Slovakia	100	Euro
Nemak Wernigerode GmbH	Germany	100	Euro
Nemak Czech Republic, S.r.o.	Czech Republic	100	Euro
Nemak Commercial Services, Inc.	USA	100	US dollar
Nemak Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nemak Aluminum Casting India Private, Ltd	India	100	Rupee
Nemak Chongqing Automotive Components, Co, Ltd.	China	100	Yuan
Nemak Automotive Castings, Inc. ⁽³⁾	USA	100	US dollar
Nemak Spain, S. L. ⁽³⁾	Spain	100	Euro
Allotech International, L. L. C. ⁽³⁾	USA	100	US dollar
J. L. French, L. L. C. ⁽³⁾	USA	100	US dollar
Nelson Metal Products LLC ⁽³⁾	USA	100	US dollar
J. L. French Automotive Castings Holdings LLC ⁽³⁾	China	100	Yuan
J. L. French Servicios, S. de R. L. de C. V. ⁽³⁾	Mexico	100	Mexican peso
J. L. French, S. de R. L. de C. V. ⁽³⁾	Mexico	100	Mexican peso

(1) Country of company's incorporation.

(2) Ownership percentage of Tenedora Nemak in the holding Companies and ownership percentage of such holdings on companies integrating such holding. Share ownership percentages as of December 31, 2013 and 2012.

(3) Companies acquired during the second quarter of 2012 when Tenedora Nemak acquired J.L. French.

At December 2013 and 2012, there are no significant restrictions for investment in shares of subsidiary companies mentioned above.

ii. Absorption (dilution) of control in subsidiaries

The effect of absorption (dilution) of control in subsidiaries, i.e., an increase or decrease in the percentage of control, is recorded in 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.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

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

c. Foreign currency translation

i. Functional and presentation currency

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

ii. Transactions and balances

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

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

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

The exchange differences of monetary assets classified as financial instruments at fair value with changes in income are recorded in the statement of income as part of the fair value gains or losses. Exchange differences in non-monetary financial assets classified as available for sale are included in other items of comprehensive income.

iii. Consolidation of foreign subsidiaries

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

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

- a. The balances of monetary assets and liabilities denominated in the recording currency were translated at the closing exchange rates.
- b. To the historical balances of monetary assets and liabilities and shareholders' equity translated into the functional currency there were added the movements occurred during the period, which were translated at historical exchange rates. In the case of the movements of non-monetary items recognized at fair value, which occurred during the period, stated in the recording currency, these were translated using the historical exchange rates in effect on the date when the fair value was determined.
- c. The 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 differences in exchange arising in the translation from the recording currency to the functional currency were recognized as income or expense in the income statement in the period they arose.

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

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

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

		<u>Local currency to Mexican pesos</u>			
		<u>Closing exchange rate at December 31.</u>		<u>Average exchange rate at December 31.</u>	
<u>Country</u>	<u>Local currency</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Canada	Canadian dollar	12.31	13.08	12.33	13.18
USA	US dollar	13.08	13.01	13.00	13.16
Brazil	Brazilian Real	5.53	6.35	5.57	6.75
Argentina	Argentine peso	2.01	2.65	2.07	2.88
Czech Republic	Euro	0.66	0.69	0.65	0.68
Germany	Euro	18.02	17.21	17.91	17.02
Austria	Euro	18.02	17.21	17.91	17.02
Hungary	Euro	0.06	0.05	0.05	0.05
Poland	Polish Zloty	4.33	4.21	4.04	4.08
Slovakia	Slovak Koruna	0.58	0.56	0.53	0.57
Spain	Euro	18.02	17.21	17.91	17.02
China	RenMinBi Yuan	2.16	2.09	2.15	2.09
India	Indian Rupee	0.21	0.24	0.21	0.25

d. Cash and cash equivalents

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

e. Restricted cash and cash equivalents

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

f. Financial instruments

Financial assets

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

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

i. Financial assets at fair value through profit or loss

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

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

ii. Loans and receivables

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

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

iii. Maturity investments

If the Company intends and has the demonstrable ability to hold debt securities to maturity, they are classified as held to maturity. Assets in this category are classified as current assets if expected to be settled within the next 12 months, otherwise they are classified as non-current. Initially they are recognized at fair value plus any directly attributable transaction costs, and subsequently they are valued at amortized cost using the effective interest method. Investments held to maturity are recognized or derecognized on the day they are transferred to or by the Company. At December 31, 2013 and 2012, the Company had no such investments.

iv. Financial assets available for sale

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

Impairment of financial instruments

a) Financial assets carried at amortized cost

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

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

- Significant financial difficulty of the issuer or debtor.
- Breach of contract, such as late payments of interest or principal
- Granting a concession to the issuer or debtor, by the Company, as a result of financial difficulties of the issuer or debtor and that would not otherwise be considered.
- There is a likelihood that the issuer or debtor will enter bankruptcy or other financial reorganization.
- Disappearance of an active market for that financial asset due to financial difficulties.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

- (i) Adverse changes in the payment status of borrowers in the group of assets
- (ii) National or local conditions that correlate with breaches of noncompliance by the issuers of the asset group

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

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

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

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

b) Financial assets available for sale

In the case of debt financial instruments, the Company also uses the above-listed criteria to identify whether there is objective evidence of impairment. In the case of equity financial instruments, a significant or prolonged reduction in its fair value below its cost is also considered objective evidence of impairment.

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

g. Derivative financial instruments and hedging activities

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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.

Changes in the fair value of derivative financial instruments are recognized in finance income or expense, except for changes in the fair value of cash flow hedges, in which case such changes are recognized in equity. Derivative financial instruments classified as hedges are contracted for risk hedging purposes and meet all hedging requirements; their designation at the beginning of the hedging operation is documented, describing the objective, primary position, risks to be hedged and the effectiveness of the hedging relationship, characteristics, accounting recognition and how the effectiveness is to be measured.

Fair value hedges

Changes in the fair value of derivative financial instruments are recorded in the income statement. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the income statement in the same line item as the hedged position. At December 31, 2013 and 2012, the Company has no derivative financial instruments classified as fair value hedges.

Cash flow hedges

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

Net investment hedge

Net investment hedge in a foreign business is recorded similarly to cash flow hedges. Any gain or loss of the related hedged instrument with the effective portion of the hedge is recorded in comprehensive income. The gain or loss of the ineffective portion is recorded in the statement of income. Accumulated gains and losses in equity are recorded in the statement of income when partially the foreign operation is partially disposed of or sold. At December 31, 2013 and 2012, the Company has no derivative financial instruments classified as net investment hedges.

Suspension of hedge accounting

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

h. Inventories

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

i. Property, plant and equipment

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

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

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

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

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

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

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

j. Leasing

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

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

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

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

k. Intangible assets

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

Intangible assets are classified as follows:

- i) Indefinite useful life. - These intangible assets are not amortized and are subject to annual impairment assessment. To date, no factors have been identified limiting the life of these intangible assets.
- ii) Finite useful life. - These assets are recognized at cost less accumulated amortization and impairment losses recognized. They are amortized on a straight line basis over their estimated useful life, determined based on the expectation of generating future economic benefits, and are subject to impairment tests when triggering events of impairment are identified.

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

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

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

l. Impairment of non-financial assets

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

m. Income tax

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

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

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

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

n. Employee benefits

i. Pension plans

Defined contribution plans:

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

Defined benefit plans:

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

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

ii. Post-employment medical, benefits

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

iii. Termination benefits

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

iv. Short-term benefits

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

v. Employee participation in profits and bonuses

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

o. Provisions

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

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

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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.

p. Share-based payments

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

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

q. Capital stock

Tenedora Nemark'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 deduction from the consideration received, net of tax.

r. Comprehensive income

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

s. Segment reporting

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

t. Revenue recognition

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

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

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

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

u. Advanced Payments

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

v. Non-recurring items

Non-recurring items are those which require judgment from management to be disclosed, due to their size or incidence. These items are disclosed in the consolidated statement of income and in Note 2. The transactions that resulted in non-recurring items are due to the recognition of a gain from a bargain purchase recorded as explained in Note 2.

w. Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new standards effective at January 1, 2013. The nature and impact of each new standard or modification are described as follows:

- IAS 1 (amended) - "Presentation of Financial Statements" The amendment requires entities to separate the items presented in other comprehensive income in two groups based on whether they can be recycled to the income statement in the future or not. Items that cannot be recycled are presented separately from the items that may be recycled in the future. Entities that decide to present items of other comprehensive income before taxes, should show the taxes related to the two groups separately. For the Company, this amendment became effective on January 1, 2013. The amendment affected the presentation only and had no effect on the Company's financial position or performance.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

- **IAS 19 (Revised) - "Employee benefits"** There are a number of amendments that have been applied retrospectively; these eliminate the option to defer the recognition of actuarial gains and losses in the defined benefit post-employment plans, known as the "corridor method". The Company has not previously applied this option and has recognized the gains and losses in other comprehensive income. Therefore, this change in the standard has no impact on the Company's consolidated financial statements. The expected returns on plan assets are no longer recognized in the statement of income for the year, instead, there is a requirement to recognize interest on the net defined benefit liability (asset) in the statement of income, calculated using the discount rate used to measure the defined benefit obligation. This change had no significant impact on the consolidated financial statements of the Company.

Past-service costs are recognized in the statement of income in the period of a plan amendment, instead of deferring the portion related to the unvested benefits. Previously the Company recognized past-service costs immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (vesting period), management determined that the effect of the net income of the Company for 2012 is not significant. As a result of the adoption of the amendment to IAS 19, the Company adjusted against retained earnings, an accumulated balance for unamortized past-service costs amounting to Ps13,742, net of deferred income tax at January 1, 2013. The IAS 19 (Revised) was adopted prospectively and prior periods were not restated since management determined that the effect is not significant for the Company's financial position.

- **IFRS 10, 'Consolidated financial statements'** –IFRS 10 was issued in May 2011 and replaces all the guidance on control and consolidation in IAS 27, "Consolidated and separate financial statements", and SIC 12, "Consolidation - Special purpose entities". Under IFRS 10, subsidiaries are all entities (including the structured entities) over which the Company has control. The Company controls an entity when it has power over an entity, is exposed to, or has rights to variable returns from its interest in the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date when the control is transferred to the Company. They are deconsolidated from the date control ceases. The Company has applied IFRS 10 retrospectively in conformity with transition provisions described in this standard. The aforementioned had no impact on the consolidation of investments held by the Company.
- **IFRS 11 "Joint arrangements"** The standard focuses on the rights and obligations of the parties to determine whether there is a joint arrangement, over other factors such as the legal form. There are two types of joint arrangements: Joint operations and joint ventures. Joint operations occur when investors have rights to the assets and obligations for the liabilities of an arrangement, a joint operator accounts for his portion of assets, liabilities, revenues and expenses. A joint venture occurs when investors have rights over the net assets of the arrangement, joint ventures are accounted for using the equity method. Proportional consolidation is not allowed under this standard. This change had no effect on the consolidated financial statements of the Company.
- **IFRS 12, "Disclosure of Interests in Other Entities"** requires an entity to disclose information that enables users of financial information to evaluate the nature and risks associated with its interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities; in addition to the effects of these interests in its financial position and performance, and its cash flows. The Company made the required disclosures in the consolidated financial statements at December 31, 2013.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

- IFRS 13, "Fair Value Measurements". The objective of IFRS 13 is to provide a precise definition of fair value and be a single source for the measurement and disclosure requirements for fair value when it is required or permitted by other IFRS, except for transactions within the scope of IFRS 2 "Share-based payments", IAS 17 "Leases", measurements that have similarities to fair value but not considered as such, and the net realizable value under the scope of the IAS 2 "Inventories" or the value in use in IAS 36 "Impairment of long-lived assets". The application of IFRS 13 has not significantly impacted the fair value measurements made by the Company.
- 2011 annual improvements include an improvement to IAS 16 "Property, plant and equipment" clarifying that main spare parts and maintenance equipment that comply with the definition of Property, plant and equipment, are not part of the inventory, and the improvement to IAS 32 "Financial instruments presentation" clarifies that income taxes derived from distributions to shareholders are accounted for in accordance with IAS 12 "Taxes on gains". These improvements had no effect on the Company.
- IAS 36 "Impairment of assets" In May 2013, the IASB amended IAS 36. This amendment indicates the disclosure of information over the recoverable value of impaired assets if the amount is calculated based on the fair value method less cost of sale. The Company adopted this amendment in advance.

x. New accounting pronouncements effective from January 1, 2014

The following sets out the new pronouncements and amendments issued, which are effective from January 1, 2014 that have not been adopted and early adopted by the Company.

- IFRS 9, "Financial Instruments"

IFRS 9 was issued in November 2009 and included requirements for classification and measurement of financial assets. Requirements for financial liabilities were included as part of the IFRS 9 in October 2010. IFRS 9 is the first standard issued as part of the project to replace IAS 39. IFRS 9 maintains and simplifies two types of measurement models and establishes two main categories of financial assets: at amortized cost and fair value. The classification basis depends on the business model of the Company and the characteristics of contractual cash flows of financial instruments. IAS 39 guide to impairment of financial assets and hedge accounting continues to be applicable. For the Company, this amendment is obligatory as from January 1, 2015.

- IAS 19, "Employee benefits"

In November 2013, the IASB amended IAS 19 regarding Defined Benefit Plans, Employee Contributions. The objective of this amendment is to provide additional instruction on the accounting of employee or third party contributions to the defined benefit plan of the Company. This amendment is effective as from January 1, 2015.

- IAS 32, "Financial instruments: presentation"

In December 2011, the IASB amended IAS 32. These amendments are in the application guide and clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. For the Company, this amendment is obligatory as from January 01, 2014.

- IAS 39, "Financial Instruments": Recognition and Measurement"

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

In June 2013, the IASB amended IAS 39 to clarify that there is no need to suspend hedge accounting when novation of a hedging instrument to a central counter party meets certain requirements. For the Company, this amendment is applicable to annual periods starting on or subsequent to January 1, 2014.

At the date of the financial statements, the Company's management is in the process of quantifying the effects of adoption of the new standards and amendments mentioned above.

There are no additional standards, amendments or interpretations issued but not effective that could have a significant effect on the company.

Note 4 - Financial risk management:

4.1 Financial risk factors

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

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

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

	<u>Possible Maximum Loss US\$</u>	
	<u>Individual transactions</u>	<u>Cumulative transactions annual</u>
Nemak's CEO	1	5
ALFA Risk Management Committee	30	100
Finance Committee	100	300
ALFA Board of Directors	>100	>300

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

(a) Market risk

(i) Exchange rate risk

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

The respective exchange rates of the Mexican peso, the U.S. dollar and the euro are very important factors for the Company due to the effect they have on their results. Tenedora Nemak estimates that approximately 50% of its sales are denominated in U.S. dollar and 35% in Euro, either because they come from products that are exported from Mexico or because they come from products that are manufactured and sold abroad, or because even if sold in Mexico the price of such products are set based on international prices in foreign currencies such as the U.S. dollar or the Euro.

For this reason, in the past, in times when the Mexican peso has appreciated in real terms against other currencies such as dollar, the Company's profit margins have been reduced. On the other hand, when the Mexican peso has lost value, the Company's profit margins have been increased. However, although this correlation factor has appeared on several occasions in the recent past, there is no assurance that it will be repeated if the exchange rates between the Mexican peso and other currencies fluctuate again.

The Company participates in operations with derivative financial instruments on exchange rates for the purpose of controlling the total comprehensive cost of its financing and the volatility associated with exchange rates. Additionally, it is important to note the high "dollarization" of the Company's revenues, since a large proportion of its sales are made abroad, providing a natural hedge against its obligations in dollars, while at the same time its income level is affected in the event exchange rate appreciation. Based on the overall exchange rate exposure at December 31, 2013 and 2012, a hypothetical variation of 5% in the exchange rate MXN/USD, holding all other variables constant, would result in an effect on the income statement by Ps7,049 and Ps30,952, respectively.

The risk management policy of the Company is to cover as a maximum the following percentages with respect to the predicted exposure:

	<u>Current year</u>	<u>Prior year</u>
Commodities	100	90
Energy costs	75	65
Exchange rate for operating transactions	80	70
Exchange rate for financial transactions	100	90
Interest rates	100	90

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

(ii) Interest rate and cash flow risk

The interest rate risk for the Company arises from long-term loans. Loans at variable rates expose the Company to interest rate risk on cash flows that are partially offset by cash held at variable rates. Loans at fixed rates expose the Company to interest rate risk at fair value. See note 15

At December 31, 2013 and 2012, if interest rates on variable rate loans were increased/decreased by 10%, interest expense would increase/decrease by Ps17,910 and Ps24,388, respectively.

(b) Credit risk

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

Individual risk limits are determined based on internal and external ratings in accordance with limits set by the Board. The use of credit risk is monitored regularly. Sales to retail customers are in cash or by credit card.

During 2013 and 2012, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

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

(c) Liquidity risk

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, and it's that some flexibility is maintained through open and committed credit lines. The Company regularly monitors and makes decisions ensuring that the limits or covenants set forth in debt contracts are not violated. The projections consider the financing plans of the Company, compliance with covenants, compliance with minimum liquidity ratios and internal legal or regulatory requirements.

The Company's treasury invests those funds in time deposits and marketable securities whose maturities or liquidity allow flexibility to meet the cash needs of the Company. At December 31, 2013 and 2012, the Company had time deposits of Ps1,149,110 and Ps161,072, respectively, which are considered sufficient to adequately manage liquidity risk.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	Less than 3 months	From 3 months and 1 year	From 1 year and 2 years	From 2 years and 5 years	More than 5 years
At December 31, 2013					
Trade and other accounts payable	Ps10,647,928	Ps 744,053	Ps -	Ps -	Ps -
Bank loans	559,389	1,411,169	1,711,646	4,678,977	-
Senior Notes	89,901	269,703	359,604	1,078,811	7,699,004
Peso Bond	-	-	407,859	3,754,893	-
Notes payables	2,211	6,634	24,408	43,001	-
Derivative financial instruments	57,933	15,069	45,766	318,330	745
Financial leases	7,407	22,221	15,819	26,376	90,348
Long term related parties	13,401	816,430	993,857	288,680	-

	Less than 3 months	Between 3 months and 1 year	Between 1 year and 2 years	Between 2 years and 5 years	More than 5 years
At December 31, 2012					
Trade and other accounts payable	Ps 8,978,662	Ps1,287,000	Ps -	Ps -	Ps -
Bank loans	663,134	1,500,628	2,242,596	11,055,330	-
Peso Bond	62,802	209,883	273,556	4,297,872	-
Notes payables	134,012	13,045	2,619	16,587	28,642
Derivative financial instruments	15,999	47,996	49,263	329,683	-
Financial leases	7,285	21,855	32,104	43,111	136,503
Long term related parties	-	-	580,510	2,165,352	-

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

At December 31, 2013, The Company has contractual credit lines unused for a total of US\$186.

(d) Price risk of inputs and products

Nemak has significant consumption of aluminum, scrap as well as ingot. In order to fix the selling prices of certain of its products, the Company has entered into agreements with certain customers. At the same time, it has entered into transactions involving derivatives on natural gas that seek to reduce price volatility of the prices of this input.

Based on the exposure of aluminum price in general at December 31, 2011, a hypothetical increase (decrease) of 10% applied at fair value and maintaining all other variables constant, such as exchange rates, the increase (decrease) would result in an impact at December 31, 2013 and 2012 in the income statement of Ps 1,256 and Ps 1,300, respectively.

The consumption of natural gas has represented significant amounts during the last years. In this sense, the Company has entered into operations involving derivative financial instruments on natural gas seeking to reduce the volatility of the prices of such supplies.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

4.2 Equity risk management

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

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

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

The financial ratio of total liabilities/total equity was 1.89 and 2.31 at December 31, 2013 and 2012, respectively.

4.3 Fair value estimation

The following is an analysis of financial instruments measured by the fair value valuation method. The 3 different levels used are presented below:

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

The following table presents the Tenedora Nemark's assets and liabilities that are measured at fair value at December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Financial assets at fair value through profit or loss:				
- Trading derivatives	Ps -	Ps -	Ps -	Ps -
Derivatives used for hedging	-	-	-	-
Financial assets available for sale	-	-	70,177	-
Total assets	<u>Ps -</u>	<u>Ps -</u>	<u>Ps 70,177</u>	<u>Ps -</u>
Liabilities				
Financial liabilities at fair value through profit or loss:				
- Trading derivatives	Ps	(Ps 155,042)	Ps -	(Ps 155,042)
Derivatives used for hedging	-	(282,800)	-	(282,800)
Total liabilities	<u>Ps</u>	<u>(Ps 437,842)</u>	<u>Ps -</u>	<u>(Ps 437,842)</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The following table presents the Tenedora Nemark's assets and liabilities that are measured at fair value at December 31, 2012:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets				
Financial assets at fair value through profit or loss:				
- Trading derivatives	Ps -	Ps 8,832	Ps -	Ps 8,832
Derivatives used for hedging	-	13,337	-	13,337
Financial assets available for sale	-	-	70,166	70,166
Total assets	<u>Ps -</u>	<u>Ps 22,169</u>	<u>Ps 70,166</u>	<u>Ps 92,335</u>
Liabilities				
Financial liabilities at fair value through profit or loss:				
- Trading derivatives	Ps -	(Ps 165,895)	Ps -	(Ps 165,895)
Derivatives used for hedging	-	(277,045)	-	(277,045)
Total liabilities	<u>Ps -</u>	<u>(Ps 442,940)</u>	<u>Ps -</u>	<u>(Ps 442,940)</u>

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Level 1

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

Level 2

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

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

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

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

Level 3

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

Specific valuation techniques used to value financial instruments include:

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The following table presents the movement in Level 3 instruments for the year ended December 31, 2013 and 2012:

	<u>Financial assets available for sale</u>
Available for sale	
Initial balance at January 1, 2012	Ps 69,544
Additions	622
Final balance at December 31, 2012	70,166
Exchange differences	11
Additions	<u>-</u>
Final balance at December 31, 2013	<u>Ps 70,177</u>

Note 5 - Critical accounting estimates and judgments

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

5.1 Critical accounting estimates and judgments

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

(a) Estimated impairment of goodwill

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

(b) Property, plant, equipment and definite life intangibles

The Company estimates the useful lives of their property, plant and equipment and long-lived intangibles in order to determine the depreciation and amortization expense, respectively, to be recorded during any reporting period. The useful life of these assets is calculated at the time of acquisition and is based on the past experience with similar assets, considering the technological changes faster than expected, or differently than expected. Were technological changes occur faster than estimated, or differently than estimated, the useful lives assigned to these assets could require being shortened. This would result in recognizing a greater depreciation and amortization expense in future periods. Alternatively, these types of technological changes could result in recognizing a charge for impairment to reflect the reduction in the value of assets. The Company reviews these useful lives annually. Likewise, in the case of signs of impairment, the Company performs an estimate to determine the fair value of assets. At December 31, 2013 and 2012, there were no indicators of impairment.

(c) Business combinations - purchase price allocations

For business combinations, IFRS require performing a calculation of fair value allocating the purchase price to the fair value of acquired assets and liabilities. Any difference between the cost of acquisition and the fair value of net acquired assets is recognized as goodwill. The fair value is calculated at the date of acquisition. As a result of the nature of the fair value evaluation, the purchase price allocation and determinations of fair value at the date of acquisition require significant judgments based on the extensive range of complex variables during a certain period of time. Management uses all the information available to determine the fair value.

(d) Income tax

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

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

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

(e) Fair value derivatives

The fair value of financial instruments that are not traded in an active market is determined by using fair value hierarchies. The Company uses its judgment to select a variety of methods and make assumptions that are based mainly on market conditions existing at the end of each reporting period.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

(f) Pension benefits

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

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

(g) Contingent losses

Management also makes judgments and estimates in recording provisions for matters relating to claims and litigation, primarily in relation to rates of interconnection services. 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

5.2 Critical judgments in applying the entity's accounting policies

(a) Revenue recognition

The Company has recognized revenue amounting to Ps56,298,887 and 51,384,561 for the sale of products to OEM's during 2013 and 2012, respectively. The buyer has the right to return the goods if their customers are dissatisfied. The Company believes that, based on past experience with similar sales, the dissatisfaction rate will not exceed 3%. The Company has, therefore, recognized revenue on this transaction with a corresponding provision against revenue for estimated returns. If the estimate changes by 1%, the revenue will be reduced/increased by Ps 562,989 y Ps513,846 during 2013 y 2012, respectively.

Note 6 - Cash and cash equivalents:

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Cash at bank and in hand	Ps 633,736	Ps 544,925
Short-term bank deposits	<u>1,149,110</u>	<u>61,072</u>
Total cash and cash equivalents (excluding bank overdrafts)	<u>Ps 1,782,846</u>	<u>Ps 605,997</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Cash and cash equivalents	Ps 1,782,846	Ps 605,997
Bank overdrafts (classified as debt in current liabilities)	<u>(63,926)</u>	<u>(4,164)</u>
Cash and cash equivalents at end of year	<u>Ps 1,718,920</u>	<u>Ps 601,833</u>

Note 7 - Restricted cash and cash equivalents

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Current (a)	Ps 360,715	Ps 573,978
Non-current (Note 13)	<u>10,356</u>	<u>10,071</u>
Restricted cash and cash equivalents	<u>Ps 371,071</u>	<u>Ps 584,049</u>

- a) It corresponds to deposits under judgment by authorities derived from differences in the interpretation of some laws in certain countries. The main amount corresponds to the claim of taxes by the Brazilian tax authority as well as other labor and social security contingencies mainly of employee claims linked to disputes about the amount of indemnities paid on dismissals in Brazil. See Note 28.

Note 8 - Trade and other receivables, net:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Trade receivables	Ps 2,816,206	Ps 2,133,279
Value-added tax and other taxes	1,097,524	1,069,821
Sundry debtors	472,072	313,874
Provision for impairment	<u>(43,228)</u>	<u>(45,320)</u>
Total	<u>Ps 4,342,574</u>	<u>Ps 3,471,654</u>

Customers and other accounts receivable include past-due balances of Ps 746,517 and Ps908,056 at December 31, 2013 and 2012, respectively.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

<u>December 31, 2013</u>				
<u>Past due balances</u>				
	<u>1 to 30 days</u>	<u>30 to 90 days</u>	<u>90 to 180 days</u>	<u>More than 180 days</u>
Trade receivables	<u>Ps 461,757</u>	<u>Ps 185,357</u>	<u>Ps 94,068</u>	<u>Ps 5,335</u>
<u>December 31, 2012</u>				
<u>Past due balances</u>				
	<u>1 to 30 days</u>	<u>30 to 90 days</u>	<u>90 to 180 days</u>	<u>More than 180 days</u>
Trade receivables	<u>Ps 533,159</u>	<u>Ps 144,870</u>	<u>Ps 76,516</u>	<u>Ps 153,511</u>

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

	<u>2013</u>	<u>2012</u>
Initial balance (January 1)	(Ps 45,320)	(Ps 55,668)
Provision for impairment of customers and other receivables	(12,050)	(21,082)
Receivables written off during the year	6,662	233
Unused amounts reversed	<u>7,480</u>	<u>31,197</u>
Final balance (December 31)	<u>(Ps 43,228)</u>	<u>(Ps 45,320)</u>

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

At December 31, 2013 and 2012, the maximum risk of accounts receivable is their carrying value.

Note 9 - Inventories:

<u>December 31,</u>		
	<u>2013</u>	<u>2012</u>
Finished goods	Ps 1,177,447	Ps 959,470
Raw material and other consumables	3,509,303	3,775,005
Production in process	<u>2,225,591</u>	<u>1,805,255</u>
	<u>Ps 6,912,341</u>	<u>Ps 6,539,730</u>

The cost of inventories recognized as an expense and included in "cost of sales" amounted to Ps 48,597,266 and Ps44,621,334 for 2013 y 2012, respectively.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

In the years ended on December 31, 2013 and 2012, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of Ps 447,691 and Ps496,195, respectively.

At December 31, 2013 and 2012, there were no inventories provided in guarantee.

Note 10 - Financial Instruments:

a. Financial instruments by category

At December 31, 2013					
	Accounts receivable and liabilities at amortized cost	Assets and financial liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total
Financial assets:					
Cash and cash equivalents	Ps 1,782,846	Ps	Ps	Ps	Ps 1,782,846
Restricted cash and cash equivalents	371,071				371,071
Customers and other accounts receivable	4,342,574				4,342,574
Related parties	1,981,917				1,981,917
Financial assets available for sale			70,177		70,177
	<u>Ps 8,478,408</u>	<u>Ps</u>	<u>Ps 70,177</u>	<u>Ps</u>	<u>Ps 8,548,585</u>
Financial liabilities:					
Debt	Ps16,864,546	Ps	Ps	Ps	Ps 16,864,546
Trade and other payables	11,648,696				11,648,696
Related parties	2,357,977				2,357,977
Derivative financial instruments		44,106		335,709	379,815
	<u>Ps30,871,219</u>	<u>Ps 44,106</u>	<u>Ps</u>	<u>Ps 335,709</u>	<u>Ps 31,251,034</u>
At December 31, 2012					
	Accounts receivable and liabilities at amortized cost	Assets and financial liabilities at fair value with changes in income	Available for sale	Derivative contracted as hedge	Total
Financial assets:					
Cash and cash equivalents	Ps 605,997	Ps -	Ps -	Ps -	Ps 605,997
Restricted cash and cash equivalents	584,049	-	-	-	584,049
Customers and other accounts receivable	3,471,654	-	-	-	3,471,654
Related parties	2,016,231	-	-	-	2,016,231
Derivative financial instruments	-	8,832	-	13,337	22,169
Financial assets available for sale	-	-	70,166	-	70,166
	<u>Ps 6,677,931</u>	<u>Ps 8,832</u>	<u>Ps 70,166</u>	<u>Ps 13,337</u>	<u>Ps 6,770,266</u>
Financial liabilities:					
Debt	Ps18,223,156	Ps -	Ps -	Ps -	Ps 18,223,156
Trade and other payables	9,339,543	-	-	-	9,339,543
Related parties	2,786,486				2,786,486
Derivative financial instruments	-	165,895	-	277,045	442,940
	<u>Ps30,349,185</u>	<u>Ps 165,895</u>	<u>Ps</u>	<u>Ps 277,045</u>	<u>Ps 30,792,125</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

b. Credit quality of financial assets

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Trade and other receivables and related parties		
Counterparties with external credit rating		
"A-"	Ps 185,861	Ps -
"A"	-	138,327
"BBB-"	1,447,941	7,731
"BB+"	730,066	1,687,006
Other categories	<u>361,588</u>	<u>-</u>
	<u>2,725,456</u>	<u>1,833,064</u>
Counterparties without external credit rating		
"Type X clients"	-	-
"Type Y clients"	3,642,262	3,700,171
Other accounts receivable type Z	<u>-</u>	<u>-</u>
	<u>3,642,262</u>	<u>3,700,171</u>
Total unimpaired accounts receivable	<u>Ps 6,367,718</u>	<u>Ps 5,533,205</u>
Cash and cash equivalents with and without restriction		
"A+"	Ps 22,889	Ps 218,137
"A-"	649,504	1,454
"A"	173,552	252,602
"BBB+"	849,566	641,228
"BBB"	381,976	11,055
"BBB-"	52,983	16,028
"BB+"	-	49,542
Other categories	<u>23,447</u>	<u>-</u>
	<u>Ps 2,153,917</u>	<u>Ps 1,190,046</u>
Derivative financial instruments		
"A+"	Ps -	Ps -
"A"	-	17,297
"A-"	-	4,872
"BBB"	-	-
"BBB-"	-	-
	<u>-</u>	<u>-</u>
	<u>Ps -</u>	<u>Ps 22,169</u>

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

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

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

c. Fair value of financial assets and liabilities valued at amortized cost

The amounts of cash and cash equivalents, restricted cash and cash equivalents, customers and other receivables, other current assets, suppliers and other payables, outstanding debt, provisions and other current liabilities approximate their fair value due to their short maturity. The carrying value of these accounts represents the expected cash flow at December 31, 2013 and 2012.

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

	<u>At December 31, 2013</u>		<u>At December 31, 2012</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial assets:				
Non-current accounts receivable	Ps 274,607	Ps 272,304	Ps 273,212	Ps 265,165
Financial liabilities:				
Bank loans	6,126,728	6,329,073	13,859,266	14,072,176
Peso Bond and other liabilities	10,252,761	10,289,929	3,724,693	3,823,969
Accounts payable related parties	2,035,572	2,031,280	2,417,064	2,849,244

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

d. Derivative financial instruments

The effectiveness of derivative financial instruments designated as hedges is measured periodically. At December 31, 2013 and 2012 the Company's management has assessed the effectiveness of its hedges for accounting purposes and has concluded that they are highly effective.

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

The principal obligations which the Company is subject to depends on the type of contract and the conditions established in each one of the derivative financial instruments in force at December 31, 2013 and 2012.

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

In the year ended December 31, 2013 and 2012, the Company had no effects from ineffective portions of fair value and cash flows hedges.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

(a) Forward exchange contracts (Amounts in million of mexican pesos)

At December 31, 2013								
Type of derivative,	Notional	Value of		Fair	Maturity per year			Collateral /
value or contract	amount	Units	Reference	value	2014	2015	2016+	guarantee
Hedging purposes:								
USD/MXN (CCS ¹) ²	(3,500)	Peso / Dollar	13.08	(Ps 279)	Ps -	(Ps 14)	(Ps 265)	Ps -
Trading purposes:								
USD/EUR (CCS)	1,023	Dollar/Euro	1.38	(102)	(20)	(32)	(50)	-
				(Ps 381)	(Ps 20)	(Ps 46)	(Ps 315)	Ps -

At December 31, 2012								
Type of derivative,	Notional	Value of		Fair	Maturity per year			Collateral /
value or contract	amount	Units	Reference	value	2013	2014	2015+	guarantee
Hedging purposes:								
USD/MXN (CCS ¹) ²	(3,500)	Peso / Dollar	13.01	(Ps 244)	-	-	(Ps 244)	-
Trading purposes:								
USD/EUR (CCS ¹)	1,218	Dollar/ Euro	1.32	(67)	(11)	(11)	(45)	-
				(Ps 311)	(Ps 11)	(Ps 11)	(Ps 289)	Ps -

1 Cross currency swap..

2 Fair value hedges

(b) Commodities (Amounts in million of mexican pesos)

At December 31, 2013								
Type of derivative,	Notional	Value of		Fair	Maturity per year			Collateral /
value or contract	amount	Units	Reference	value	2014	2015	2016+	guarantee
Hedging purposes:								
Natural gas ³	99	Dollar / MBTU	4.29	(Ps 4)	-	-	(Ps 4)	-
Trading purposes:								
Natural gas ³	25	Dollar / MBTU	4.29	(53)	(Ps 53)	-	-	-
				(Ps 57)	(Ps 53)	-	(Ps 4)	-

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

At December 31, 2012								
Type of derivative,	Notional	Value of		Fair	Maturity per year			Collateral /
value or contract	amount	Underlying asset	Reference	value	2013	2014	2015+	guarantee
		Units						
Hedging purposes:								
Natural gas ³	251	Dollar / MBTU	3.60	Ps 13	Ps 13			
Trading purposes:								
Natural gas ³	50	Dollar / MBTU	3.60	(164)	(111)	(Ps 53)		
				(Ps 151)	(Ps 98)	(Ps 53)	(Ps -)	Ps -

3 Cash flow hedges

At December 31, 2013 and 2012, the net fair value of derivative financial instruments above amounts to (Ps 437,842) and (Ps 462,044), respectively, which is shown in the consolidated statements of financial position as follows:

At December 31, 2013			
	Fair value	Initial position	Net value recorded
Current assets	Ps -	Ps -	Ps -
Non-current assets	-	-	-
Current liabilities	(68,229)	-	(68,229)
Non-current liabilities	(369,613)	58,028	(311,585)
Net position	(Ps 437,842)	Ps 58,028	(Ps 379,814)

At December 31, 2013			
	Fair value	Initial position	Net value recorded
Current assets	Ps 22,169	Ps -	Ps 22,169
Non-current assets	-	-	-
Current liabilities	(63,994)	-	(63,994)
Non-current liabilities	(420,219)	41,273	(378,946)
Net position	(Ps 462,044)	Ps 41,273	(Ps 420,771)

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 11 - Property, plant and equipment:

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment	Furniture and office equipment	Construction in progress	Other assets	Total
At January 1, 2012								
Cost	1,027,409	6,945,026	34,423,535	184,611	782,868	4,068,945	668,884	48,101,278
Accumulated depreciation	-	(2,045,148)	(16,578,453)	(99,156)	(553,514)	-	(146,356)	(19,422,627)
Net value in books at January 1, 2012	<u>Ps 1,027,409</u>	<u>Ps 4,899,878</u>	<u>Ps 17,845,082</u>	<u>Ps 85,455</u>	<u>Ps 229,354</u>	<u>Ps 4,068,945</u>	<u>Ps 522,528</u>	<u>Ps 28,678,651</u>
Year ended December 31, 2012 (Modified*)								
Opening net book amount	1,027,409	4,899,878	17,845,082	85,455	229,354	4,068,945	522,528	28,678,651
Exchange differences	(154,724)	(300,056)	(1,453,325)	(4,790)	(5,665)	(331,670)	(6,265)	(2,256,495)
Additions	2,081	110,286	1,648,542	4,675	60,721	2,227,977	89,291	4,143,573
Disposals and write downs	32,078	419,204	825,392	538	11,714	210,716	152,218	1,651,860
Depreciation charge for the year	(118)	(37,466)	(274,859)	(1,560)	(2,143)	(34,603)	(4,826)	(355,575)
Transfers	-	(233,616)	(2,562,657)	(28,380)	(75,455)	-	(138,086)	(3,038,204)
Closing net book amount at December 31, 2012 (Modified*)	<u>906,726</u>	<u>5,161,155</u>	<u>17,959,916</u>	<u>81,003</u>	<u>238,300</u>	<u>3,815,880</u>	<u>660,830</u>	<u>28,823,810</u>
At January 1, 2013 (Modified*)								
Cost	906,726	7,439,919	37,101,026	208,539	867,269	3,815,880	945,282	51,284,641
Accumulated depreciation	-	(2,278,764)	(19,141,110)	(127,536)	(628,969)	-	(284,452)	(22,460,831)
Net book amount at January 1, 2013 (Modified*)	<u>Ps 906,726</u>	<u>Ps 5,161,155</u>	<u>Ps 17,959,916</u>	<u>Ps 81,003</u>	<u>Ps 238,300</u>	<u>Ps 3,815,880</u>	<u>Ps 660,830</u>	<u>Ps 28,823,810</u>
Year ended December 31, 2013								
Opening net book amount	906,726	5,161,155	17,959,916	81,003	238,300	3,815,880	660,830	28,823,810
Exchange differences	(23,827)	37,686	154,691	(381)	5,626	37,301	(20)	211,077
Additions	14	41,236	424,799	707	21,847	2,929,999	-	3,418,601
Disposals and write downs	-	(1,580)	(69,419)	(385)	(7,579)	(8,641)	(19,770)	(107,374)
Depreciation charge for the year	-	(243,652)	(2,677,794)	(28,741)	(72,357)	-	-	(3,022,545)
Transfers	-	211,601	2,857,364	6,972	94,978	(3,141,443)	(29,472)	-
Closing net book amount at December 31, 2013	<u>882,913</u>	<u>5,206,444</u>	<u>18,649,556</u>	<u>59,175</u>	<u>280,815</u>	<u>3,633,096</u>	<u>611,568</u>	<u>29,323,568</u>
At December 31, 2013								
Cost	882,913	7,728,861	40,409,879	215,453	982,141	3,633,096	896,020	54,748,364
Accumulated depreciation	-	(2,522,416)	(21,760,324)	(156,277)	(701,326)	-	(284,452)	(25,424,796)
Net value in books at December 31, 2013	<u>Ps 882,913</u>	<u>Ps 5,206,444</u>	<u>Ps 18,649,556</u>	<u>Ps 59,175</u>	<u>Ps 280,815</u>	<u>Ps 3,633,096</u>	<u>Ps 611,568</u>	<u>Ps 29,323,568</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Of the total depreciation expense, Ps2,910,277 and Ps2,916,035 were charged to cost of sales, Ps1,851 and Ps11,490 to selling expenses and Ps110,417 and Ps110,679 to administrative expenses in 2013 and 2012, respectively.

At December 31, 2012 there were no pledged property, plant and equipment assets.

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Cost - capitalized financial lease	Ps 301,211	Ps 286,604
Accumulated depreciation	<u>(138,797)</u>	<u>(95,190)</u>
Carrying value, net	<u>Ps 162,414</u>	<u>Ps 191,414</u>

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

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

Note 12 - Goodwill and intangible assets, net:

	<u>Development costs</u>	<u>Customer relationship</u>	<u>Software and licenses</u>	<u>Trademarks and patents</u>	<u>Goodwill (Modified*)</u>	<u>Total</u>
<u>Cost</u>						
At January 1, 2012	<u>837,701</u>	<u>861,319</u>	<u>152,032</u>	<u>141,609</u>	<u>4,802,928</u>	<u>6,795,789</u>
Exchange differences	48,988	(37,868)	(9,272)	(45,958)	(303,856)	(349,968)
Additions	571,168	8,787	30,702	18,353	-	629,010
Additions from business combinations	-	-	407	70,966	-	71,373
Disposals	<u>-</u>	<u>(112,518)</u>	<u>(4,536)</u>	<u>(186)</u>	<u>-</u>	<u>(117,240)</u>
At December 31, 2012 (modified)	<u>1,455,855</u>	<u>719,720</u>	<u>169,333</u>	<u>184,984</u>	<u>4,499,072</u>	<u>7,028,964</u>
Exchange differences	19,327	49,827	4,458	223	121,466	195,301
Additions	771,906	154,688	160,428	35	-	1,087,058
Disposals	<u>-</u>	<u>-</u>	<u>(2,215)</u>	<u>-</u>	<u>-</u>	<u>(2,215)</u>
At December 31, 2013	<u>2,247,088</u>	<u>924,235</u>	<u>332,004</u>	<u>185,242</u>	<u>4,620,538</u>	<u>8,309,108</u>
<u>Accumulated amortization</u>						
At January 1, 2012	<u>(645,412)</u>	<u>(466,734)</u>	<u>(44,213)</u>	<u>(127,166)</u>	<u>-</u>	<u>(1,283,525)</u>
Amortizations	(118,887)	(60,597)	(10,676)	(58,165)	-	(248,325)
Disposals	-	112,518	4,536	-	-	117,054
Exchange differences	<u>(56,536)</u>	<u>13,971</u>	<u>7,612</u>	<u>67,003</u>	<u>-</u>	<u>32,050</u>
At December 31, 2012 (Modified*)	<u>(820,835)</u>	<u>(400,842)</u>	<u>(42,741)</u>	<u>(118,328)</u>	<u>-</u>	<u>(1,382,746)</u>
Amortizations	(121,530)	(84,314)	(17,465)	(35,761)	-	(259,069)
Disposals	-	-	1,061	-	-	1,061
Exchange differences	<u>(4,485)</u>	<u>(13,287)</u>	<u>(3,067)</u>	<u>2,844</u>	<u>-</u>	<u>(17,995)</u>
At December 31, 2013	<u>(946,850)</u>	<u>(498,443)</u>	<u>(62,212)</u>	<u>(151,242)</u>	<u>-</u>	<u>(1,658,749)</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Net carrying value

Cost	Ps 1,455,855	Ps 719,720	Ps 169,333	Ps 184,984	Ps 4,499,072	Ps 7,028,964
Accumulated amortization	<u>(820,835)</u>	<u>(400,842)</u>	<u>(42,741)</u>	<u>(118,328)</u>	<u>-</u>	<u>(1,382,746)</u>
At December 31, 2012 (modified)	<u>Ps 635,020</u>	<u>Ps 318,878</u>	<u>Ps 126,592</u>	<u>Ps 66,656</u>	<u>Ps 4,499,072</u>	<u>Ps 5,646,218</u>
Cost	2,247,088	924,235	332,004	185,242	4,620,538	8,309,108
Accumulated amortization	<u>(946,850)</u>	<u>(498,443)</u>	<u>(62,212)</u>	<u>(151,242)</u>	<u>-</u>	<u>(1,658,748)</u>
At December 31, 2013	<u>Ps 1,300,238</u>	<u>Ps 425,792</u>	<u>Ps 269,792</u>	<u>Ps 34,000</u>	<u>Ps 4,620,538</u>	<u>Ps 6,650,360</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

Of the total amortization expense, Ps151,916 and Ps132,934, were charged to cost of sales, Ps106,587 and Ps115,391 to administrative expenses, Ps566 and Ps12 to selling expenses, in 2013 and 2012, respectively.

Research expenses incurred and recorded in the results of 2013 and 2012 were Ps3,221 and Ps3,693, respectively.

Certain customer relationship that had been capitalized in the past as a result of a business combinations have been written off based on the end of relationships with clients and are shown as write downs. Likewise, during 2013 the Company made payments to some clients corresponding to entry fees to develop new projects amortized over the expected life of the project.

Impairment testing of goodwill

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

	<u>North America</u>	<u>Europe</u>	<u>South America</u>	<u>Total</u>
Opening balance January 1, 2012	Ps 2,213,906	Ps 1,982,082	Ps 606,940	Ps 4,802,928
Exchange differences	<u>(140,062)</u>	<u>(124,896)</u>	<u>(38,898)</u>	<u>(303,856)</u>
Closing balance December 31, 2012	<u>2,073,844</u>	<u>1,857,186</u>	<u>568,042</u>	<u>4,499,072</u>
Exchange differences	<u>75,233</u>	<u>40,150</u>	<u>6,083</u>	<u>121,466</u>
Closing balance December 31, 2013	<u>Ps 2,149,577</u>	<u>Ps 1,897,336</u>	<u>Ps 574,125</u>	<u>Ps 4,620,538</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 specific risks related to the Company's operations.

The recoverable amount of all operative segments has been determined based on value-in-use calculations. These calculations use cash flow projections based on pre-tax financial budgets approved by management covering 5 year period. Cash flows beyond the 5 year period are extrapolated using the estimated growth rates stated below.

The key assumptions used in calculating the value in use in 2013 were as follows:

	<u>North America</u>	<u>Europe</u>	<u>South America</u>
Estimated gross margin	17.87%	15.75%	10.00%
Growth rate	1.50%	1.50%	1.50%
Discount rate	10.60%	10.60%	10.60%

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The key assumptions used in calculating the value in use in 2012 were as follows:

	<u>North America</u>	<u>Europe</u>	<u>South America</u>
Estimated gross margin	18.22%	13.08%	7.88%
Growth rate	1.50%	1.50%	1.50%
Discount rate	8.26%	8.26%	8.26%

The recoverable amount determined for the cash-generating unit of Europe exceeds its carrying value by 352 million euros. In order for the recoverable amount to equal the carrying value, the estimated gross margin of the final period should be 3 basis points less than the company's expectation.

With regard to the calculation of the value in use of the operating segments, Tenedora Nemark Management considers that a possible change in the key assumptions used, would not cause the carrying value of the operating segments to materially exceed their value in use.

Note 13 - Other non-current assets:

	<u>At December 31</u>	
	<u>2013</u>	<u>2012</u>
		(Modified*)
Restricted Cash	Ps 10,356	Ps 10,071
Available for sale financial assets ⁽¹⁾	70,177	70,166
Investment in associates	177,988	145,549
Other assets	<u>33,262</u>	<u>-</u>
Total other non current assets	<u>Ps 291,783</u>	<u>Ps 225,876</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

⁽¹⁾ Available for financial assets are investment in shares of companies not listed on the market (See Note 4.3). No impairment loss was recognized as of December 31, 2013 and 2012.

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

	<u>2013</u>	<u>2012</u>
Net income	Ps 19,284	Ps 37,984
Other comprehensive income items	<u>-</u>	<u>-</u>
Comprehensive income	<u>Ps 19,284</u>	<u>Ps 37,984</u>

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 14 – Trade and other payables:

	<u>At December 31,</u>	
	<u>2013</u>	<u>2012</u>
Suppliers	Ps 7,477,363	Ps 6,313,490
Advance from customers	818,894	524,312
Other taxes and social security benefits	553,441	421,473
Other accounts and accumulated expenses payables	<u>2,798,998</u>	<u>2,080,268</u>
	<u>Ps 11,648,696</u>	<u>Ps 9,339,543</u>

Note 15 - Debt:

	<u>At December 31,</u>	
	<u>2013</u>	<u>2012</u>
Current:		
Bank loans ⁽¹⁾	Ps 409,992	Ps 587,094
Current portion of non-current debt	1,014,885	1,295,695
Notes payable ⁽¹⁾	113,781	144,470
Interest payable	<u>154,731</u>	<u>75,289</u>
Current debt	<u>Ps 1,693,390</u>	<u>Ps 2,102,548</u>
Non-current:		
Unsecured bank loans	Ps 6,126,728	Ps 13,859,266
Financial lease	162,106	174,260
Other:		
In foreign currency:		
Senior Notes	6,538,250	-
In local currency:		
Peso Bond, unsecured	3,500,000	3,500,000
Other	<u>52,405</u>	<u>50,433</u>
	16,379,489	17,583,959
Debt issuance costs	(193,448)	(167,656)
Less: current portion of non-current debt	<u>(1,014,885)</u>	<u>(1,295,695)</u>
Non-current debt ⁽²⁾	<u>Ps 15,171,156</u>	<u>Ps 16,120,608</u>

(1) At December 31, 2013 and 2012, short-term bank loans and notes payable bore interest at an average rate of 4.40 % and 3.05%, respectively.

(2) The fair value of bank loans and notes payable approximates their current book value, as the impact of discounting is not significant.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	Currency	Balance at December 31, de 2013	Balance at December 31, de 2012	Maturity date DD/MM/YY	Contractual interest rate	Effective interest rate
Citigroup	USD	P\$4,864,458	8,303,696	02/12/2018	LIBOR +1.75%	1.99%
Citigroup	EUR	P\$1,238,113	2,671,713	02/12/2018	EURIBOR +1.75%	1.99%
Bank of Tokyo	USD	-	1,398,586	12/08/2016	LIBOR +1.875%	2.19%
Bank of Tokyo	EUR	-	1,485,271	12/08/2016	EURIBOR +1.875%	2.00%
Total unsecured bank loans		6,102,571	13,859,266			
Senior Notes	USD	6,538,250		28/02/2023	5.50%	5.68%
Peso Bond	MXP	3,500,000	3,500,000	10/11/2017	TIIE +2.8%	7.61%
Financial lease Spain	EUR	24,472	38,523	09/02/2016	2.22%	2.22%
Financial lease China	RMB	137,634	136,295	15/10/2027	8%	8%
Total financial lease		162,106	174,818			
Other Liabilities		76,562	49,875			
Total		16,379,489	17,583,959			
Debt Issuance cost		(193,448)	(167,656)			
		<u>P\$16,186,041</u>	<u>P\$17,416,303</u>			

At December 31, 2013, the annual maturities of non-current debt are as follows:

	2015	2016	2017	2018 onwards	Total
Bank loans	P\$1,220,514	P\$ 366,154	P\$ 366,154	P\$ 3,173,337	P\$ 5,126,160
Senior Notes	-	-	-	6,538,250	6,538,250
Peso Bond	175,000	1,575,000	1,750,000	-	3,500,000
Other loans	11,390	10,119	40,941	5,266	67,716
Financial lease	15,754	8,777	8,799	99,147	132,478
	<u>P\$1,422,658</u>	<u>P\$1,960,051</u>	<u>P\$ 2,165,894</u>	<u>P\$ 9,816,001</u>	<u>P\$ 15,364,603</u>

Covenants:

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

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

Due to the issuance of the Senior Notes in February 2013, the Company should comply with the following:

- Fixed charges coverage ratio: it refers to the EBITDA for the period of the last four quarters ended divided by the consolidated fixed charges for the same period, it should be equal or 2.25 times greater.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

During 2013 and 2012, the financial ratios were calculated according to the formulas set out in the loan agreements.

Currently, the company is in compliance with all obligations and covenants contained in the credit agreements of its subsidiaries; such obligations, among other conditions and subject to certain exceptions, require or limit the ability of the subsidiaries to:

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

At December 31, 2013 and the date of issuance of these financial statements, the Company and its subsidiaries complied satisfactorily with such covenants and restrictions.

As December 31, 2013 and 2012 there are no assets pledged as collateral.

Significant debt transactions:

- (a) In February 2013, Nemak issued a bond in the international market under standard 144A, Reg-S. The amount of the bond was of US\$500. The issued bond should be settled in 10 years and an interest rate of 5.50% (effective interest rate of 5.68%). The Company capitalized costs of issuance of debt for Ps117,993. It was used for the partial payment of the bank debt of the "Senior Unsecured Syndicated Loan Agreement" effective at that date. This payment led to an advance amortization of issuance expenses amounting Ps99,683.
- (b) In December 2013, Nemak concluded the refinancing of its bank debt, which was authorized by the Board of Directors. This process included the bank debt of the main current contracts of Tenedora Nemak with Banks: The Senior Unsecured Syndicated Loan Agreement, held in August 2011 and the Senior Unsecured Loan Agreement" in June 2012. This refinancing process involved expenses incurred by the company of Ps50,877 that were recorded in the statement of financial position and will be amortized during the life of the loan.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Obligation for finance leases - minimal payments, gross		
- Less than 1 year	Ps 29,956	Ps 29,140
- More than 1 year and less than 5 years	73,314	75,215
- More than 5 years	125,046	136,503
Future finance charges on finance lease liabilities	<u>(66,209)</u>	<u>(66,598)</u>
Present value of finance less liabilities	<u>Ps 162,106</u>	<u>Ps 174,260</u>

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Less than 1 year	Ps 21,270	Ps 20,603
More than 1 year and less than 5 years	52,053	63,297
More than 5 years	<u>88,784</u>	<u>90,360</u>
	<u>Ps 162,106</u>	<u>Ps 174,260</u>

Note 16 – Deferred taxes:

New Mexican Income Tax Law

On December 11, 2013 the decree for the new Income Tax Law was published (new LISR) becoming effective on January 1, 2014, repealing the LISR published as of January 1, 2002 (former LISR). The new LISR maintains the essence of the former LISR; however, it makes significant amendments among which the most important are:

- i. Limiting deductions in contributions to pension and exempt salary funds, automobile leases, restaurant consumption and social security fees; it also eliminates the immediate deduction in fixed assets.
- ii. Amending the mechanics to accumulate revenues derived from the term alienation and generalizing the procedure to determine the gain in alienation of shares.
- iii. Amending the procedure to determine the taxable basis for the Employees' Profit Sharing (PTU), establishing the mechanics to determine the initial balance of the capital contribution account (CUCA) and the CUFIN and establishing new mechanics for the recovery of Asset Tax (IA)
- iv. Establishing an ISR rate applicable for 2014 and the following years of 30%. In contrast to the LISR above that established a 30%, 29% and 28% rate for 2013, 2014 and 2015, respectively.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The Company has reviewed and adjusted the deferred tax balance at December 31, 2013, considering in the determination of temporary differences, the application of these new provisions, their impacts are detailed in the effective tax rate reconciliation in Note 25. However, the effects in deduction limitations and others indicated previously will be applied as from 2014 and will mainly affect the tax incurred as of such year.

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u> (Modified*)
Deferred tax asset:		
- To be recovered in more than 12 months	Ps 1,258,546	(Ps 1,978,827)
- To be recovered within 12 months	<u>123,966</u>	<u>3,612,420</u>
	1,382,512	1,633,593
Deferred tax liability:		
- To be covered in more than 12 months	(1,835,026)	(753,958)
- To be covered within 12 months	<u>331,340</u>	<u>(1,182,020)</u>
	<u>(1,503,686)</u>	<u>(1,935,978)</u>
Deferred tax liabilities, net	<u>(Ps 121,174)</u>	<u>(Ps 302,385)</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

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

	<u>2013</u>	<u>2012</u> (Modified*)
At January 1	(Ps 302,385)	(Ps 757,297)
Exchange differences	(19,097)	267,592
Charge to income statement	245,763	(436,516)
Adjustments to provisional fair value in J. L. French. Acquisition.		619,866
Tax related to components of other comprehensive income	<u>(45,455)</u>	<u>3,970</u>
At December 31	<u>(Ps 121,174)</u>	<u>(Ps 302,385)</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	Tax loss carry-forwards and other tax credits	Other	Total
Deferred tax asset			
At January 1, 2012	Ps 693,514	Ps 676,978	Ps 1,370,492
Charged/(credited) to statement of Income	(711,908)	(38,982)	(1,458,493)
(Charged)/credited to other comprehensive income		<u>47,834</u>	<u>47,834</u>
At December 31, 2012	18,394	685,830	667,436
Charged/(credited) to statement of Income	872,477	(211,780)	660,697
(Charged)/credited to other comprehensive income		<u>54,379</u>	<u>54,379</u>
At December 31, 2013	<u>Ps 854,083</u>	<u>Ps 528,429</u>	<u>Ps 1,382,512</u>

	Property, plant and equipment	Intangible assets	Inventories	Debt issuance costs, advance payments and other	Total
Deferred tax liability					
At January 1, 2012	Ps 1,449,241	Ps (834)	Ps 16,417	Ps 662,965	Ps 2,127,789
Charged/(credited) to statement of Income	(267,221)	834	(5,447)	70,585	(201,249)
(Charged)/credited to other comprehensive income				<u>9,438</u>	<u>9,438</u>
At December 31, 2012	1,182,020	-	10,970	742,988	1,935,978
Charged/(credited) to statement of Income	(610,464)	244,119	(15,222)	(33,367)	(414,934)
(Charged)/credited to other comprehensive Income				<u>(17,358)</u>	<u>(17,358)</u>
At December 31, 2013	<u>Ps 571,556</u>	<u>Ps 244,119</u>	<u>(Ps 4,252)</u>	<u>Ps 692,263</u>	<u>Ps 1,503,686</u>

Tenedora Nemark and its Mexican subsidiaries consolidate their operations for income tax purposes with its ultimate parent (Alfa, S. A. B. de C. V.) in accordance with the applicable regulations. The income tax included in the consolidated statement of income, represents the income tax currently payable for the year as well as the effect of the deferred income tax, determined in each subsidiary by the comprehensive asset-and-liability method, applying the income tax rate in effect to total temporary differences resulting from comparing the book and tax amounts of all assets and liabilities, and if applicable, considering tax loss carryforwards expected to be recoverable. The effect of a change in current income tax rates is recognized in income of the year in which the rate change is enacted.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 17 – Other liabilities:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Taxes payable	Ps 449,281	Ps 234,229
Other taxes and withholdings	503,771	495,245
Employees profit sharing payable	84,656	88,017
Share-based employee benefits (Note 24)	62,776	24,000
Bank overdrafts	63,926	4,164
Other	<u>308,618</u>	<u>314,695</u>
Total other liabilities	<u>Ps 1,473,028</u>	<u>Ps 1,160,350</u>

Note 18 - Employee benefits:

The valuation of employee benefits for retirement plans (covering approximately 76% of workers in 2013 and 80% in 2012) and is based primarily on their years of service, current age and estimated salary at retirement date.

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

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Mexico	Ps 119,578	Ps 135,695
United States	16,291	40,376
Canada	124,517	200,162
Poland	78,928	66,870
Austria	145,947	118,616
Germany	71,508	51,685
Others	<u>24,295</u>	<u>14,042</u>
Total	<u>Ps 581,064</u>	<u>Ps 627,246</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Liabilities in the balance sheet for:		
Pension benefits	Ps 458,536	Ps 487,421
Post-employment medical benefits	<u>122,527</u>	<u>139,825</u>
Liabilities in the balance sheet	<u>581,063</u>	<u>627,246</u>
Charge in the income statements for:		
Pension benefits	(55,263)	(24,550)
Post-employment medical benefits	<u>(7,169)</u>	<u>(7,539)</u>
	<u>(62,432)</u>	<u>(32,089)</u>
Remeasurements recognized in the statement of other comprehensive income for the period		
Pension benefits	(98,680)	50,226
Post-employment medical benefits	<u>(18,312)</u>	<u>10,109</u>
	(116,992)	60,335
Cumulative remeasurements recognized in other comprehensive income	<u>(Ps 62,057)</u>	<u>Ps 54,935</u>

Pension benefits

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

Amounts recognized in the balance sheet are determined as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Present value of defined benefit obligations	Ps 879,731	Ps 950,583
Fair value of plan assets	<u>(421,195)</u>	<u>(439,809)</u>
	458,536	510,774
Past service cost not recognized	<u>-</u>	<u>(23,353)</u>
Liabilities in the balance sheet	<u>Ps 458,536</u>	<u>Ps 487,421</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	<u>2013</u>	<u>2012</u>
At January 1	Ps 950,581	Ps 863,217
Current service cost	53,399	15,211
Interest cost	35,092	28,998
Employee contributions	828	965
Remeasurements:		
Financial actuarial losses/(gains)	(69,893)	81,455
Past service cost		-
Benefits paid	(81,422)	(35,174)
Reductions	4,070	-
Settlements	(13,559)	(4,091)
Exchange differences	<u>635</u>	<u></u>
At December 31	<u>Ps 879,731</u>	<u>Ps 950,581</u>

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

	<u>2013</u>	<u>2012</u>
At January 1	(Ps 439,809)	(Ps 386,876)
Interest Income	(32,019)	(27,406)
Remeasurements - expected return on plan assets, excluding interest income	(23,738)	(20,828)
Exchange differences	28,329	7,359
Employer contributions	(18,103)	(25,571)
Employee contributions	(828)	(965)
Benefits paid	37,166	14,037
Settlements	<u>27,809</u>	<u>441</u>
At December 31	<u>(Ps 421,195)</u>	<u>(Ps 439,809)</u>

Amounts recorded in the statement of income are as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	(Ps 53,399)	(Ps 15,211)
Financial revenues (costs), net	(11,354)	(8,170)
Past service cost	-	(1,169)
Loss from reduction	<u>9,489</u>	<u>-</u>
Total included in personal costs	<u>(Ps 55,264)</u>	<u>(Ps 24,550)</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The principal actuarial assumptions were as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Discount rate	6.75%	6.75%
Inflation rate	4.25%	4.25%
Salary increase rate	5.25%	5.3%
Future salary increase	4.25%	4.25%
Medical inflation rate	7.50%	7.50%

The average life of defined benefit obligations is of 23 and 26 years at December 31, 2013 and 2012, respectively.

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

	<u>Effect in defined benefit obligations</u>		
	<u>Change in assumptions</u>	<u>Increase in assumptions</u>	<u>Decrease in assumptions</u>
Discount rates	+1%	Decreases by Ps21,755	Increases by Ps27,171

Post-employment medical benefits

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

Amounts recognized in the balance sheet are determined as follows:

	<u>December 31,</u>	
	<u>2013</u>	<u>2012</u>
Deficit in funded plans	Ps 122,527	Ps 139,482
Unrecognized past service cost		343
Liabilities in the balance sheet	<u>Ps 122,527</u>	<u>Ps 139,825</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The movements of defined benefit obligations are as follows:

	<u>2013</u>	<u>2012</u>
At January 1	Ps 139,482	Ps 127,148
Current service cost	2,235	2,105
Interest cost	4,934	5,400
Remeasurements:		
Financial actuarial losses/(gains)	(15,080)	6,286
Employee contributions	6	3
Exchange differences	(7,427)	-
Past service cost		(1,459)
Benefits paid	<u>(1,622)</u>	<u>-</u>
At December 31	<u>Ps 122,527</u>	<u>Ps 139,483</u>

Amounts recorded in the statement of income are as follows:

	<u>2013</u>	<u>2012</u>
Current service cost	(Ps 2,235)	(Ps 2,105)
Interest cost	(4,934)	(5,400)
Past service cost	<u>-</u>	<u>(34)</u>
Total included in personal costs	<u>(Ps 7,169)</u>	<u>(Ps 7,539)</u>

Note 19 - Stockholders' equity

At December 31, 2013, the nominal capital stock, subscribed and paid in of Ps874,136, was represented by common, nominative shares with a par value of one peso each and is divided in Series "A" and "A-1" shares and Series "B" and "B-1" shares, as follows:

<u>Series</u>	<u>Portion</u>	<u>Number of shares</u>	<u>Amount</u>
Series "A"	Fixed minimum	25,500	Ps 25
Series "B"	Fixed minimum	24,500	24
Series "A-1"	Variable	442,818,605	442,819
Series "B-1"	Variable	<u>427,512,667</u>	<u>427,513</u>
Total nominal		<u>870,381,272</u>	870,381
Increase from restatement			<u>3,755</u>
Capital stock at December 31, 2013			<u>Ps 874,136</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. At December 31, 2013 and 2012, the legal reserve amounted to Ps110,151 and Ps 89,567 in 2013 and 2012, respectively, which is included in retained earnings.

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Dividends paid are not subject to income tax if paid from the Net Tax Profit Account (CUFIN). Any dividends paid in excess of this account will cause a tax equivalent to 30% if they are paid in 2013. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years or, if applicable, against the flat tax of the period. Dividends paid from profits which have previously paid income tax are not subject to tax withholding or to any additional tax payment. At December 31, 2013, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to Ps4,410,947 and Ps12,797,328 respectively.

In the event of a capital reduction, the Income Tax Law provides that any excess of stockholders' equity over adjusted capital contribution will receive the same tax treatment as dividends.

In October 2013 the Chamber of Senators and Deputies approved the issuance of a new Income Tax Law (LISR), which became effective on January 1, 2014. Among other aspects, this law establishes a tax of 10% for profits generated as from 2014 on dividends paid to foreign residents and Mexican individuals. It is also established that for fiscal years 2001 to 2013, the net tax profit will be determined under the LISR terms effective in the corresponding fiscal year.

The movements in cumulative other comprehensive income for 2013 and 2012 are presented below:

	Effect of cash flow hedge derivatives instruments	Effect from foreign currency translation	Total
At January 1, 2012	(Ps 72,348)	Ps1,005,476	Ps 933,128
Gains (losses) on fair value	24,268	-	24,268
Gains (losses) on translation of foreign entities	-	(718,816)	(718,816)
At December 31, 2012	(48,080)	286,660	238,580
Gains (losses) on fair value	38,918	-	38,918
Gains (losses) on translation of foreign entities	-	444,522	444,522
At December 31, 2013	(Ps 9,162)	Ps 731,182	Ps 722,020

Foreign currency translation

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

Effect of derivative financial instruments

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

Note 20 – Share based payments:

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

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

The program consists of determining a number of shares on which the executives shall be based. The bonus will be paid in cash over the next five years, i.e. 20% each year at the average price of the share at the end of each year. The average price of the share in 2013 and 2012 was 38.86 and 27.8 pesos, respectively.

At December 31, 2013 and 2012 the expense recognized on share based payments was Ps 32,621 and Ps 6,000 respectively, which have been recognized in administrative expenses.

At December 31, 2013 and 2012 the liability for share-based payments amounted to Ps62,776 and Ps30,155, respectively.

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

	<u>December 31</u>	
	<u>2013</u>	<u>2012</u>
Short-term	Ps 18,836	Ps 6,015
Long-term	<u>43,940</u>	<u>24,140</u>
Total carrying value	<u>Ps 62,776</u>	<u>Ps 30,155</u>

Note 21 - Expenses classified by their nature:

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

	<u>2013</u>	<u>2012</u>
Raw materials	(Ps 22,933,014)	(Ps 20,876,578)
Maquila (production outsourcing)	(4,414,353)	(4,277,302)
Employee benefit expenses (Note 24)	(11,359,438)	(10,278,193)
Maintenance	(3,300,738)	(2,633,829)
Depreciation and amortization	(3,281,614)	(3,286,529)
Freight charges	(676,754)	(734,767)
Advertising expenses	(6,373)	(6,039)
Consumption of energy and fuel	(1,695,924)	(2,129,256)
Travel expenses	(194,753)	(135,162)
Technical assistance, professional fees and administrative services	(2,069,078)	(1,369,625)
Other	<u>(2,009,634)</u>	<u>(2,136,703)</u>
Total	<u>(Ps 51,941,673)</u>	<u>(Ps 47,863,983)</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 22 – Other income (expenses), net:

	<u>2013</u>	<u>2012</u>
Expenses for business acquisition	Ps -	(Ps 21,711)
Loss on sale of property, plant and equipment	(36,741)	(214,033)
Other	<u>196,842</u>	<u>(96,010)</u>
Total other income (expenses), net	<u>Ps 160,101</u>	<u>(Ps 331,754)</u>

Note 23 - Finance result, net:

	<u>2013</u>	<u>2012</u>
Finance income:		
- Interest income in short term bank deposits	Ps 9,661	Ps 8,135
- Intercompany finance income	9,285	2,086
- Other finance income	<u>20,109</u>	<u>45,834</u>
Total financial income	<u>Ps 39,055</u>	<u>Ps 56,055</u>
Financial expenses:		
- Interest expense on bank loans	(Ps 1,046,167)	(Ps 915,844)
- Intercompany finance costs	(84,696)	(75,138)
- Other finance costs	<u>(201,975)</u>	<u>(62,856)</u>
Total finance costs, excluding foreign exchange loss	<u>(1,332,838)</u>	<u>(1,053,838)</u>
Foreign exchange loss	<u>(162,094)</u>	<u>(395,029)</u>
Total finance cost	<u>(1,494,932)</u>	<u>(1,448,867)</u>
Financing cost, net	<u>(Ps 1,455,877)</u>	<u>(Ps 1,392,812)</u>

Note 24 - Employee benefit expenses:

	<u>2013</u>	<u>2012</u>
Salaries, wages and benefits	Ps 9,083,090	Ps 8,166,312
Contributions to social security	1,184,306	1,163,165
Employees' benefits (Note 18)	62,432	32,089
Other contributions	<u>1,029,610</u>	<u>916,627</u>
Total	<u>Ps 11,359,438</u>	<u>Ps 10,278,193</u>

Note 25 – Income tax for the year:

	<u>2013</u>	<u>2012</u>
Tax currently payable:		
Income tax on profits of the period	(Ps 677,969)	(Ps 600,928)
Adjustment for previous years	<u>(27,284)</u>	<u>-</u>
Total tax currently payable	<u>(705,253)</u>	<u>(600,928)</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>245,763</u>	<u>(436,516)</u>
Total deferred tax	<u>245,763</u>	<u>(436,516)</u>
Income taxes charged to income	<u>(Ps 459,490)</u>	<u>(Ps 1,037,444)</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

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

	<u>2013</u>	<u>2012</u> (Modified*)
Profit before taxes	Ps3,080,723	Ps2,200,987
Share in losses of associates recognized through equity method	<u>19,284</u>	<u>37,984</u>
Income before equity in associates	3,061,437	2,163,003
Statutory rate	<u>30%</u>	<u>30%</u>
Tax at statutory rate	(918,431)	(648,900)
(Add) deduct tax effect of:		
Difference based on the comprehensive financial result	174,683	(384,630)
Non-deductible	(91,387)	(101,260)
Tax losses not recognized in prior years	247,200	
Other permanent differences, net	<u>128,445</u>	<u>97,345</u>
Total provision for income taxes charged to income	(Ps 459,490)	(Ps1,037,445)
Effective rate	<u>15%</u>	<u>47%</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

During the year, as a result of the change in income tax rate in Mexico of 30%, 29% and 28% for 2013, 2014 and 2015, respectively at 30%, which was enacted on December 11, 2013 and will be effective as from January 1, 2014, the deferred income tax balances have been remeasured. The deferred tax that is expected to be reversed in the year ended December 31, 2013, has been measured by using the rate to be applied in Mexico in such period (30%).

During the month of October 2013 the Chamber of Senators and Deputies approved the abrogation of the Flat Tax Law (IETU) published on October 1, 2007. Therefore, when the Decree approved in October 2013, becomes effective, the general administrative resolutions and provisions and resolutions to consultations, interpretations, authorizations or permits granted for personal use, with respect to the tax established in the abrogated IETU law, will be repealed.

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

	<u>2013</u>			<u>2012</u>		
	<u>Before taxes</u>	<u>Tax payable/(receivable)</u>	<u>After taxes</u>	<u>Before taxes</u>	<u>Tax payable/(receivable)</u>	<u>After taxes</u>
Translation effect of foreign entities	Ps 444,522	Ps	Ps 444,522	(Ps 718,817)		(Ps 718,817)
Remeasurement of obligations for employee benefits	116,992	28,776	88,216	(60,335)	13,408	(46,928)
Effect of derivative financial instruments hired as cash flow hedges	<u>55,598</u>	<u>16,679</u>	<u>38,918</u>	<u>33,706</u>	<u>(9,438)</u>	<u>24,269</u>
Other items of comprehensive income	<u>Ps 617,112</u>	<u>Ps 30,443</u>	<u>Ps 571,656</u>	<u>(Ps 745,446)</u>	<u>Ps 3,970</u>	<u>(Ps 741,476)</u>
Deferred taxes		<u>Ps 30,443</u>			<u>Ps 3,970</u>	

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Note 26 - Related party transactions:

Transactions with related parties during the years ended December 31, 2013 and 2012, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2013										
Loans granted to related parties						Loans received from related parties				
	Accounts receivable	Amount	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable	Amount	Currency	Maturity date DD/MM/YY	Interest rate
Ultimate Parent	Ps 261,121	Ps 274,607	USD	01/01/2016	2.74	Ps 3,830	Ps 1,913,572	USD	01/01/2016	2.74
Affiliates	91,012					318,575	122,000	USD	01/01/2016	2.74
Ford	1,355,176									
Total	<u>Ps 1,707,310</u>	<u>Ps 274,607</u>				<u>Ps 322,405</u>	<u>Ps 2,035,572</u>			
December 31, 2012										
Loans granted to related parties						Loans received from related parties				
	Accounts receivable	Amount	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable	Amount	Currency	Maturity date DD/MM/YY	Interest rate
Ultimate Parent	Ps 93,098	Ps 273,212	USD	01/01/2016	3.19	Ps 33,369	Ps 2,247,064	USD	01/01/2016	3.19
Affiliates	90,550	-				336,053	170,000	Pesos	01/01/2016	7.59
Ford	1,559,372	-				-	-			
Total	<u>Ps 1,743,019</u>	<u>Ps 273,212</u>				<u>Ps 369,422</u>	<u>Ps 2,417,064</u>			

Sales revenues and other related parties

Year ended December 31, 2013				
	Finished goods	Interest	Dividends	Others
Ultimate Parent	Ps -	Ps 9,286	Ps -	Ps -
Ford	20,478,090	-	-	-
Associates	-	-	15,769	-
Total	<u>Ps 20,478,090</u>	<u>Ps 9,286</u>	<u>Ps 15,769</u>	<u>Ps -</u>
Year ended December 31, 2012				
	Finished goods	Interest	Dividends	Others
Ultimate Parent	Ps -	Ps 2,086	Ps -	Ps -
Ford	16,038,179	-	-	44,379
Associates	-	-	18,000	-
Affiliates	-	-	-	3,431
Total	<u>Ps 16,038,179</u>	<u>Ps 2,086</u>	<u>Ps 18,000</u>	<u>Ps 47,810</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

Cost of sales and other expenses with related parties

Year ended December 31, 2013				
	<u>Interest</u>	<u>Administrative services</u>	<u>Other cost and Expenses</u>	<u>Dividends paid</u>
Ultimate Parent	Ps 56,381	Ps -	Ps -	Ps -
Affiliates	9,984	54,503	193,211	-
Ford	-	-	53,432	-
Total	<u>Ps 66,365</u>	<u>Ps 54,503</u>	<u>Ps 246,643</u>	<u>Ps -</u>

Year ended December 31, 2012				
	<u>Interest</u>	<u>Administrative services</u>	<u>Other cost and Expenses</u>	<u>Dividends paid</u>
Ultimate Parent	Ps 74,460	Ps -	Ps -	Ps 137,160
Affiliates	12,238	63,465	166,336	-
Ford	-	-	107,169	-
Total	<u>Ps 86,698</u>	<u>Ps 63,465</u>	<u>Ps 273,505</u>	<u>Ps 137,160</u>

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

For the year ended December 31, 2013, wages and benefits received by top officials of the company were Ps 138.9 million (Ps 170.9 million in 2012), an amount comprising base salary, social benefits and supplemented mainly by a variable compensation program governed by the results of the Company and by the average price of the Alfa's shares.

Note 27 - Financial information by segments:

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

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

Firstly North America; in which Mexican, Canadian and the United States' operations are grouped. Secondly Europe, which groups transactions in Germany, Spain, Hungary, Czech Republic, Austria, Poland and Slovakia. Finally, South America, which groups operations in Brazil and Argentina.

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

The above group is based on the products and services, manufacturing processes, clients and methods to distribute similar products and this is how the CODM analyzes the company's business. Likewise, the information is shown for the Mexican operation, since it is the country where the economic entity is located. Geographical segments that fail to comply with the limit established by the standard or that are not analyzed as part of the prior segments by the CODM, such as China, India and Holland and other lesser transactions are added and presented under "Other Countries".

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

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

The Company has defined the adjusted EBITDA as consolidated profit (loss) before tax after adding back or subtracting, as the case may be: (1) depreciation and amortization; (2) the financial result, net (which includes interest expense, interest income, foreign exchange gains (losses), net and gain (loss) of derivative financial instruments and (3) share of loss of associates.

Following is the condensed financial information of the operating segments to report on (million of Mexican pesos):

For the year ended December 31, 2013

	<u>North America</u>	<u>Europe</u>	<u>South America</u>	<u>Other countries and eliminations</u>	<u>Total</u>
Income statement					
Sales by segment	Ps 43,216	Ps 22,564	Ps 3,658	(Ps 13,139)	Ps 56,299
Inter-segment sales	<u>(4,806)</u>	<u>(2,285)</u>	<u>(32)</u>	<u>7,123</u>	<u>0</u>
Sales from external customers	<u>38,410</u>	<u>20,279</u>	<u>3,626</u>	<u>(6,016)</u>	<u>56,299</u>
EBITDA					
Operating Income	3,989	1,417	180	(1,068)	4,518
Depreciation and amortization	2,075	1,004	109	93	3,281
Non-current assets write-down	<u>6</u>	<u>8</u>	<u>0</u>	<u>10</u>	<u>24</u>
Adjusted EBITDA	6,070	2,429	289	(965)	7,823
General Investment (CAPEX)	Ps 1,894	Ps 848	Ps 110	Ps 458	Ps 3,310

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

For the year ended December 31, 2012

	North America	Europe	South America	Other countries and eliminations	Total
Income statement					
Sales by segment	Ps 40,119	Ps 20,041	Ps 3,940	(Ps 12,715)	Ps 51,385
Inter-segment sales	<u>(10,153)</u>	<u>(3,113)</u>	<u>(84)</u>	<u>13,350</u>	<u>-</u>
Sales from external customers	<u>29,966</u>	<u>16,928</u>	<u>3,856</u>	<u>635</u>	<u>51,385</u>
EBITDA					
Operating Income	1,905	1,155	166	(37)	3,189
Depreciation and amortization	2,166	972	104	44	3,286
Non-current assets write-down	177	37	-	-	214
Adjusted EBITDA	<u>4,249</u>	<u>2,164</u>	<u>270</u>	<u>7</u>	<u>6,690</u>
General Investment (CAPEX)	Ps <u>1,855</u>	Ps <u>1,068</u>	Ps <u>176</u>	Ps <u>456</u>	Ps <u>3,555</u>

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

	December 31,	
	2013	2012 (Modified *)
Adjusted EBITDA	Ps 7,823	Ps 6,690
Depreciation and amortization	(3,281)	(3,286)
Non-current assets write-down	<u>(24)</u>	<u>(214)</u>
Operating profit	4,518	3,189
Financial result	(1,456)	(1,395)
Share of gain of associates	19	38
Non-recurring items (Note 2)	<u>-</u>	<u>367</u>
Profit before tax	<u>Ps 3,081</u>	<u>Ps 2,201</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

For the year ended December 31, 2013

	Property plant and equipment	Goodwill	Intangible assets
North America	Ps 17,558	Ps 1,621	Ps 910
Europe	8,847	3,000	842
South America	1,337	-	23
Other countries	<u>1,582</u>	<u>-</u>	<u>254</u>
Total	<u>Ps 29,324</u>	<u>Ps 4,621</u>	<u>Ps 2,029</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

For the year ended December 31, 2012

	Property plant and <u>equipment</u> (Modified *)	<u>Goodwill</u>	Intangible <u>assets</u>
North America	Ps 17,528	Ps 1,634	Ps 766
Europe	8,531	2,354	572
South America	1,541	-	10
Other countries	<u>1,224</u>	<u>511</u>	<u>40</u>
Total	<u>Ps 28,824</u>	<u>Ps 4,499</u>	<u>Ps 1,388</u>

*Modified to reflect the adjustments to provisional fair values previously recognized in business combinations as described in Note 2.

Tenedora Nemak's clients are vehicle assembly companies, known as OEMs (Original Equipment Manufacturer). The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 36% and 34%, General Motors 24% and 25% and Fiat-Chrysler 12% and 12%, in 2013 and 2012, respectively.

Note 28 - Commitments and contingencies:

At December 31, 2013, the Company had the following contingencies:

- In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would damage significantly its individual or overall results of operations or financial position.
- The Company is currently undergoing disputes for tax claims and other labor and social security contingencies from Brazilian authorities, for which restricted deposits were established amounting to Ps345,360 and Ps339,795 in 2013 and 2012, respectively.

Note 29 - Foreign currency position:

At February 25, 2014, the date of issuance of these financial statements, the exchange rate was 13.23 Mexican pesos per dollar.

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

Tenedora Nemark, S. A. de C. V. and subsidiaries

Notes to the Consolidated Financial Statements

At December 31, 2013 and 2012

At December 31, 2013 and 2012 had the following assets and liabilities in foreign currencies:

December 31, 2013					
Dollars (USD)			Other currencies		
<u>USD</u>	Million of Mexican pesos		<u>USD</u>	Million of Mexican Pesos	Total Million of Mexican Pesos
Monetary assets	\$ 353	Ps 4,617	\$ 401	Ps 5,243	Ps 9,860
Monetary liabilities:					
Current	(565)	(7,391)	(597)	(7,806)	(15,197)
Non-current	(1,118)	(14,621)	(337)	(4,400)	(19,021)
Monetary position in foreign currencies	(\$ 1,330)	(Ps 17,395)	(\$ 533)	(Ps 6,963)	(Ps 24,358)

December 31, 2012					
Dollars (USD)			Other currencies		
<u>USD</u>	Million of Mexican pesos		<u>USD</u>	Million of Mexican Pesos	Total Millions of Mexican Pesos
Monetary assets	\$ 82	Ps 1,063	\$ 635	Ps 8,256	Ps 9,319
Monetary liabilities:					
Current	(2)	(24)	(62)	(809)	(833)
Non-current	-	-	1,209	15,730	15,730
Monetary position in foreign currencies	(\$ 80)	(Ps 1,039)	\$ 1,781	Ps 23,177	Ps 24,215

Note 30 - Subsequent events:

In preparing the financial statements the Company has evaluated the events and transactions for recognition or disclosure subsequent to December 31, 2013 and through February 25, 2014 (date of issuance of the financial statements and concluded that there are no subsequent events that affected them.


Armando Tamez Martínez
Chief Executive Officer


Salvador Ramos Santos
Chief Financial Officer