

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

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

Consolidated Financial Statements

December 31, 2014 and 2013

Tenedora Nemark, S. A. de C. V. and subsidiaries
Consolidated Financial Statements
Index
December 31, 2014 and 2013

<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 71



Monterrey, N. L., April 15, 2015

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, 2014 and 2013, and the consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years ended December 31, 2014 and 2013, 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.



pwc

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, 2014 and 2013, and its financial performance and its cash flows for the years ended December 31, 2014 and 2013, in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

PricewaterhouseCoopers, S. C.

C.P.C. Ricardo Noriega Navarro
Audit Partner

Tenedora Nemark, S. A. de C. V. and subsidiaries
Consolidated Statements of Financial Position
(in thousands of Mexican Pesos)
At December 31, 2014 and 2013

Thousands of Mexican pesos

		<u>December 31,</u>	
<u>Assets</u>	<u>Note</u>	<u>2014</u>	<u>2013</u>
Current Assets:			
Cash and cash equivalents	7	Ps 975,734	Ps 1,782,846
Restricted cash and cash equivalents	8	390,163	360,715
Trade and other receivables, net	9	6,901,918	6,225,184
Inventories	10	8,471,688	6,912,341
Derivative financial instruments	11	8,119	-
Advanced payments		<u>250,768</u>	<u>241,519</u>
Total current assets		<u>16,998,390</u>	<u>15,522,605</u>
Non-current Assets:			
Property, plant and equipment	12	32,534,565	29,323,568
Goodwill and intangible assets, net	13	6,910,880	6,424,822
Deferred income tax	17	1,172,805	1,382,512
Other non-current receivables	9	512,781	274,607
Derivative financial instruments	11	27,182	-
Other non-current assets	14	<u>934,740</u>	<u>517,321</u>
Total non-current assets		<u>42,092,953</u>	<u>37,922,830</u>
Total Assets		<u>Ps 59,091,343</u>	<u>Ps 53,445,435</u>
<u>Liabilities and equity</u>			
<u>Liabilities</u>			
Current Liabilities:			
Current debt	16	Ps 4,784,039	Ps 1,954,185
Trade and other payables	15	12,736,985	11,707,558
Current income tax liabilities		630,523	449,281
Derivative financial instruments	11	3,273	68,230
Other liabilities	18	<u>845,599</u>	<u>1,026,495</u>
Total current liabilities		<u>19,000,419</u>	<u>15,205,749</u>
Non-current Liabilities:			
Non-current debt	16	15,086,891	17,206,728
Derivative financial instruments	11	803,651	311,585
Deferred income tax	17	1,955,585	1,556,276
Employee benefits	19	689,777	581,064
Other non-current liabilities	18	<u>56,614</u>	<u>-</u>
Total non-current liabilities		<u>18,592,518</u>	<u>19,655,653</u>
Total liabilities		<u>37,592,937</u>	<u>34,861,402</u>
<u>Equity</u>			
Controlling Interest:			
Capital stock	20	874,136	874,136
Retained earnings	20	19,506,245	16,976,496
Other reserves	20	<u>1,100,542</u>	<u>721,536</u>
Total controlling interest		<u>21,480,923</u>	<u>18,572,168</u>
Non-controlling interest		<u>17,483</u>	<u>11,865</u>
Total equity		<u>21,498,406</u>	<u>18,584,033</u>
Total liabilities and equity		<u>Ps 59,091,343</u>	<u>Ps 53,445,435</u>

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

Tenedora Nemark, S. A. de C. V. and subsidiaries
Consolidated Statements of Income
(in thousands of Mexican Pesos)
For the years ended December 31, 2014 and 2013

Thousands of Mexican pesos

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Revenue		Ps61,490,458	Ps56,474,187
Cost of sales	22	<u>(52,456,432)</u>	<u>(48,597,266)</u>
Gross profit		9,034,026	7,876,921
Administrative and selling expenses	22	(3,586,666)	(3,344,406)
Other revenues, net	23	<u>60,704</u>	<u>160,101</u>
Operating profit		5,508,064	4,692,616
Financial income	24	298,857	39,055
Financial expense	24	<u>(998,324)</u>	<u>(1,494,932)</u>
Financial result, net		<u>(699,467)</u>	<u>(1,455,877)</u>
Share of gain of associates	14	<u>39,014</u>	<u>19,284</u>
Profit before income tax		4,847,611	3,256,023
Income tax	26	<u>(1,453,357)</u>	<u>(512,080)</u>
Net consolidated profit		<u>Ps 3,394,254</u>	<u>Ps 2,743,943</u>
Profit attributable to:			
Controlling interest		Ps 3,389,302	Ps 2,739,529
Non-controlling interest		<u>4,952</u>	<u>4,414</u>
		<u>Ps 3,394,254</u>	<u>Ps 2,743,943</u>

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

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, 2014 and 2013

Thousands of Mexican pesos

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Net consolidated profit		<u>Ps3,394,254</u>	<u>Ps2,743,943</u>
Other comprehensive income for the year, net of tax:			
Items that will not be reclassified to profit or loss			
Remeasurement of obligations for employee benefits	19	(23,977)	88,216
Items that will be reclassified to profit or loss			
Effect of derivative financial instruments designated as cash flow hedges	11	(72,450)	38,918
Effect of translation of foreign entities	20	<u>452,118</u>	<u>444,522</u>
Total other comprehensive income for the year		<u>355,691</u>	<u>571,656</u>
Total comprehensive income for the year		<u>Ps3,749,945</u>	<u>Ps3,315,599</u>
Attributable to:			
Controlling interest		Ps3,744,327	Ps3,310,701
Non-controlling interest		<u>5,618</u>	<u>4,898</u>
Total comprehensive income for the year		<u>Ps3,749,945</u>	<u>Ps3,315,599</u>

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

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

Consolidated Statements of changes in Equity (in thousands of Mexican Pesos)

For the years ended December 31, 2014 and 2013

Thousands of Mexican pesos

	Capital stock	Retained earnings	Other reserves	Total controlling interest	Non- controlling interest	Total equity
Balances at January 1, 2013	Ps 874,136	Ps 14,162,493	Ps 238,580	Ps 15,275,209	Ps 6,967	Ps 15,282,176
Net profit		2,739,529		2,739,529	4,414	2,743,943
Other comprehensive income for the year		<u>88,216</u>	<u>482,956</u>	<u>571,172</u>	<u>484</u>	<u>571,656</u>
Total comprehensive income for the year		2,827,745	482,956	3,310,701	4,898	3,315,599
Effect of adoption of IAS 19 revised		<u>(13,742)</u>		<u>(13,742)</u>		<u>(13,742)</u>
Balances at December 31, 2013	874,136	16,976,496	721,536	18,572,168	11,865	18,584,033
Dividend		(835,572)	-	(835,572)		(835,572)
Net profit		3,389,302	-	3,389,302	4,952	3,394,254
Other items of comprehensive income for the year		<u>(23,981)</u>	<u>379,006</u>	<u>355,025</u>	<u>666</u>	<u>355,691</u>
Total comprehensive income for the year		<u>3,365,321</u>	<u>379,006</u>	<u>3,744,327</u>	<u>5,618</u>	<u>3,749,945</u>
Balances at December 31, 2014	<u>Ps 874,136</u>	<u>Ps 19,506,245</u>	<u>Ps 1,100,542</u>	<u>Ps 21,480,923</u>	<u>Ps 17,483</u>	<u>Ps 21,498,406</u>

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

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, 2014 and 2013

Thousands of Mexican pesos

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Cash flows from operating activities			
Profit before income tax		Ps 4,847,611	Ps 3,256,023
Depreciation and amortization	12, 13	3,784,265	3,281,614
Costs associated with seniority premiums and pension plan		66,685	47,017
Loss on sale of property, plant and equipment		18,079	36,741
Effect of changes in the fair value of derivative financial		301,982	25,896
Exchange (loss) gain, net		(571,498)	217,601
Other non-operating financial income, net		888,738	1,212,380
Other, net		(416,518)	(311,905)
Increase in trade and other receivables		(196,969)	(650,662)
Increase in inventory		(1,318,535)	(389,111)
Increase in accounts payable		359,617	2,106,404
Income tax paid		<u>(789,896)</u>	<u>(647,412)</u>
Net cash generated from operating activities		<u>6,973,561</u>	<u>8,184,586</u>
Cash flows from investing activities			
Interest received		16,537	25,657
Acquisition of property, plant and equipment	12	(4,470,380)	(3,310,960)
Acquisition of intangible assets	13	(603,535)	(828,657)
Long-term investment		-	(29,409)
Dividends received		-	15,769
Restricted cash		(27,429)	171,382
Other assets		<u>18,980</u>	<u>11,426</u>
Net cash used in investing activities		<u>(5,065,827)</u>	<u>(3,944,792)</u>
Cash flows from financing activities			
Proceeds from borrowings or debt	16	7,404,869	20,630,274
Payments of borrowings or debt	16	(8,355,316)	(22,681,170)
Interest paid		(875,089)	(1,121,622)
Dividends paid		<u>(835,572)</u>	<u>-</u>
Cash used in financing activities		<u>(2,661,108)</u>	<u>(3,172,518)</u>
(Decrease) increase in cash and cash equivalents		(753,374)	1,067,276
Foreign exchange in cash and cash equivalents		10,188	49,811
Cash and cash equivalents at beginning of year	7	<u>1,718,920</u>	<u>601,833</u>
Cash and cash equivalents at end of year	7	<u>Ps 975,734</u>	<u>Ps 1,718,920</u>

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Thousands of Mexican pesos

Note 1 - General information:

Tenedora Nemark, S. A. de C. V. and subsidiaries ("Tenedora Nemark" or "the Company"), subsidiary of ALFA, S. A. B. de C. V. ("ALFA"), is a company that specializes in the production of complex aluminum components for the automotive industry, such as cylinder heads, engine blocks, transmission parts, structural components and other components.

Tenedora Nemark's principal executive offices are located at Libramiento Arco Vial Km. 3.8, Col. Centro in García, Nuevo León, México.

The Company is 93.24% owned by Alfa, S.A. de C.V., and 6.76% owned by Ford Motor Company. Alfa has the power to control the Company's affairs and policies.

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

Note 2 - Significant Events:

2014

a) Construction of plant in Russia

During May 2014, the Company started construction of an aluminum auto parts plant in Russia as announced in 2013. The investment for its construction will be of approximately US\$70 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 equivalent to 600,000 units per year and is planned to start production in 2015. At December 31, 2014, the Company has disbursed Ps319,000 in relation to the construction of this plant.

2013

b) Syndicated loan refinancing

In December 2013, Tenedora Nemark concluded the refinancing of its bank debt. This process included the bank debt of the main current contracts of Tenedora Nemark with Banks: "The Senior Unsecured Syndicated Loan Agreement", issued 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 16.

c) Issuance of Senior Notes

During February 2013, Nemark completed an issuance of debt obligations ("Senior Notes") in international markets for a nominal amount of US\$500 (Ps7,359,000) maturing in 2023. Interest on Senior Notes will be payable semi-annually at a 5.5% annual rate (effective interest rate of 5.68%) starting on September 2013. Nemark capitalized debt costs of Ps117,993. The proceeds of the issuance were used to partially repay the Senior Unsecured Syndicated Loan Agreement. This payment resulted in an advance amortization of issuance expenses amounting Ps99,683. See Note 16.

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 3 – Revised Financial statements:

The Company has reviewed its consolidated financial statements for the year ended December 31, 2013 as a result of a non-material change to certain assumptions and estimates which were not determined accurately. Management carried out an evaluation under the IAS 8 and concluded that the effect is neither qualitatively nor quantitatively material for the Company to make a reissuance of its historical information and has decided to correct the numbers using the revised model of the current year.

The comparative figures in the financial statements at December 31, 2013 for the review described in the paragraph above, are presented as follows:

	Previously reported	Reviewed balance
<u>Statement of financial position</u>		
Trade and other accounts receivable, net	\$ 6,049,884	\$ 6,225,184
Deferred income tax	\$ 1,503,686	\$ 1,556,276
Retained earnings	\$ 16,853,786	\$ 16,976,496
<u>Statement of income</u>		
Revenue	\$ 56,298,887	\$ 56,474,187
Income tax	(459,490)	(512,080)
Consolidated net income	2,621,233	\$ 2,743,943
<u>Statement of consolidated comprehensive income</u>		
Consolidated net income	\$ 2,621,233	\$ 2,743,943
<u>Statement of cash flow</u>		
Cash flow from operating activities		
Income before income tax	\$ 3,080,723	\$ 3,256,023
Increase in trade and other accounts receivable	(475,362)	(650,662)

Additionally, the following notes to the consolidated financial statements were modified to reflect the adjustments from the aforementioned review: Note 9, Note 17 and Note 26.

Note 4 - Summary of significant accounting policies:

The accompanying consolidated financial statements and notes were authorized for issuance on April 15, 2015 by the Chief Executive Officer Armando Tamez Martínez.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

a. Basis for preparation

The consolidated financial statements of Tenedora Nemark have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). IFRS include all International Accounting Standards ("IAS") in 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), 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 the statement of income and for financial assets available for sale.

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. Additionally, it requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments and estimates are significant to the consolidated financial statements, are disclosed in Note 6.

Tenedora Nemark's consolidated financial statements are presented in thousands of Mexican Pesos.

b. Consolidation

i. Subsidiaries

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

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

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

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

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

Goodwill is initially measured as the excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets and liabilities 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 Nematik 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, 2014 and 2013

At December 31, 2014 and 2013, the 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 México, S. A.	Mexico	100	US dollar
Modellbau Schönheide GMBH	Germany	90	Euro
Corporativo Nemak, S. A. de C. V. (administrative services)	Mexico	100	Mexican peso
Nemak Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nemak 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
Nemal Dillingen Casting GmbH & Co KG	Germany	100	Euro
Nemak Linz GmbH	Austria	100	Euro
Nemak Győr Kft	Hungary	100	Euro
Nemak Poland Sp. z.o.o.	Poland	100	Euro
Nemak USA, Inc.	USA	100	US dollar
Nemak Automotive Castings, Inc.	USA	100	US dollar
Nemak Spain, S. L.	Spain	100	Euro
J. L. French, S. de R. L. de C. V.	Mexico	100	Mexican peso
J. L. French Servicios, S. de R. L. de C. V.	Mexico	100	Mexican peso
Nemak Alumínio do Brasil Ltda.	Brazil	100	Real
Nemak Nanjing Aluminum Foundry Co., Ltd.	China	100	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 Wernigerode GmbH & Co. KG	Germany	100	Euro
Nemak Czech Republic, S.r.o.	Czech Republic	100	Euro
Nemak Commercial Services, Inc.	USA	100	US dollar
Nemak Aluminum Casting India Private, Ltd	India	100	Rupee
Nemak Chongqing Automotive Components, Co, Ltd.	China	100	Yuan
Nemak Rus, L.L. C. ⁽³⁾	Russia	100	Ruble

(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, 2014 and 2013.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

⁽³⁾ Company incorporated in 2013.

At December 31, 2014 and 2013, there are no significant restrictions in subsidiaries over the capacity of the Company to access the use of assets and pay off liabilities.

ii. Absorption (dilution) of control in subsidiaries

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

iii. Sale or disposal of subsidiaries

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

iv. Associates

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

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

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

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

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Company's equity in such gains. Unrealized losses are also eliminated unless the transaction provides evidence that the asset transferred is impaired. In order to ensure consistency with the policies adopted by the Company, the accounting policies of associates have been modified. When the Company ceases to

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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.

ii. Transactions and balances

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

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

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

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

iii. Consolidation of foreign subsidiaries

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

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

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

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

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

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

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

<u>Country</u>	<u>Local currency</u>	<u>Local currency to Mexican pesos</u>			
		<u>Closing exchange rate at December 31,</u>		<u>Average exchange rate at December 31,</u>	
		<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Canada	Canadian dollar	12.70	12.31	12.04	12.33
USA	US dollar	14.71	13.08	13.30	13.00
Brazil	Brazilian Real	5.55	5.53	5.66	5.57
Argentina	Argentine peso	1.74	2.01	1.64	2.07
Czech Republic	Euro	17.81	18.02	17.63	17.91
Germany	Euro	17.81	18.02	17.63	17.91
Austria	Euro	17.81	18.02	17.63	17.91
Hungary	Euro	17.81	18.02	17.63	17.91
Poland	Euro	17.81	18.02	17.63	17.91
Slovakia	Euro	17.81	18.02	17.63	17.91
Spain	Euro	17.81	18.02	17.63	17.91
China	RenMinBi Yuan	2.37	2.16	2.16	2.15
India	Indian Rupee	0.23	0.21	0.22	0.21
Russia	Russian ruble	0.25	0.34	0.25	0.34

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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. (Note 7).

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. (Note 8)

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.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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, 2014 and 2013, the Company had no such investments.

iv. Financial assets available for sale

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

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

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

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

Financial liabilities

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

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

Offsetting financial assets and liabilities

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Impairment of financial instruments

a) Financial assets carried at amortized cost

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

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

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

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

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

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

The calculation of the accounts receivable impairment is described in Note 9.

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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. When there is no market quote, they are determined based on valuation techniques in the financial sphere.

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

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

Fair value hedge

Changes in the fair value of derivative financial instruments are recorded in the income statement. The change in fair value hedges and the change in the primary position attributable to the hedged risk are recorded in the income statement in the same line item as the hedged position.

Cash flow hedge

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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, 2014 and 2013, 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 equity are transferred proportionally to the income statement, to the extent the forecasted transaction impacts it.

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

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

h. Inventories

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

i. Property, plant and equipment

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

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

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

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

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

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

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

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

The residual value 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.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

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

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

k. Intangible assets

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

Intangible assets are classified as follows:

- i) Indefinite useful life. - These intangible assets are not amortized and are subject to annual impairment assessment. 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

a) Goodwill

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

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

b) Development costs

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

c) Intangible assets acquired in a business combination

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

l. Impairment of non-financial assets

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

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

m. Income tax

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

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

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

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

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

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

n. Employee benefits

Defined contribution plans:

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Defined benefit plans:

i. Pension plans

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

The liability recognized in the balance sheet in respect of defined benefit plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using discount rates 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 equity in other items of the comprehensive income in the year they occur.

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

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

ii. Other post-employment benefits

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

iii. Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date or when an employee accepts voluntary termination of employment in exchange for these benefits. The Company recognizes termination benefits in the first of the following dates: (a) when the Company can no longer withdraw the offer of these benefits, and (b) when the Company recognizes the costs from restructuring within the scope of the IAS 37 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 Nematik recognizes an undiscounted provision when it is contractually obligated or when past practice has created an obligation.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

v. Employee participation in profits and bonuses

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

o. Provisions

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

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

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

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

p. Share-based payments

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

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

q. Capital stock

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

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

r. Comprehensive income

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

s. Segment reporting

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

t. Revenue recognition

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

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

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

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

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

u. Advanced payments

Advanced payments mainly comprise insurance and the corporate fee paid to 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.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

v. 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, 2014. The nature and impact of each new standard or modification are described as follows:

- IAS 32, “Financial instruments: presentation” In December 2011, the IASB amended IAS 32. This amendment clarifies that the right to offset shall not be contingent on a future event. It shall also be legally binding for all counterparties in the normal course of business, as in case of lack of compliance, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment had no significant effects on the financial statements.
- IAS 39, “Financial Instruments”: Recognition and Measurement “In September 2013, the IASB amended IAS 39 regarding the novation of derivative instruments and continuing with hedge accounting. This amendment considers legislative changes for commonly denominated over-the-counter derivatives and the establishment of central counterparties. Under IAS 39, the novation of derivatives to central counterparties would result in suspending hedge accounting. The amendment clarifies that there is no need to suspend hedge accounting when novation of a hedging instrument to a central counterparty meets certain requirements. The Company has applied the amendment without any significant effects in the financial statements.
- Interpretation to IFRS 21 - “Levies”. In May 2013, the IASB issued IFRIC 21, which identifies when the obligating event is present to pay a lien and when to recognize a liability. The Company is not currently subject to any significant levies; therefore the effect on the Company is immaterial.

w. New accounting pronouncements effective from January 1, 2015

The following sets out the new pronouncements and amendments issued, which are effective from January 1, 2015 that have not been early adopted by the Company.

IFRS 15 - “Revenue from contracts with customers”, issued in May 2014. Establishes the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

Revenue is recognized as control is passed to the customer and has the ability to direct the use of and obtain substantially all of the remaining benefits from the asset or service. The standard replaces IAS 18 ‘Revenues’ and IAS 11 ‘Construction contracts’ and related interpretations. The standard applies to annual reporting periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is in the process of assessing its effect on the financial statements.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

IFRS 9 - "Financial instruments" establishes the classification, measurement and recognition of financial assets and liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidelines of IAS 39 related to the classification and measurement of financial instruments. IFRS 9 maintains but simplifies the mixed measurement model and establishes three main measurement categories for financial assets: those measured at fair value with changes in the statement of income, fair value with changes in other comprehensive income and those measured at amortized cost. The classification depends on the business model of the entity and the contractual characteristics of cash flows of the financial asset. Investment in capital instruments are required to be measured at fair value with changes to income with the irrevocable option at first, to present changes in fair values in other comprehensive income without recycling. Now there is a new model of expected credit losses replacing the impairment model of losses incurred used in IAS 39. For financial liabilities there were no changes in relation to the classification and measurement, except for the recognition of changes of own credit risk in other comprehensive income for liabilities classified at fair value with changes in income. IFRS 9 reduces the requirements for hedge effectivity of effective ranges. It requires an economic ratio between the hedged item and the hedge instrument and the 'hedge ratio' should be the same as that used by management for purposes of risk management. The contemporary documentation is still required but differs from the documentation currently prepared under IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The company is in the process of assessing the effect of IFRS 9.

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

Note 5 - Financial risk management:

5.1 Financial risk factors

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

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

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

(a) Market risk

(i) Exchange rate risk

The Company operates internationally and is exposed to foreign exchange risk, primarily related to the currencies other than the functional currency in which its subsidiaries operate, as described in Note 4. 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 63% of its sales are denominated in U.S. dollar and 29% 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" and "eurization" of the Company's revenues, providing a natural hedge against its obligations in dollars and euros, 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, 2014 and 2013, 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 Ps28,575 and Ps7,049, respectively.

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

The risk management policy of the Company is to cover the following percentages with respect to the projected exposure:

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

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

(ii) Interest rate and cash flow risk

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

During 2014 and 2013, floating rate loans are mainly denominated in US dollars. See Note 16.

At December 31, 2014 and 2013 if the interest rates on floating rate loans were increased/decreased by 10%, interest expense would increase/decrease by Ps14,184 and Ps17,910, respectively.

(b) Credit risk

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

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

During 2014 and 2013, credit limits were not exceeded and management does not expect losses in excess of the impairment recognized in the corresponding periods.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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 and amount of allowances, including historical collection experience, customer base, current economic trends and the ageing of the accounts receivable portfolio.

(c) Liquidity risk

Projected cash flows are determined at each operating entity of the Company and subsequently the finance department consolidates this information. The finance department of the Company continuously monitors the cash flow projections and liquidity requirements of the Company ensuring that sufficient cash and highly liquid investments are maintained to meet operating needs, 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, 2014 and 2013, the Company had time deposits of Ps57,327 and Ps1,149,110, respectively, which are considered sufficient to adequately manage liquidity risk.

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

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

	<u>Less than 3 months</u>	<u>From 3 months and 1 year</u>	<u>From 1 year and 2 years</u>	<u>From 2 years and 5 years</u>	<u>More than 5 years</u>
December 31, 2014					
Trade and other accounts payable	Ps 12,947,411	Ps 611,665	Ps 677,770	Ps 4,361,845	Ps 47,817
Bank loans	3,422,083	1,131,323	404,745	1,214,235	8,775,608
Senior Notes	202,373	202,373	-	-	-
Peso Bond	53,820	336,459	1,717,541	1,818,498	-
Notes payables	4	13,112	11,004	39,617	5,979
Derivative financial instruments	10,585	31,755	385,406	446,285	-
Financial leases	8,300	24,899	91,715	61,838	8,727
Long term related parties	-	-	-	-	-
December 31, 2013					
Trade and other accounts payable	Ps 11,934,928	Ps 744,053	Ps -	Ps -	Ps -
Bank loans	458,899	1,109,696	1,375,821	4,379,696	-
Senior Notes	179,802	179,802	359,604	1,078,811	8,156,467
Peso Bond	53,737	179,722	407,859	3,772,806	-
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	-

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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, 2014, the Company has contractual credit lines unused for a total of US\$360.

(d) Price risk of inputs and products

Tenedora Nemak utilizes significant amounts of aluminum obtained as scrap, as well as ingots. In order to mitigate the risks related to the volatility of the prices of this input, the Company has established agreements with its clients, wherein the variations of aluminum prices are transferred at the sales price of the products through a pre-established formula.

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

Additionally, the Company holds derivative financial instrument transactions for natural gas, since it is an important component of the cost of its inputs.

Based on the exposure of aluminum price at December 31, 2014 and 2013, 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, 2014 and 2013 in the income statement of Ps 4,915 and Ps 1,256, 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.

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

The financial ratio of total liabilities/total equity was 1.76 and 1.89, at December 31, 2014 and 2013, respectively.

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

5.3 Fair value estimation

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

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

The following table presents the Tenedora Nemark's assets and liabilities that are measured at fair value at December 31, 2014:

	<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:				
Derivatives used for hedging	Ps _____	Ps 35,301	Ps _____	Ps 35,301
Financial assets available for sale	_____	_____	<u>70,254</u>	<u>70,254</u>
Total assets	<u>Ps _____</u>	<u>Ps 35,301</u>	<u>Ps 70,254</u>	<u>Ps 105,555</u>
Liabilities				
Financial liabilities at fair value through profit or loss:				
Derivatives used for cash flow hedging	Ps _____	(Ps 874,030)	Ps _____	(Ps 874,030)
Total liabilities	<u>Ps _____</u>	<u>(Ps 874,030)</u>	<u>Ps _____</u>	<u>(Ps 874,030)</u>

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	_____	_____	<u>70,177</u>	<u>70,177</u>
Total assets	<u>Ps -</u>	<u>Ps -</u>	<u>Ps 70,177</u>	<u>Ps 70,177</u>
Liabilities				
Financial liabilities at fair value through profit or loss:				
Trading derivatives	Ps -	(Ps 155,043)	Ps -	(Ps 155,043)
Derivatives used for cash flow hedging	_____	<u>(282,800)</u>	_____	<u>(282,800)</u>
Total liabilities	<u>Ps -</u>	<u>(Ps 437,843)</u>	<u>Ps -</u>	<u>(Ps 437,843)</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, 2014 and 2013

Level 1

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

Level 2

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

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

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

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

Level 3

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

Specific valuation techniques used to value financial instruments include:

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

The following table presents the movement in Level 3 instruments for the year ended December 31, 2014 and 2013:

	<u>Financial assets available for sale</u>
Final balance at December 31, 2012	Ps 70,166
Exchange difference	<u>11</u>
Final balance at December 31, 2013 (Note 14)	70,177
Exchange difference	<u>77</u>
Final balance at December 31, 2014 (Note 14)	<u>Ps 70,254</u>

Note 6 - 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.

6.1 Critical accounting estimates and judgments

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

(a) Estimated impairment of goodwill

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

Estimates of fair value are primarily determined using discounted cash flows and market comparisons. These approaches use significant estimates and assumptions, including projected future cash flows (including timing), discount rates reflecting the inherent risk in future cash flows, perpetual growth rates, determination of appropriate market comparables and the determination of whether a premium or discount should be applied to comparables. Inherent in these estimates and assumptions is a certain level of risk, which the Company believes has considered in their valuations. Nevertheless, if future actual results differ from estimates, a possible impairment charge may be recognized in future periods related to the write-down of the carrying value of other intangibles in addition to the amounts recognized previously. See note 13.

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

(b) Income tax

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

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

(c) 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. See Note 11.

(d) Pension benefits

The present value of the pensions obligations depend on several factors that are determined on an actuarial basis using a variety of assumption. Assumptions used in the determination of the net cost (income) for pensions, includes the discount rate. Any change in these assumptions will have an impact on the carrying value of pension obligations. See Note 19.

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.

(e) Commitments and contingencies

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

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

6.2 Critical judgments in applying the entity's accounting policies

(a) Revenue recognition

The Company has recognized revenue amounting to Ps61,490,458 and Ps56,474,187, for the sale of products to OEM's during 2014 and 2013, respectively. The buyer has the right to return the goods if they are dissatisfied. The Company believes that, based on past experience with similar sales, the rate of returned products will not exceed 3% of revenue. The Company has, therefore, recognized revenue on these transactions with a corresponding provision for estimated returns. If the estimate changes by 1%, the revenue would have been reduced/increased by Ps614,905 and Ps564,742, during 2014 and 2013, respectively.

Note 7 - Cash and cash equivalents:

Cash and cash equivalents consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash at bank and in hand	Ps 918,407	Ps 633,736
Short-term bank deposits	<u>57,327</u>	<u>1,149,110</u>
Total cash and cash equivalents (excluding bank overdrafts)	<u>Ps 975,734</u>	<u>Ps 1,782,846</u>

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	Ps 975,734	Ps 1,782,846
Bank overdrafts	<u>-</u>	<u>(63,926)</u>
Cash and cash equivalents at end of year	<u>Ps 975,734</u>	<u>Ps 1,718,920</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Note 8 - Restricted cash and cash equivalents

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current ¹	Ps390,163	Ps360,715
Non-current (Note 14)	<u>8,566</u>	<u>10,356</u>
Restricted cash and cash equivalents	<u>Ps398,729</u>	<u>Ps371,071</u>

¹It 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 29.

Note 9 - Trade and other receivables, net:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current:		
Trade receivables	Ps 4,026,055	Ps 2,991,506
Value-added tax and other taxes	1,310,949	1,097,524
Sundry debtors	400,961	472,072
Receivables from related parties (Note 27)	1,192,107	1,707,310
Provision for impairment	<u>(28,154)</u>	<u>(43,228)</u>
	<u>Ps 6,901,918</u>	<u>Ps 6,225,184</u>
Non-current:		
Non-current related parties receivables (Note 27)	<u>Ps 512,781</u>	<u>Ps 274,607</u>

Customers and other accounts receivable include past-due balances of Ps1,069,948 and Ps876,237 at December 31, 2014 and 2013, respectively.

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

	<u>December 31, 2014</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 609,587</u>	<u>Ps 242,962</u>	<u>Ps 103,142</u>	<u>Ps 114,257</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

	December 31, 2013			
	Past due balances			
	1 to 30 days	30 to 90 days	90 to 180 days	More than 180 days
Trade receivables	<u>Ps 519,762</u>	<u>Ps 227,035</u>	<u>Ps 96,805</u>	<u>Ps 32,635</u>

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

	2014	2013
Initial balance (January 1)	(Ps 43,229)	(Ps 45,320)
Provision for impairment of customers and other receivables	(22,492)	(12,050)
Receivables written off during the year	16,568	6,662
Unused amounts reversed	<u>20,998</u>	<u>7,480</u>
Final balance (December 31)	<u>(Ps 28,154)</u>	<u>(Ps 43,228)</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, 2014 and 2013, the maximum risk of accounts receivable is their carrying value.

Note 10 - Inventories:

	December 31,	
	2014	2013
Raw material and other consumables	Ps 4,495,774	Ps 3,509,303
Production in process	2,629,816	2,225,591
Finished goods	<u>1,346,098</u>	<u>1,177,447</u>
	<u>Ps 8,471,688</u>	<u>Ps 6,912,341</u>

The cost of inventories recorded in income and included in cost of sales amounted to Ps52,456,432 and Ps48,597,266, for 2014 and 2013, respectively.

In the years ended on December 31, 2014 and 2013, damaged, slow-moving and obsolete inventory was charged to cost of sales in the amount of Ps45,475 and Ps17,653, respectively.

At December 31, 2014 and 2013, there were no inventories provided in guarantee.

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 11 - Financial Instruments

a. Financial instruments by category

At December 31, 2014					
	Financial assets and liabilities at fair value			Derivative contracted as	
	Receivables and liabilities at amortized cost	with changes in income	Available for sale	hedge	Total
Financial assets:					
Cash and cash equivalents	Ps 975,734	Ps	Ps	Ps	Ps 975,734
Restricted cash and cash equivalents	398,729				398,729
Trade and other accounts receivable	7,414,699				7,414,699
Derivative financial instruments		35,301			35,301
Financial assets available for sale			<u>70,254</u>		<u>70,254</u>
	<u>Ps 8,789,162</u>	<u>Ps 35,301</u>	<u>Ps 70,254</u>	<u>Ps -</u>	<u>Ps 8,894,171</u>
Financial liabilities:					
Debt	Ps 19,870,930	Ps	Ps	Ps	Ps 19,870,930
Trade and other payables	12,736,985				12,736,985
Derivative financial instruments		67,106		739,818	806,924
	<u>Ps 32,607,915</u>	<u>Ps 67,106</u>	<u>Ps</u>	<u>Ps 739,818</u>	<u>Ps 33,414,840</u>

At December 31, 2013					
	Financial assets and liabilities at fair value			Derivative contracted as	
	Receivables and liabilities at amortized cost	with changes in income	Available for sale	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
Trade and other accounts receivable	6,499,791	-	-	-	6,499,791
Financial assets available for sale	<u>-</u>	<u>-</u>	<u>70,177</u>	<u>-</u>	<u>70,177</u>
	<u>Ps 8,653,708</u>	<u>Ps -</u>	<u>Ps 70,177</u>	<u>Ps -</u>	<u>Ps 8,723,885</u>
Financial liabilities:					
Debt	Ps 19,160,913	Ps -	Ps	Ps -	Ps 19,160,913
Trade and other payables	11,707,558	-		-	11,707,558
Derivative financial instruments	<u>-</u>	<u>44,106</u>		<u>335,709</u>	<u>379,815</u>
	<u>Ps 30,868,471</u>	<u>Ps 44,106</u>	<u>Ps</u>	<u>Ps 335,709</u>	<u>Ps 31,248,286</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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>2014</u>	<u>2013</u>
Trade and other receivables and related parties		
Counterparties with external credit rating		
"A+"	Ps 136,873	Ps -
"A"	61,433	-
"A-"	115,153	185,861
"BBB-"	1,179,271	1,447,941
"BBB+"	138,815	-
"BB+"	359,418	730,066
Other categories	<u>148,758</u>	<u>361,588</u>
	<u>2,139,821</u>	<u>2,725,456</u>
Counterparties without external credit rating		
"Type X clients"	-	-
"Type Y clients"	5,303,032	3,817,563
Other accounts receivable type Z	<u>-</u>	<u>-</u>
	<u>5,303,032</u>	<u>3,817,563</u>
Total unimpaired accounts receivable	<u>Ps 7,422,853</u>	<u>Ps 6,543,019</u>
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		
"A+"	Ps 55,465	Ps 22,889
"A"	1,586	649,504
"A-"	690,947	173,552
"BBB+"	5,392	849,566
"BBB"	3,242	381,976
"BBB-"	146,884	52,983
"BB+"	4,284	-
Other categories	<u>67,934</u>	<u>23,447</u>
	<u>Ps 975,734</u>	<u>Ps 2,153,917</u>
Derivative financial instruments		
"A+"	Ps -	Ps -
"A"	35,301	-
"A-"	-	-
"BBB"	-	-
"BBB-"	-	-
Without rating	<u>-</u>	<u>-</u>
	<u>Ps 35,301</u>	<u>Ps -</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

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

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

c. Fair value of financial assets and liabilities

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

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

	<u>At December 31, 2014</u>		<u>At December 31, 2013</u>	
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Carrying amount</u>	<u>Fair value</u>
Financial assets:				
Non-current accounts receivable	Ps 512,781	Ps 458,454	Ps 274,607	Ps 272,304
Financial liabilities:				
Bank loans	5,722,242	6,056,331	6,126,728	6,329,073
Peso Bond and other liabilities	11,122,280	11,292,604	12,288,333	12,321,209

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

d. Derivative financial instruments

The effectiveness of derivative financial instruments designated as hedges is measured periodically. At December 31, 2014 and 2013 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, 2014 and 2013.

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.

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

In the year ended December 31, 2014 and 2013, the Company had no effects from ineffective portions of fair value and cash flows hedges.

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

At December 31, 2014

Type of derivative, value or contract	Notional amount	Value of Underlying asset		Fair value	Maturity per year			Collateral / guarantee
		Units	Reference		2015	2016	2017+	
Hedging purposes: USD/MXN (CCS) ^{1,2}	3,500	Pesos/Dollar	14.72	(Ps 755)	(Ps 38)	(Ps 340)	(Ps 377)	Ps -
Trading purposes: USD/EUR (CCS)	925	Dollar/Euro	1.21	35 (Ps 720)	14 (Ps 24)	21 (Ps 319)	- (Ps 377)	- Ps -

At December 31, 2013

Type of derivative, value or contract	Notional amount	Value of Underlying asset		Fair value	Maturity per year			Collateral / guarantee
		Units	Reference		2014	2015	2016+	
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) (Ps 381)	(20) (Ps 20)	(32) (Ps 46)	(50) (Ps 315)	- Ps -

¹ Cross currency swap

² Fair value hedge

(b) Commodities (Amounts in millions of Mexican pesos)

At December 31, 2014

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

At December 31, 2013

Type of derivative, value or contract	Notional amount	Value of Underlying asset		Fair value	Maturity per year			Collateral / guarantee
		Units	Reference		2014	2015	2016+	
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 57)	(Ps 53)	-	-	- (Ps 4)

³ Cash flow hedge

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

At December 31, 2014 and 2013, the net fair value of derivative financial instruments above amounts to (Ps838,730) and (Ps437,843), respectively, which is shown in the statements of financial position as follows:

	<u>At December 31, 2014</u>		
	<u>Fair value</u>	<u>Initial position</u>	<u>Net value recorded</u>
Current assets	Ps 8,119	Ps -	Ps 8,119
Non-current assets	27,182	-	27,182
Current liabilities	(3,273)	-	(3,273)
Non-current liabilities	<u>(870,757)</u>	<u>67,106</u>	<u>(803,651)</u>
Net position	<u>(Ps 838,730)</u>	<u>Ps 67,106</u>	<u>(Ps 771,624)</u>
	<u>At December 31, 2013</u>		
	<u>Fair value</u>	<u>Initial position</u>	<u>Net value recorded</u>
Current liabilities	(Ps 68,230)	-	(Ps 68,230)
Non-current liabilities	<u>(369,613)</u>	<u>Ps 58,028</u>	<u>(311,585)</u>
Net position	<u>(Ps 437,843)</u>	<u>Ps 58,028</u>	<u>(Ps 379,815)</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Note 12 - Property, plant and equipment:

Year ended December 31, 2013

	Land	Buildings and constructions	Machinery and equipment	Transportation equipment	Furniture and office equipment	Construction in progress	Other fixed assets	Total
Opening net book amount	Ps 906,726	Ps 5,161,155	Ps 17,959,916	Ps 81,003	Ps 238,300	Ps 3,815,880	Ps 660,830	Ps 28,823,810
Exchange differences	(23,827)	37,885	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)	-
	<u>882,913</u>	<u>5,206,445</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	40,409,880	215,452	982,141	3,633,096	896,020	54,748,363
Accumulated depreciation	-	(2,522,416)	(21,760,324)	(156,277)	(701,326)	-	(284,452)	(25,424,795)
Net value in books at December 31, 2013	<u>Ps 882,913</u>	<u>Ps 5,206,445</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>

Year ended December 31, 2014

Opening net book amount	Ps 882,913	Ps 5,206,445	Ps 18,649,556	Ps 59,175	Ps 280,815	Ps 3,633,096	Ps 611,568	Ps 29,323,568
Exchange differences	62,711	380,362	1,458,528	4,920	15,153	256,207	6,421	2,184,302
Additions	11,688	3,151	38,495	(12)	10,312	4,504,087	15,989	4,583,710
Disposals and write downs	(299)	(10,341)	(66,455)	(238)	(1,511)	(1,416)	(33,075)	(113,329)
Depreciation charge for the year	-	(286,421)	(3,026,749)	(32,856)	(97,660)	-	-	(3,443,686)
Transfers	14,130	441,134	3,553,164	19,665	162,674	(4,119,904)	(70,863)	-
	<u>971,149</u>	<u>5,734,330</u>	<u>20,606,539</u>	<u>50,654</u>	<u>369,783</u>	<u>4,272,070</u>	<u>530,040</u>	<u>32,534,565</u>
At December 31, 2014								
Cost	971,149	8,543,169	45,393,612	239,788	1,168,770	4,272,070	814,489	61,365,687
Accumulated depreciation	-	(2,808,837)	(24,787,073)	(189,133)	(798,986)	-	(284,452)	(28,831,122)
Net value in books at December 31, 2014	<u>Ps 971,149</u>	<u>Ps 5,734,330</u>	<u>Ps 20,606,539</u>	<u>Ps 50,654</u>	<u>Ps 369,783</u>	<u>Ps 4,272,070</u>	<u>Ps 530,040</u>	<u>Ps 32,534,565</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Of the total depreciation expense, Ps3,291,464 and Ps2,910,277, were charged to cost of sales, Ps2,052 and Ps1,851, to selling expenses and Ps150,170 and Ps110,417, to administrative expenses in 2014 and 2013, respectively.

At December 31, 2014 and 2013 there were no pledged property, plant and equipment.

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Cost - capitalized financial lease	Ps 379,079	Ps 301,211
Accumulated depreciation	<u>(166,495)</u>	<u>(138,797)</u>
Carrying value, net	<u>Ps 212,584</u>	<u>Ps 162,414</u>

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

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

Note 13 - Goodwill and intangible assets, net:

	Development costs	Customer relationship	Software and licenses	Trademarks and patents	Goodwill	Total
Cost						
At January 1, 2013	<u>1,455,855</u>	<u>690,773</u>	<u>169,333</u>	<u>184,984</u>	<u>4,499,072</u>	<u>7,000,017</u>
Exchange differences	(32,734)	(136,483)	403,793	(114,406)	121,466	241,636
Additions	771,906	-	160,428	35	-	932,369
Disposals	-	-	(2,215)	-	-	(2,215)
At December 31, 2013	<u>2,195,027</u>	<u>554,290</u>	<u>731,339</u>	<u>70,613</u>	<u>4,620,538</u>	<u>8,171,807</u>
At January 1, 2014	Ps 2,195,027	Ps 554,290	Ps 731,339	Ps 70,613	Ps 4,620,538	Ps 8,171,807
Exchange differences	267,457	(4,669)	(131,087)	8,864	143,536	284,101
Additions	615,888	-	67,440	-	-	683,328
Disposals	-	-	(3,333)	-	-	(3,333)
At December 31, 2014	<u>3,078,372</u>	<u>549,621</u>	<u>664,359</u>	<u>79,477</u>	<u>4,764,074</u>	<u>9,135,903</u>
Accumulated amortization						
At January 1, 2013	<u>(820,835)</u>	<u>(400,842)</u>	<u>(42,741)</u>	<u>(118,328)</u>	-	<u>(1,382,746)</u>
Amortizations	(121,530)	(84,314)	(17,465)	(35,760)	-	(259,069)
Disposals	-	-	1,061	-	-	1,061
Exchange differences	26,588	39,425	(267,855)	95,611	-	(106,231)
At December 31, 2013	<u>(915,777)</u>	<u>(445,731)</u>	<u>(327,000)</u>	<u>(58,477)</u>	-	<u>(1,746,985)</u>
At January 1, 2014	(915,777)	(445,731)	(327,000)	(58,477)	-	(1,746,985)
Amortizations	(218,937)	(63,656)	(45,700)	(12,286)	-	(340,579)
Disposals	-	-	3,333	-	-	3,333
Exchange differences	(121,836)	1,006	(11,248)	(8,714)	-	(140,792)
At December 31, 2014	<u>(1,256,550)</u>	<u>(508,381)</u>	<u>(380,615)</u>	<u>(79,477)</u>	-	<u>(2,225,023)</u>
Net carrying value						
Cost	2,195,027	554,290	731,339	70,613	4,620,538	8,171,807
Accumulated amortization	<u>(915,777)</u>	<u>(445,731)</u>	<u>(327,000)</u>	<u>(58,477)</u>	-	<u>(1,746,895)</u>
At December 31, 2013	<u>Ps 1,279,250</u>	<u>Ps 108,559</u>	<u>Ps 404,339</u>	<u>Ps 12,136</u>	<u>Ps 4,620,538</u>	<u>Ps 6,424,822</u>
Cost	3,078,372	549,621	664,359	79,477	4,764,074	9,135,903
Accumulated amortization	<u>(1,256,550)</u>	<u>(508,381)</u>	<u>(380,615)</u>	<u>(79,477)</u>	-	<u>(2,225,023)</u>
At December 31, 2014	<u>Ps 1,821,822</u>	<u>Ps 41,240</u>	<u>Ps 283,744</u>	<u>Ps -</u>	<u>Ps 4,764,074</u>	<u>Ps 6,910,880</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Of the total amortization expense, Ps214,900 and Ps151,916, were charged to cost of sales, Ps125,121 and Ps106,587, to administrative expenses, Ps558 and Ps566 to selling expenses, in 2014 and 2013, respectively.

Research expenses incurred and recorded in the results of 2014 and 2013 were Ps4,434 and Ps3,221, respectively.

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

Impairment testing of goodwill

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

	<u>North America</u>	<u>Europe</u>	<u>Rest of the world</u>	<u>Total</u>
Closing balance December 31, 2012	<u>Ps 2,073,844</u>	<u>Ps 1,857,186</u>	<u>Ps 568,042</u>	<u>Ps 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 2,149,077</u>	<u>Ps 1,897,336</u>	<u>Ps 574,125</u>	<u>Ps 4,620,536</u>
Exchange differences	<u>46,919</u>	<u>68,712</u>	<u>27,905</u>	<u>143,536</u>
Closing balance December 31, 2014	<u>Ps 2,195,996</u>	<u>Ps 1,966,048</u>	<u>Ps 602,030</u>	<u>Ps 4,764,074</u>

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

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

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

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

The key assumptions used in calculating the fair value less costs of disposal in 2013 were as follows:

	<u>North America</u>	<u>Europe</u>	<u>Rest of the world</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 Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 14 - Other non-current assets:

	<u>At December 31</u>	
	<u>2014</u>	<u>2013</u>
Restricted cash	Ps 8,566	Ps 10,356
Available for sale financial assets ⁽¹⁾	70,254	70,177
Investment in associates	217,497	177,988
Other assets ⁽²⁾	<u>638,423</u>	<u>258,800</u>
Total other non-current assets	<u>Ps 934,740</u>	<u>Ps 517,321</u>

(1) Available for sale financial assets are investment in shares of companies not listed on the market (See Note 5.3). No impairment loss was recognized as of December 31, 2014 and 2013.

(2) In 2014 and 2013 the amounts of Ps622,052 and Ps225,538, respectively, represent the costs relative to obtaining new contracts. These amounts will be recorded in the statement of income when revenues derived from these contracts start to flow.

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

	<u>2014</u>	<u>2013</u>
Comprehensive income, equal to net profit	<u>Ps 39,014</u>	<u>Ps 19,284</u>

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

Note 15 - Trade and other payables:

	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
Suppliers	Ps 8,798,315	Ps 7,477,363
Advance from customers	594,942	818,894
Other taxes and social security benefits	531,193	553,441
Related parties (Note 27)	23,508	61,610
Other accounts and accumulated expenses payables	<u>2,789,027</u>	<u>2,796,250</u>
	<u>Ps12,736,985</u>	<u>Ps11,707,558</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 16 - Debt:

	<u>At December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current:		
Bank loans ⁽¹⁾	Ps 3,055,692	Ps 410,826
Current portion of non-current debt	1,728,342	1,168,783
Related parties (Note 27)	-	260,795
Notes payable ⁽¹⁾	<u>4</u>	<u>113,781</u>
Current debt	<u>Ps 4,784,039</u>	<u>Ps 1,954,185</u>
Non-current:		
Unsecured bank loans	Ps 5,659,575	Ps 6,072,851
Financial lease	195,413	162,489
Other:		
In foreign currency:		
Senior Notes	7,382,297	6,547,341
Related parties (Note 27)	-	2,035,572
In local currency:		
Peso Bond, unsecured	3,510,082	3,512,155
Other	<u>67,866</u>	<u>45,103</u>
	16,815,233	18,375,511
Less: current portion of non-current debt	<u>(1,728,342)</u>	<u>(1,168,783)</u>
Non-current debt	<u>Ps 15,086,891</u>	<u>Ps 17,206,728</u>

⁽¹⁾ At December 31, 2014 and 2013, short-term bank loans and notes payable bore interest at an average rate of 3.86% and 4.40%, respectively.

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

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

Description	Currency	Contractual value	Costs of debt issuance	Interest payable	Balance at December 31, 2014	Balance at December 31, 2013	Maturity date DD/MM/AAAA	Interest rate
Club Deal-Dls (Citi)	USD	4,599,081	(40,047)	6,644	4,565,678	4,821,536	05/12/2018	1.73%
Club Deal-Eur (Citi)	EUR	1,027,946	(10,012)	1,338	1,019,273	1,227,158	05/12/2018	1.63%
Otros		95,215	(21,065)	473	74,624	24,157		
Unsecured bank loans					5,659,575	6,072,851		
Senior Notes	USD	7,359,000	(125,663)	148,960	7,382,297	6,547,341	28/02/2023	5.78%
Peso Bond	MXP	3,500,000	-	10,082	3,510,082	3,512,155	10/11/2017	6.10%
Financial lease:								
Spain	EUR	9,137	-	-	9,137	24,472	09/02/2016	1.54%
U.S.	USD	6,052	-	-	6,052	2,975	01/09/2017	12.0%
China	RMB	180,225	-	-	180,225	138,018	28/02/2023	7.16%
Total financial lease					195,414	165,465		
Related parties (Note 27)	USD	-	-	-	-	2,035,572		
Other liabilities		67,865	-	-	67,865	42,127	28/02/2023	7.16%
Total		16,844,522	(196,786)	167,497	16,815,233	18,375,511		
Less: current portion of non-current debt					(1,728,342)	(1,168,783)		
Non-current debt					<u>Ps 15,086,891</u>	<u>Ps 17,206,728</u>		

At December 31, 2014, the annual maturities of non-current debt are as follows:

	2016	2017	2018	2019 onwards	Total
Bank loans ¹	Ps 418,320	Ps 415,197	Ps 3,494,324	Ps 54,632	Ps 4,382,473
Senior Notes ²	-	-	-	7,359,000	7,359,000
Peso Bond ³	1,575,000	1,750,000	-	-	3,325,000
Other loans	10,814	5,843	8,896	29,371	54,924
Financial lease	91,714	32,628	3,029	34,909	162,280
	<u>Ps 2,095,848</u>	<u>Ps 2,203,668</u>	<u>Ps 3,506,249</u>	<u>Ps 7,477,912</u>	<u>Ps 15,283,678</u>

¹ Interest bore by bank loans will be paid quarterly.

² Interest bore by Senior Notes will be paid half-yearly.

³ Interest bore by Peso Bond will be paid approximately every 28 days.

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 profit before financial result, income taxes, depreciation and amortization (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: is defined as consolidated debt at that date, being the gross debt or net debt as appropriate, divided by consolidated EBITDA for the period of the last four complete quarters.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

During 2014 and 2013, the financial ratios mentioned above were calculated in accordance with the formulas established in the effective debt agreements.

At December 31, 2014 and the date of issuance of these financial statements, the Company is in compliance with all obligations and covenants contained in its credit agreements; such obligations, among other conditions are subject to certain exceptions, and require or limit the ability of the Company to:

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

As December 31, 2014 and 2013 there are no assets pledged as collateral for any of the subsidiaries.

Significant debt transactions:

- (a) In February 2013, Nemark issued senior notes. The amount of the notes amounted to nominal US\$500 maturing in 2023. Interest of the senior notes will be paid half-yearly at a fixed annual rate of 5.5% (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 US\$378 million and EUR\$92.8 million of the "Senior Unsecured Syndicated Loan Agreement" effective at that date.
- (b) In December 2013, Nemark concluded the refinancing of its bank debt. This process included the bank debt of the main current contracts of Tenedora Nemark with Banks: The Senior Unsecured Syndicated Loan Agreement, entered into in August 2011 and the Senior Unsecured Loan Agreement entered into in June 2012.
- (c) In June 2014, Tenedora Nemark prepaid a credit of US\$175 it had acquired from Alfa since 2008. This loan was used mainly to cover the liquidity needs of the Company during the 2008-09 crisis.

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Obligation for financial leases - minimal payments, gross		
- Less than 1 year	Ps 33,013	Ps 29,956
- More than 1 year and less than 5 years	115,969	73,314
- More than 5 years	125,523	125,045
Future finance charges on financial lease liabilities	<u>(79,092)</u>	<u>(66,209)</u>
Present value of liabilities from financial lease	<u>Ps 195,413</u>	<u>Ps 162,106</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Less than 1 year	Ps 18,024	Ps 21,270
More than 1 year and less than 5 years	14,852	52,053
More than 5 years	<u>162,537</u>	<u>88,783</u>
	<u>Ps 195,413</u>	<u>Ps 162,106</u>

Note 17 - 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.

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 26. 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.

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Deferred tax asset:		
- To be recovered in more than 12 months	Ps 790,793	Ps 828,097
- To be recovered within 12 months	<u>382,012</u>	<u>554,415</u>
	1,172,805	1,382,512
Deferred tax liability:		
- To be covered in more than 12 months	(2,247,957)	(1,210,087)
- To be covered within 12 months	<u>292,372</u>	<u>(346,189)</u>
	<u>(1,955,585)</u>	<u>(1,556,276)</u>
Deferred tax liabilities, net	<u>(Ps 782,780)</u>	<u>(Ps 173,764)</u>

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

	<u>2014</u>	<u>2013</u>
At January 1	(Ps 173,764)	(Ps 302,385)
Exchange differences	(13,886)	(19,096)
Charge to income statement	(643,239)	193,173
Tax related to components of other comprehensive income	<u>48,109</u>	<u>(45,456)</u>
At December 31	<u>(Ps 782,780)</u>	<u>(Ps 173,764)</u>

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

	<u>(Assets) liabilities</u>	
	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Inventories	Ps 31,638	Ps 29,292
Intangible assets	55,548	77,825
Reserve from valuation of assets	16,599	4,459
Valuation of derivative financial instruments	229,936	111,412
Liability provisions	863,267	600,234
Tax loss carryforwards	1,365,814	1,409,556
Other temporary differences, net	<u>206,686</u>	<u>244,406</u>
Deferred tax asset	<u>2,769,488</u>	<u>2,477,183</u>
Inventories	(Ps 5,791)	(Ps 6,002)
Property, plant and equipment	(2,927,241)	(1,929,854)
Intangible assets	(601,977)	(305,113)
Cost of debt issuance	(59,036)	(58,034)
Reserve for valuation of assets	(3,138)	-
Other temporary differences, net	<u>41,777</u>	<u>(351,944)</u>
Deferred tax liabilities	<u>(3,552,268)</u>	<u>(2,650,947)</u>
Deferred tax liabilities, net	<u>(Ps 782,780)</u>	<u>(Ps 173,764)</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

	Balance at December 31, 2013	(Charged) credited to the income statement	(Charged) credited to the comprehensive income	Balance at December 31, 2014
Inventories	Ps 29,292	Ps 2,346	Ps -	Ps 31,638
Intangible assets	77,825	(22,277)	-	55,548
Reserve from valuation of assets	4,459	12,140	-	16,599
Valuation of derivative financial instruments	111,412	-	118,524	229,936
Liability provisions	600,234	263,033	-	863,267
Tax loss carryforwards	1,409,556	(43,742)	-	1,365,814
Other temporary differences, net	<u>244,405</u>	<u>(37,719)</u>	<u>-</u>	<u>206,686</u>
Deferred tax asset	<u>2,477,183</u>	<u>173,781</u>	<u>118,524</u>	<u>2,769,488</u>
Inventories	(Ps 6,002)	Ps 211	Ps -	(Ps 5,791)
Property, plant and equipment	(1,929,854)	(997,387)	-	(2,927,241)
Intangible assets	(305,113)	(296,864)	-	(601,977)
Cost of debt issuance	(58,034)	(1,002)	-	(59,036)
Reserve for valuation of assets	-	(3,138)	-	(3,138)
Other temporary differences, net	<u>(351,944)</u>	<u>393,721</u>	<u>-</u>	<u>41,777</u>
Deferred tax liabilities	<u>(2,650,947)</u>	<u>(901,321)</u>	<u>-</u>	<u>(3,552,268)</u>
Deferred tax liabilities, net	<u>(Ps 173,764)</u>	<u>(Ps 727,540)</u>	<u>Ps 118,524</u>	<u>(Ps 782,780)</u>
	Balance at December 31, 2012	(Charged) credited to the income statement	(Charged) credited to the comprehensive income	Balance at December 31, 2013
Inventories	Ps 9,487	Ps 19,805	Ps -	Ps 29,292
Intangible assets	24,434	53,391	-	77,825
Reserve from valuation of assets	(2,136)	6,595	-	4,459
Valuation of derivative financial instruments	128,552	(14,249)	(2,891)	111,412
Liability provisions	308,787	291,447	-	600,234
Tax loss carryforwards	1,320,691	88,865	-	1,409,556
Other temporary differences, net	<u>412,401</u>	<u>(167,996)</u>	<u>-</u>	<u>244,405</u>
Deferred tax asset	<u>2,202,216</u>	<u>277,858</u>	<u>(2,891)</u>	<u>2,477,183</u>
Inventories	(9,228)	3,226	-	(\$ 6,002)
Property, plant and equipment	(1,597,959)	(331,895)	-	(1,929,854)
Intangible assets	(131,540)	(173,573)	-	(305,113)
Cost of debt issuance	(50,297)	(7,737)	-	(58,034)
Reserve for valuation of assets	-	-	-	-
Other temporary differences, net	<u>(715,577)</u>	<u>363,633</u>	<u>-</u>	<u>(351,944)</u>
Deferred tax liabilities	<u>(2,504,601)</u>	<u>(146,346)</u>	<u>-</u>	<u>(2,650,947)</u>
Deferred tax liabilities, net	<u>(Ps 302,385)</u>	<u>Ps 131,512</u>	<u>(Ps 2,891)</u>	<u>(Ps 173,764)</u>

Deferred income tax asset is recorded as tax loss carryforwards when the realization of the related tax benefits through future taxable profits is probable. Tax losses amount Ps8,118,519 in 2014.

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Tax losses at December 31, 2014 expire in the following years:

<u>Year of maturity</u>	<u>Amount</u>
2015	Ps 820,405
2016	15,054
2017	8,715
2018	17,646
2019	-
2020	25,242
2021 and onwards	<u>7,231,457</u>
	<u>Ps 8,118,519</u>

Optional regime for company groups in Mexico (incorporation regime)

Derived from the elimination of the tax consolidation regime in Mexico, Alfa, holding of the Company, chose to incorporate to the new optional regime for company groups as of 2014, this regime consists in grouping companies with specific characteristics with the possibility of deferring part of their income tax payable in three years in March 2018. The deferral percentage is calculated using a factor determined in accordance with the tax income and loss amount in 2014. The Company pays income tax through its holding company, Alfa.

Note 18 - Other liabilities:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Current:		
Other taxes and withholdings	Ps 341,793	Ps 503,771
Deferred income ¹	235,752	2,748
Employees' profit sharing payable	98,420	84,656
Share-based employee benefits (Note 21)	53,881	62,776
Bank overdrafts	-	63,926
Other	<u>115,753</u>	<u>308,618</u>
Total other liabilities	<u>Ps 845,599</u>	<u>Ps 1,026,495</u>
Non-current:		
Deferred income ¹	Ps 51,271	Ps -
Other	<u>5,343</u>	<u>-</u>
Total	<u>Ps 56,614</u>	<u>Ps -</u>

¹ At December 31, 2014, it includes Ps153,814 current and Ps51,271 non-current for purposes of deferred income received from the cancellation of energy supply contracts from the supplier.

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Note 19 - Employee benefits:

The valuation of employee benefits for retirement plans (covering approximately 84% of workers in 2014 and 76% in 2013) 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>2014</u>	<u>2013</u>
Mexico	Ps 169,945	Ps 119,578
United States	33,499	16,291
Canada	138,245	124,517
Poland	86,788	78,928
Austria	158,191	145,947
Germany	73,031	71,508
Others	<u>30,078</u>	<u>24,295</u>
Total	<u>Ps 689,777</u>	<u>Ps 581,064</u>

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Liabilities in the balance sheet for:		
Pension benefits	Ps 566,075	Ps 458,537
Post-employment medical benefits	<u>123,702</u>	<u>122,527</u>
	<u>689,777</u>	<u>581,064</u>
Liabilities in the balance sheet		
Charge in the income statements for:		
Pension benefits	(121,133)	(55,263)
Post-employment medical benefits	<u>(9,300)</u>	<u>(7,169)</u>
	<u>(130,433)</u>	<u>(62,432)</u>
Remeasurements recognized in the statement of other comprehensive income for the period		
Pension benefits	(51,914)	(98,680)
Post-employment medical benefits	<u>13,314</u>	<u>(18,312)</u>
	<u>(38,600)</u>	<u>(116,992)</u>
Cumulative remeasurements recognized in other comprehensive income	<u>(Ps 100,657)</u>	<u>(Ps 62,057)</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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>2014</u>	<u>2013</u>
Present value of defined benefit obligations	Ps1,041,149	Ps 879,732
Fair value of plan assets	<u>(475,074)</u>	<u>(421,195)</u>
Liabilities in balance sheet	<u>Ps 566,075</u>	<u>Ps 458,537</u>

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

	<u>2014</u>	<u>2013</u>
At January 1	Ps 879,732	Ps 950,581
Current service cost	86,075	53,399
Interest cost	40,739	35,092
Employee contributions	657	828
Remeasurements:		
Financial actuarial losses/(gains)	62,827	(69,893)
Past service cost		
Benefits paid	(51,574)	(81,422)
Reductions	1,587	4,070
Settlements	(1,928)	(13,559)
Exchange differences	<u>23,034</u>	<u>636</u>
At December 31	<u>Ps1,041,149</u>	<u>Ps 879,732</u>

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

	<u>2014</u>	<u>2013</u>
At January 1	(Ps 421,195)	(Ps 439,809)
Interest Income	(21,812)	(32,019)
Remeasurements - expected return on plan assets, excluding interest income	(10,914)	(23,738)
Exchange differences	(20,354)	28,327
Employer contributions	(22,269)	(18,103)
Employee contributions	(657)	(828)
Benefits paid	21,783	37,166
Settlements	<u>344</u>	<u>27,809</u>
At December 31	<u>(Ps 475,074)</u>	<u>(Ps 421,195)</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Amounts recorded in the statement of income are as follows:

	<u>2014</u>	<u>2013</u>
Current service cost	(Ps 86,075)	(Ps 53,399)
Financial costs, net	(18,927)	(11,354)
Effect from reduction or settlement	<u>(16,131)</u>	<u>9,490</u>
Total included in personal costs	<u>(Ps 121,133)</u>	<u>(Ps 55,263)</u>

The principal ranges of actuarial assumptions were as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Discount rate:		
Mexico	6.75%	6.75%
Canada	3.75%	4.75%
Austria	2.50%	3.25%
Inflation rate	4.25%	4.25%
Salary increase rate	5.24%	5.25%
Future salary increase	4.25%	4.25%
Medical inflation rate	7.50%	7.50%

The average life of defined benefit obligations is of 17 and 23 years at December 31, 2014 and 2013, 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	1.0%	Decreases by Ps16,684	Increases by Ps20,365

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>2014</u>	<u>2013</u>
Present value of obligations equal to liabilities in balance sheet	<u>Ps 123,702</u>	<u>Ps 122,527</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

The movements of defined benefit obligations are as follows:

	<u>2014</u>	<u>2013</u>
At January 1	Ps 122,527	Ps 139,482
Current service cost	3,792	2,235
Interest cost	5,766	4,934
Financial actuarial losses/(gains)	(13,314)	(15,080)
Employee contributions		6
Exchange differences	7,201	(7,428)
Past service cost		
Benefits paid	<u>(2,270)</u>	<u>(1,622)</u>
At December 31	<u>Ps 123,702</u>	<u>Ps 122,527</u>

Amounts recorded in the statement of income are as follows:

	<u>2014</u>	<u>2013</u>
Current service cost	(Ps 3,792)	(Ps 2,235)
Interest cost	(5,766)	(4,934)
Past service cost	<u>258</u>	<u> </u>
Total included in personal costs	<u>(Ps 9,300)</u>	<u>(Ps 7,169)</u>

Note 20 - Equity

At December 31, 2014, 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, 2014			<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, 2014 and 2013, the legal reserve amounted to Ps174,076 and Ps110,151, 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, 2014 and 2013

The dividends paid in 2014 Ps835,572 (Pso.96 per share), which fully arise from the After-Tax Earnings Account. In 2014 the Company did not declare or pay dividends.

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 42.86% if they are paid in 2014. 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 Ps6,140,391 and Ps13,319,459, respectively.

In the event of a capital reduction, the Income Tax Law provides that any excess of 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 2014 and 2013 are presented below:

	Effect of cash flow hedge derivatives instruments	Effect from foreign currency translation	<u>Total</u>
At December 31, 2012	(Ps 48,080)	Ps 286,660	Ps 238,580
Gains in fair value	38,918	-	38,918
Gains in foreign currency translation	<u>-</u>	<u>444,038</u>	<u>444,038</u>
At December 31, 2013	(9,162)	730,698	721,536
Losses on fair value	(72,450)	-	(72,450)
Gains on translation of foreign entities	<u>-</u>	<u>451,456</u>	<u>451,456</u>
At December 31, 2014	<u>(Ps 81,612)</u>	<u>Ps 1,182,154</u>	<u>Ps 1,100,542</u>

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.

Tenedora Nematik, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 21 - Share based payments:

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

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

The program consists of determining a number of shares on which the executives shall be based. The bonus will be paid in cash over the next five years, i.e. 20% each year at the average price of the share at the end of each year. The average price of the share in 2014 and 2013 was 37.32 and 38.86, respectively.

At December 31, 2014 and 2013 the liability for share-based payments amounted to Ps53,881 and Ps62,776, respectively, which includes the item of other liabilities in the balance sheet (Note 18).

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Short-term	Ps 18,279	Ps 18,836
Long-term	<u>35,602</u>	<u>43,940</u>
Total carrying value	<u>Ps 53,881</u>	<u>Ps 62,776</u>

Note 22 - 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>2014</u>	<u>2013</u>
Raw materials	(Ps 26,706,661)	(Ps24,930,061)
Maquila (production outsourcing)	(5,121,267)	(4,686,903)
Employee benefit expenses (Note 25)	(8,832,398)	(8,241,966)
Personnel expenses	(1,639,770)	(1,515,658)
Maintenance	(3,181,900)	(2,980,366)
Depreciation and amortization	(3,784,265)	(3,281,614)
Freight charges	(7,123)	(4,395)
Advertising expenses	(682,904)	(648,529)
Consumption of energy and fuel	(2,769,694)	(2,484,752)
Travel expenses	(223,778)	(198,439)
Technical assistance, professional fees and administrative services	(1,402,595)	(1,401,966)
Other	<u>(1,690,744)</u>	<u>(1,567,023)</u>
Total	<u>(Ps 56,043,098)</u>	<u>(Ps51,941,672)</u>

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 23 - Other income, net:

	<u>2014</u>	<u>2013</u>
Loss on sale of property, plant and equipment	(Ps 18,079)	(Ps 36,741)
Customer reimbursements	76,778	
Other	<u>2,005</u>	<u>196,842</u>
Total other income, net	<u>Ps 60,704</u>	<u>Ps 160,101</u>

Note 24 - Financial result, net:

	<u>2014</u>	<u>2013</u>
Financial income:		
- Interest income in short term bank deposits	Ps 2,548	Ps 9,661
- Intercompany financial income	10,589	9,285
- Other financial income ¹	<u>19,928</u>	<u>20,109</u>
Total financial income, excluding foreign exchange gain	33,065	39,055
Foreign exchange gain	<u>265,792</u>	<u>-</u>
Total financial income	<u>Ps 298,857</u>	<u>Ps 39,055</u>
Financial expenses:		
- Interest expense on bank loans	(Ps 906,369)	(Ps 1,046,167)
- Intercompany financial costs	(22,350)	(84,696)
- Other financial costs	<u>(69,605)</u>	<u>(201,975)</u>
Total financial costs, excluding foreign exchange loss	(998,324)	(1,332,838)
Foreign exchange loss	<u>-</u>	<u>(162,094)</u>
Financial expense	<u>(998,324)</u>	<u>(1,494,932)</u>
Financial result, net	<u>(Ps 699,467)</u>	<u>(Ps 1,455,877)</u>

¹ Includes primarily the yield on plan assets and other concepts.

Note 25 - Employee benefit expenses:

	<u>2014</u>	<u>2013</u>
Salaries, wages and benefits	Ps 7,290,270	Ps 6,856,054
Contributions to social security	1,215,037	1,116,766
Employee benefits (Note 19)	105,740	35,682
Other contributions	<u>221,351</u>	<u>233,464</u>
Total	<u>Ps 8,832,398</u>	<u>Ps 8,241,966</u>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Note 26 - Income tax for the year:

	<u>2014</u>	<u>2013</u>
Tax currently payable:		
Income tax on profits of the period	(Ps 825,662)	(Ps 677,969)
Adjustment for previous years	<u>15,544</u>	<u>(27,284)</u>
Total tax currently payable	<u>(810,118)</u>	<u>(705,253)</u>
Deferred tax:		
Origination and reversal of temporary differences	<u>(643,239)</u>	<u>193,173</u>
Total deferred tax	<u>(643,239)</u>	<u>193,173</u>
Income taxes charged to income	<u>(Ps 1,453,357)</u>	<u>(Ps 512,080)</u>

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

	<u>2014</u>	<u>2013</u>
Profit before taxes	Ps 4,847,611	Ps 3,256,023
Share of gain of associates recognized through equity method	<u>39,014</u>	<u>19,284</u>
Income before equity in associates	4,808,597	3,236,739
Statutory rate	<u>30%</u>	<u>30%</u>
Tax at statutory rate	(1,442,579)	(971,021)
(Add) deduct tax effect of:		
Difference based on the comprehensive financial result	187,714	174,683
Non-deductible	(55,602)	(91,387)
Tax losses not recognized in prior years	81,938	247,200
Other permanent differences, net	<u>(224,828)</u>	<u>128,445</u>
Total provision for income taxes charged to income	<u>Ps 1,453,357</u>	<u>(Ps 512,080)</u>
Effective rate	<u>30%</u>	<u>17%</u>

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%).

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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:

	2014			2013		
	Before taxes	Tax payable/(receivable)	After taxes	Before taxes	Tax payable/(receivable)	After taxes
Translation effect of foreign entities	Ps 452,118	Ps -	Ps 452,118	Ps 444,522	Ps	Ps 444,522
Remeasurement of obligations for employee benefits	(38,600)	14,623	(23,977)	116,992	(28,776)	88,216
Effect of derivative financial instruments hired as cash flow hedges	<u>(105,936)</u>	<u>33,486</u>	<u>(72,450)</u>	<u>55,598</u>	<u>(16,680)</u>	<u>38,918</u>
Other items of comprehensive income	<u>Ps 307,582</u>	<u>Ps 48,109</u>	<u>Ps 355,691</u>	<u>Ps 617,112</u>	<u>(Ps 45,456)</u>	<u>Ps 571,656</u>
Deferred taxes		<u>Ps 48,109</u>			<u>(Ps 45,456)</u>	

Note 27 - Related party transactions:

Transactions with related parties during the years ended December 31, 2014 and 2013, which were carried out in terms similar to those of arm's-length transactions with independent third parties, were as follows:

December 31, 2014												
Loans granted to related parties						Loans received from related parties						
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate
Parent	Ps -	Ps 512,781	Ps 5,025	USD	01/08/2016	3.8%	Ps -	Ps -	Ps -	-	-	-
Affiliates	2,491	-	-	-	-	-	23,508	-	-	-	-	-
Associates	43,927	-	8,928	EUR	04/08/2015	6.0%	-	-	-	-	-	-
Ford	<u>1,132,366</u>	-	-	-	-	-	-	-	-	-	-	-
Total	<u>Ps 1,178,154</u>	<u>Ps 512,781</u>	<u>13,953</u>				<u>Ps 23,508</u>	<u>Ps -</u>	<u>-</u>			

December 31, 2013												
Loans granted to related parties						Loans received from related parties						
	Accounts receivable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate	Accounts payable	Amount	Interest	Currency	Maturity date DD/MM/YY	Interest rate
Parent	Ps 260,098	Ps 274,607	Ps 1,024	USD	01/01/2016	2.74%	Ps 6	Ps 2,035,572	Ps 2,871	USD	01/01/2016	2.74%
Parent	-	-	-	-	-	-	-	256,972	953	USD	01/01/2016	2.74%
Affiliates	91,012	-	-	EUR	04/08/2015	6.0%	61,104	-	-	USD	01/01/2016	2.74%
Ford	<u>1,355,176</u>	-	-	-	-	-	-	-	-	-	-	-
Total	<u>Ps 1,706,286</u>	<u>Ps 274,607</u>	<u>1,024</u>				<u>Ps 61,610</u>	<u>Ps 2,292,543</u>	<u>3,824</u>			

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

Sales revenues and other related parties

Year ended December 31, 2014				
	Finished goods	Interest	Dividends	Others
Parent	Ps	Ps 10,589	Ps	Ps
Ford	22,312,037			
Affiliates				3,861
Associates				146,872
Total	<u>Ps 22,312,037</u>	<u>Ps 10,589</u>	<u>Ps</u>	<u>Ps 150,733</u>

Year ended December 31, 2013				
	Finished goods	Interest	Dividends	Others
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>

Cost of sales and other expenses with related parties

Year ended December 31, 2014				
	Interest	Administrative services	Other cost and Expenses	Dividends paid
Parent	Ps 17,653	Ps -	Ps	Ps 779,087
Affiliates	3,916	70,115	173,625	-
Associates	-	-	142,957	-
Ford	-	-	-	56,485
Total	<u>Ps 21,569</u>	<u>Ps 70,115</u>	<u>Ps 316,582</u>	<u>Ps 835,572</u>

Year ended December 31, 2013				
	Interest	Administrative services	Other cost and Expenses	Dividends paid
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>

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

Notes to the Consolidated Financial Statements

At December 31, 2014 and 2013

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

For the year ended December 31, 2014, wages and benefits received by top officials of the Company were Ps 230.2 million (Ps 138.9 million in 2013), 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 28 - Financial information by segments:

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

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

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

The operating segments that fail to comply with the limit established by the standard itself to be reported separately, such as Asia (including plants in China, India and Russia), South America (including plants in Brazil and Argentina), and other less significant operations, are added and shown under the "rest of the world".

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

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

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

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

For the year ended December 31, 2014 (amounts in millions of Mexican pesos)

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

For the year ended December 31, 2013

	<u>North America</u>	<u>Europe</u>	<u>Rest of the world</u>	<u>Eliminations</u>	<u>Total</u>
Income statement					
Sales by segment	Ps 33,935	Ps 18,138	Ps 4,991	(Ps 590)	Ps 56,474
Inter-segment sales	<u>(421)</u>	<u>(143)</u>	<u>(26)</u>	<u>590</u>	<u>-</u>
Sales from external customers	<u>33,514</u>	<u>17,995</u>	<u>4,965</u>	<u>-</u>	<u>56,474</u>
EBITDA					
Operating profit	3,145	1,417	136	(5)	4,693
Depreciation and amortization	2,075	1,004	203	-	3,282
Non-current assets write-down	<u>6</u>	<u>8</u>	<u>9</u>	<u>-</u>	<u>239</u>
Adjusted EBITDA	<u>5,226</u>	<u>2,429</u>	<u>348</u>	<u>(5)</u>	<u>7,998</u>
Capital expenditures (CAPEX)	<u>Ps 1,894</u>	<u>Ps 848</u>	<u>Ps 568</u>	<u>Ps -</u>	<u>Ps 3,310</u>

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

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Adjusted EBITDA	Ps 9,304	Ps 7,998
Depreciation and amortization	(3,784)	(3,282)
Non-current assets write-down	<u>(12)</u>	<u>(23)</u>
Operating profit before exceptional items	5,508	4,693
Financial result	(699)	(1,456)
Share of gain of associates	<u>39</u>	<u>19</u>
Profit before tax	<u>Ps 4,848</u>	<u>Ps 3,256</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

For the year ended December 31, 2014

	<u>Property plant and equipment</u>	<u>Goodwill</u>	<u>Intangible assets</u>
North America	Ps 19,517	Ps 1,799	Ps 1,220
Europe	9,346	2,965	623
Rest of the world	<u>3,672</u>	<u> </u>	<u>304</u>
Total	<u>Ps 32,535</u>	<u>Ps 4,764</u>	<u>Ps 2,147</u>

For the year ended December 31, 2013

	<u>Property plant and equipment</u>	<u>Goodwill</u>	<u>Intangible assets</u>
North America	Ps 17,558	Ps 1,621	Ps 910
Europe	8,847	3,000	616
Rest of the world	<u>2,919</u>	<u>-</u>	<u>277</u>
Total	<u>Ps 29,324</u>	<u>Ps 4,621</u>	<u>Ps 1,803</u>

Tenedora Nemark's clients are automotive companies, known as OEMs (Original Equipment Manufacturer). The Company has the following global clients whose transactions represent more than 10% of the consolidated sales: Ford 34% and 36%, General Motors 25% and 24% and Fiat-Chrysler 13% and 12%, in 2014 and 2013, respectively.

Note 29 - Commitments and contingencies:

At December 31, 2014, the Company had the following contingencies:

- a. In the normal course of its business, the Company is involved in disputes and litigation. While the results of the disputes cannot be predicted, the Company does not believe that there are current or threatened actions, claims or legal proceedings against or affecting the Company which, if determined adversely to it, would have a material adverse effect on its results of operations or financial position.
- b. The Company 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 Ps389,862 and Ps345,360 in 2014 and 2013, respectively.
- c. The Company leases various plant and machinery under non-cancellable operating lease agreements. The lease terms are between 5 and 10 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

Tenedora Nemak, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

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

	<u>As of December 31,</u>	
	<u>2014</u>	<u>2013</u>
No later than 1 year	Ps 215,995	Ps 91,138
Later than 1 year and no later than 5 years	411,700	169,774
Later than 5 years	541,460	369,291

Note 30 - Foreign currency position:

At April 15, 2015, the date of issuance of these financial statements, the exchange rate was 15.23 Mexican pesos per dollar.

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

At December 31, 2014 and 2013 had the following assets and liabilities in foreign currencies:

	<u>As of December 31, 2014</u>				
	<u>Dollars (USD)</u>		<u>Other currencies</u>		
	<u>USD</u>	Million of Mexican <u>pesos</u>	<u>USD</u>	Million of Mexican <u>Pesos</u>	Total Million of Mexican <u>Pesos</u>
Monetary assets	Ps 206	Ps 3,034	Ps 472	Ps 6,941	Ps 9,975
Monetary liabilities:					
Current	(387)	(5,695)	(903)	(13,290)	(18,985)
Non-current	<u>(729)</u>	<u>(10,734)</u>	<u>(483)</u>	<u>(7,113)</u>	<u>(17,846)</u>
Monetary position in foreign currencies	<u>(Ps 910)</u>	<u>(Ps 13,395)</u>	<u>(Ps 914)</u>	<u>(Ps 13,462)</u>	<u>(Ps 26,856)</u>
	<u>As of December 31, 2013</u>				
	<u>Dollars (USD)</u>		<u>Other currencies</u>		
	<u>USD</u>	Million of Mexican <u>pesos</u>	<u>USD</u>	Million of Mexican <u>Pesos</u>	Total Million of Mexican <u>Pesos</u>
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	<u>(1,118)</u>	<u>(14,621)</u>	<u>(337)</u>	<u>(4,400)</u>	<u>(19,021)</u>
Monetary position in foreign currencies	<u>(\$ 1,330)</u>	<u>(Ps 17,395)</u>	<u>(\$ 533)</u>	<u>(Ps 6,963)</u>	<u>(Ps 24,358)</u>

Tenedora Nemark, S. A. de C. V. and subsidiaries
Notes to the Consolidated Financial Statements
At December 31, 2014 and 2013

Note 31 - Subsequent events:

In the preparation of the financial statements, the Company has assessed the events and transactions for their recognition or subsequent disclosure as of December 31, 2014 and up to April 15, 2015 (date of issuance of these financial statements) and it has concluded that there are no subsequent events affecting the financial statements.