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Vanessa Quiroga *Credit Suisse - Analyst*

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Jean Bruny *BBVA Bancomer - Analyst*

Alejandro Azar *GBM - Analyst*

PRESENTATION

Operator

Good morning everyone and welcome to Nemak's Fourth Quarter 2016 Earnings Call. Armando Tamez, Nemak's CEO; Alberto Sada, CFO; Adrian Althoff, Investor Relations Associate are here this morning to discuss the Company's performance and answer any questions that you may have. As a reminder, today's conference is being recorded and will be available on the Company's Investor Relations website.

I'll now turn the call over to Adrian Althoff.

Adrian Althoff - *Nemak SAB De CV - IR Associate*

Thank you, operator. Good morning and welcome everyone. We very much appreciate your participation. Armando Tamez, our CEO, will lead off today's call by providing an overview of our business and financial highlights. Alberto Sada, our CFO, will then discuss key industry trends and our fourth quarter financial results in more detail. Afterwards, we will open up for a Q&A session.

Before we get started let me remind you that information discussed on today's call may include forward-looking statements regarding the Company's future financial performance and prospects, which are subject to risks and uncertainties. Actual results may differ materially and the Company cautions not to place undue reliance on these forward-looking statements. Nemak undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

I will now turn the call over to Armando Tamez.

Armando Tamez - *Nemak SAB De CV - CEO*

Thank you Adrian. Hello, everyone, and welcome to Nemak's fourth quarter 2016 results conference call. I am pleased to share that we reported solid financial results across the regions. We saw EBITDA increase 13% year-on-year, mainly due to good operating performance and a better product mix. As in previous quarters in the year, the ramp-up of new programs in Europe and Asia further supported margins.

For the full year, EBITDA grew 5%, mainly due to the above mentioned effects in the quarter, as well as positive non-recurring effects of metal price lag. Meanwhile, revenues decreased 5%, mainly due to lower year-over-year aluminum prices and lower volumes, as increased volumes in our European and the Rest of World operations were insufficient to offset the reductions in North America.

In a clear sign that our customers continue to value Nemak as a strategic partner, this year we secured new business contracts across our product lines worth approximately $875 million in annual revenues, more than 60% of which represented incremental programs. These included two new programs this quarter to produce battery housings for a new hybrid platform of Daimler's in Europe. To-date, our total sales backlog in the structural and electric vehicle components, our new business lines, represents approximately $270 million in annual revenues.

In order to further reinforce our foundation for growth, we continued to focus investments on three main areas; capacity expansions, supporting new production programs in cylinder heads and engine blocks, the creation of new machining capacity, including one new site in Mexico to help drive margins and the ramp-up of new programs to produce structural components in new facilities in Slovakia, Poland and Mexico.

Capital expenditures excluding acquisitions amounted to $164 million in the quarter, reaching a total of $541 million in the year.

On November 1, we successfully consummated our acquisition of Cevher Dokum, marking a new milestone in our European footprint strategy. The integration process has been advancing according to plan.

In addition to reporting good results, our Turkey operation help us grow our sales backlog in the quarter, being selected as the production site for two new programs to supply cylinder heads to European OEMs.

On November 17, Fitch, the rating agency, raised its outlook on Nemak to Positive from Stable, citing our solid global business position, credit profile and operating performance among other factors. With this latest revision, the three major rating agencies; Fitch, Moody's, and Standard & Poor's, all have Nemak's rating with a Positive outlook, one notch below investment grade.

I'm also pleased to share that we continued to build on our track record in automotive light-weighting, winning Mexico's National Technology and Innovation award in the categories of process innovation and product innovation. These awards represent a new milestone in our journey to develop new technologies, which help us make vehicles more efficient. As you may recall from our previous calls, for the full year, we were also honored by several of our customers. BMW recognized us as one of the most innovative suppliers. In addition, we received Ford World Excellence Award, the General Motors Supplier Quality Award, and the Volvo Cars Quality Excellence Award, among others.

Moving on, I would like to provide some more color on our structural components. I am very pleased with the progress we have made to date in developing our structural component business and we remain more confident than ever in its promise for Nemak in the medium to long run. We continue to see our customer scheme on light-weighting as a lever for reducing emissions and improving efficiencies in the next generation of vehicles and on making aluminum structural components a key part of this strategy. We reiterate our objective of reaching $1 billion in annual revenues in the structural components.

However, we've seen our customers bring new aluminum structural component programs to the market at a lower rate than originally anticipated, mainly due to the limited capacity and longer development cycles for these components. As a result, we now expect it will take us between 18 months to 24 months longer to meet this objective.

In response to growing demand for sustainable mobility solutions across the markets we serve, we recently conducted a deep analysis of trends shaping the future of the automotive industry and develop a new strategic framework for Nemak, looking ahead to the next decade. Through this strategic review, we identified three main growth pillars for Nemak. One, maximize our core powertrain business. Two, secure leading positions in complex structural components. And three, leverage our existing technological capabilities to capture share in electric vehicle components.

Based on consultations with industry experts, we expect that Hybrids and Pure Electrics will together make up around 10% of new light vehicles by 2025, with aluminum accounting for a progressively larger share of vehicle content, due to automakers' needs to further optimize battery range and efficiency. Given aluminum's weight advantage and superior mechanical properties, it has emerged as a material of choice for components across a variety of complex EV applications. Moreover, Hybrid vehicles which we expect to grow slightly faster than Pure Electrics in the period, contain both an internal combustion engine and an electric motor, requiring more aluminum content than vehicles with a conventional powertrain.

With that I will hand off the call to Alberto Sada, Nemak's CFO.

Alberto Sada - *Nemak SAB De CV - CFO*

Thank you Armando and good morning everyone. Let me start by sharing relevant industry data that sheds light on our results.

This quarter, the seasonally adjusted annual rate, or SAAR, for the US vehicle sales increased 1% from the same period in 2015, capping a record year in that market. Continuing a two-year long trend, pickups and SUVs captured share vis-a-vis small and mid-size sedans, supporting further profitability gains for automakers.

North America vehicle production was up 2.3%, mainly due to the ongoing ramp-up of new production facilities in the region. However, Nemak customer production remained flat, mainly due to FCA's downscales of their compact and mid-size sedans, which offset the production growth just mentioned. During the period, favorable industry conditions prevailed in Europe. Vehicle sales SAAR grew by 3.6% year-on-year, mainly driven by higher volumes in Western Europe. Vehicle production and Nemak's customers' production in the region were up 1.9% and 2.8% respectively.

Moving on to Nemak results, we saw total volumes down 5%, as lower volumes in North America were partially offset with higher volumes in Rest of the World. The downscale of FCA's midsized sedans lines remained a headwind for US sales. Meanwhile, our operations in China posted strong growth on the back of new production programs, more than offsetting declines in South America by a wide margin. Europe remained flat, mainly due to scheduled downtime at some of our customers' engine plants.

Total revenues were down 5%, mainly due to the volume effect previously described. Lower aluminum prices also had an impact, but to a lesser extent. Due to aluminum pass-through arrangements with our customers, the aluminum effect just mentioned did not have any major impact on profitability.

Operating income increased 2%, mainly as a result of an improved sales mix of higher value-added products and good operating performance in all regions. During the quarter, Nemak recorded a non-cash extraordinary charge of $13 million related to the phase-out of the [loss making] production line in [Alabama] operations. Most of the volume produced at this line was shifted to our facility in Kentucky, who are now producing these components using the high pressure die casting process. Absent this effect, operating income would have increased 17%.

The increase in operating income already explained, enabled 4Q16 EBITDA to increase 12.7% year-on-year. 4Q16 EBITDA margin was 18.7%, much higher than the 15.7% reported in 4Q15. 4Q16 EBITDA per equivalent unit reached $15.80, up from $13.30 reported in 4Q15.

Moving onto our financial costs, they went from $7 million in the fourth quarter of 2015 to $29 million in the fourth quarter of 2016. The bulk of the increase is explained by the effect on our balance sheet of the depreciation of the peso. Since our debt is predominantly denominated in US dollars, the movement of the peso creates non-cash FX movements reflected in our financing costs. In contrast, interest expenses were $18 million, a $2 million decrease versus the fourth quarter of 2015.

Net income decreased 2% year-over-year, as higher financial costs related to the depreciation of the peso, combined with the extraordinary charge already explained, more than offset the increase in operating income.

I would like to conclude with a quick review of our balance sheet. As of the end of December, we had a net debt position of $1.3 billion, $52 million higher than the same time last year. Cash and cash equivalents were $129 million.

I will now hand the call back to Armando.

Armando Tamez - *Nemak SAB De CV - CEO*

Thank you Alberto. On a final note, I would like to touch on our outlook for 2017. We expect to continue delivering solid operational growth at the global level, with Europe and Rest of World remaining our fastest growing regions. For 2017, we expect volume of 51.6 million equivalent units. Revenues of $4.4 billion, EBITDA of $802 million and CapEx of $430 million. Excluding the positive EBITDA effect we saw from non-recurring events in 2016, this outlook represents a growth of approximately 3% in EBITDA versus last year.

I would now like to open the call for your questions. Operator, please instruct the participants on how to place their questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Juan Tavarez, Citi.

Juan Tavarez - *Citigroup - Analyst*

My first question is just to understand a little bit more the guidance that you just mentioned. I think if I caught the number right, you said EBITDA of $802 million. That would suggest a margin of around $15.5 per unit, which is actually lower than what you delivered for the full year of 2016. So I'm curious why would you be expecting further margin pressure this year? And also maybe in the context of structural components, as you mentioned that the pace of, I guess, penetration of structural components in aluminum is slower than expected. What exactly do you see in terms of difference per region? I know Europe is where you're seeing most of your demand, but is there any concern as we head into the potential phase of growth in the US, of that being even slower?

Armando Tamez - *Nemak SAB De CV - CEO*

Let me just answer in two parts. The first one, as I indicated during my presentation, we have a non-recurring effect of metal lag that we do not foresee that we will have it this year. So that explains the reason why we are growing to -- or projecting to have an EBITDA of $802 million, which is in line to what we had last year, excluding this non-recurring metal lag effect.

On the second portion, related to the penetration of the structural component business, as I indicated, we still see that we will have $1 billion in revenues. As I indicated, we're expecting, rather than to reach that by 2020 that it will take us approximately between 18 months to 24 months longer. One of the main reasons for that is that our customers are indicating that there is no capacity in the industry, which is true. Every single piece that this is going to produce requires a greenfield investment and that is limiting the availability of suppliers that they can thrust for new products. So this is a limiting factor.

The second is that they are realizing that they need to change the new vehicle platforms completely and redesign those and they are waiting for the new vehicles to come into the market with the new design. So based on that we're again confident that we will reach the $1 billion, but it is going to take us a little bit longer. And as you indicated, certainly in Europe, we're seeing significantly higher demand, possibility to gain volume and the main reason for that is legislation. Regulations in Europe are more strict than they are in North America. Just to remind you, in Europe, they're expecting to reach 95 grams by 2021, that is equivalent, Juan, to approximately 60 miles per gallon by 2021. Whereas in the US, it is expected that they will reach 54.5 miles by 2025. So that is to some extent, the reason that Europe is moving at a much faster pace than the US.

Operator

Alex Falcao, HSBC.

Alex Falcao - *HSBC - Analyst*

Just wanted to go over the geographical breakdown and different trends here. Is there any read through with lower volumes in the US, is there anything there that is worth mentioning, and what we can expect specifically to North America going to -- what can explain fourth quarter and basically what is the read through going forward? This is the first question. And second question is, do you see any -- you've spoken about there is no new need -- investments and capacity for any new parts that are going to be supplied right now. Are there any plans that you're hearing from your clients where this CapEx is going to be deployed and in which base? Thank you.

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, Alex. Hi, this is Alberto. Related to your question about the volumes performance of North America, I think we have been seeing that same effect most of the year, which is the downscale of FCA's mid-size and small size vehicles in the region. And if you recall, we have also mentioned that we're producing for that platform not only one product, but three products, so that has an additional effect on our volume. So that's the majority of the negative effect that we saw in North America. For next year, I mean, we're assuming that most of that performance will remain for that particular platform.

Alex Falcao - *HSBC - Analyst*

Okay.

Alberto Sada - *Nemak SAB De CV - CFO*

And related to the second question about the investments from our customers, we haven't seen any changes of investment pattern from them. I think they are sticking with their original plans in relation to the engine and powertrain. So, no major change seen there so far in North America.

Operator

Valentin Mendoza, Banorte.

Valentin Mendoza - *Banorte IXE - Analyst*

I have a couple of questions. The first one is related to your impressive EBITDA margin expansion during the quarter. In the press release, you mentioned that to some extent it came from a ramp-up in the in-house machining. Can you please give us some color on what is the current percentage of this in-house machining? And the second one is, can you please break down the different contribution to this expansion coming from the different factors, either the operating efficiencies, this in-house machining and probably some FX tailwinds?

Alberto Sada - *Nemak SAB De CV - CFO*

This is Alberto again. Yes, as you correctly pointed out, machining is an important part of our strategy to expand our margins. So far we are on track with our plans to continue doing more machining in-house. Roughly, we're machining about 45% in-house, of our needs. So gradually that number should be increasing going forward as part of our strategic plan and in line with the investments we're putting into machining.

Related to the margin expansion on the quarter, I think it's -- most of it is related to product mix and efficiencies, as we're seeing higher value-added products. That includes more machining, that includes more complex castings which have more complex geometry, additional processes, all in all it's more higher -- or higher value-added products that is impacting our bottom line, together with the efficiencies that we're seeing in all of our operations. We saw efficiencies practically on the three operations, as well as better product mix. That explains the majority of the margin expansion in the quarter.

Valentin Mendoza - *Banorte IXE - Analyst*

One final question, if I may, what price did you use for guidance for the aluminum and what exchange rate are you assuming?

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, on the aluminum side, we're expecting an LME figure, which is the basis for most of our prices, to be in the neighborhood of $1,600 on average. That may obviously be moving up and down depending on how we see aluminum developing. We have seen some of our prices go a little bit up lately, but we also need to consider that -- I mean LME is one guide, but our aluminum price is a blend of not only LME, but also the secondary market in North America and Europe and that puts the aluminum a little bit lower. So on a blended basis, we see that to be in the neighborhood of the $1,600 per ton. And related to the FX --

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Valentin Mendoza - *Banorte IXE - Analyst*

It was about the FX, sorry.

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, on the FX side, we're seeing the peso to be at MXN21 per dollar, and the euro exchange rate to be at around [EUR1.1 per dollar].

Operator

[Shields Beh, IMCO].

Unidentified Participant

I am fairly new to the Company. Wondering, do you guys have any US plans at all, or is everything outside the US? And two, just wondering if you can walk me through how your contracts are set up with your customers. Is it based on a certain number of volume, is this based on a certain timeframe and how are raw material prices passed through? Thank you.

Armando Tamez - *Nemak SAB De CV - CEO*

This is Armando. We have plants in 16 different countries. We have actually 37 manufacturing plants. We have in Mexico 11 plants -- manufacturing plants. And in the US, we have four locations in which we have different plants. We have plants in Tennessee, Alabama, Kentucky and Wisconsin, as well as one plant in Southern Ontario, which is in Windsor in Canada and other plants as we have indicated in South America, in Europe and in Asia.

The important element to mention is the following. For cylinder heads, we are the only independent producer for these components that has facilities in the US to produce these parts. There is no one else that has plants or any independent companies that have location in the US.

And the contracts related to -- we have two elements in the contract for the pricing. The first one is the metal price, which is for most of the cases a very simple formula, in which we have the weight of the casting, plus a factor, which is related to the price of aluminum on the region. It's an index, it could be London Metal Exchange, it could be American Metal Market, Metals Week, or any other index that to some extent tries to replicate the cost of the material in the region, plus a factor. So that element again is a natural hedge for us. If the prices of aluminum go up, that portion of the price of the component also is adjusted up or down. And the other part of the pricing is what we call it value-added, which in that value-added we have the labor, the electricity, natural gas, sand and all the processes that we have to produce that particular product, plus of course our profitability.

Operator

Luis Miranda, Santander.

Luis Miranda - *Santander - Analyst*

Armando, I wanted just to go back a little bit to the guidance, and if you could help me to understand a couple of points. The first one, maybe for me the most relevant in terms of the profitability and EBITDA per head as was probably mentioned. We are expecting a decline, it is small, but it's nevertheless a small decline year-over-year. And when we see about your product mix, your efficiencies, your increasing machining and the ramp-up of the structural products that you have already signed in the year before, shouldn't we be expecting at least some stability in the EBITDA per head and not a decline? That's the first one. I can go to the other ones after that.

Armando Tamez - *Nemak SAB De CV - CEO*

Luis, again as I explained, if we isolate these non-recurrent effect that we have last year due to the aluminum metal lag, it was a non-recurrent event. We're assuming that we will have very similar margins. We are not expecting or we are not projecting that our margins will deteriorate. On the contrary, we're seeing a small benefit or a small increase. As always, this is how we try to set our plants with very tight cost control and so on. So we're not expecting that. This is again an element that we have a non-recurring positive effect that we're not expecting to have this year.

Luis Miranda - *Santander - Analyst*

And the other one is with this delay in the structural component to reach the $1 billion, what could we expect in terms of growth in backlog during this year? Do you see the Company bidding on some new projects, or this is also going to be a delay in 2017, where we could see a stabilization in the backlog for structural components? Thanks.

Armando Tamez - *Nemak SAB De CV - CEO*

Now, Luis, we, as we speak are quoting significantly more programs for the structural components and electric vehicles than ever in our history. Just to give you a little bit of flavor, on average, we were quoting in the range of about maybe [$300 million, $400 million]. Now we are in the process of quoting double that number of programs and with a lot of different customers, not only Europe but also in North America, as well as in Asia. We certainly have been very successful in convincing our customers to trust us and award us the business. As I indicated, we are still with the same objective of reaching the $1 billion, but rather than to have those revenues come in, in 2020, we're expecting that it will take between 18 months to 24 months, a little bit longer, but we are in the same track.

Luis Miranda - *Santander - Analyst*

The last one is, you finished 45% of in-house machining. What's the objective for this year -- the end of this year, [any guidance] you could share it with us?

Armando Tamez - *Nemak SAB De CV - CEO*

We're increasing -- last year we invested more than $100 million just in adding capacity in machining. As I was indicating during my presentation, we just opened a new facility in Mexico and we're expanding the machining content in all regions. We will continue with this trend. Our goal is to reach by 2020 approximately -- close to 70% of machining in-house and we will keep external suppliers, the ones that are performing better as an alternative and we will analyze on a case-by-case basis if it makes sense for us, or to rely on external sources. But we're moving -- remember when we started these type of conference calls, we were machining approximately 30% on average, now we're at 45% and continue increasing that on a case-by-case basis. But we are projecting that we will continue growing and reaching approximately 70% by the end of the decade.

Operator

Vanessa Quiroga, Credit Suisse.

Vanessa Quiroga - *Credit Suisse - Analyst*

Can you help me understand better how you plan to penetrate further the hybrid/electric cars market? Is there an investment that you are making directly in order to achieve this higher penetration, to be able to tap those clients with a lower scale? Can you explain that? Thanks.

Armando Tamez - *Nemak SAB De CV - CEO*

Certainly we are seeing, as I indicated, three main pillars that we are projecting to continue benefiting and growing our business. The first one is the powertrain, which is the conventional aluminum cylinder heads, engine blocks, transmission housing and so on. This is we have already the capacity and the technology to produce these components. We are just making small additional investments to support further capacity in some regions.

Second is the structural components in which we see great opportunities, but also new opportunities are arising in the electric models. As you know, hybrids -- hybrid vehicles, they have two engines in the same vehicle. One is the conventional internal combustion engine that everybody is familiar with. And second, they have an electric engine and the electric engine is again a different type of engine. But the housing is very similar to a housing for a transmission case. We have the technology to produce this type of components and we are seeing high demand of hybrid vehicles as I was indicating during my presentation. We have been awarded already with four different hybrid components and we're expecting that that will continue increasing. This is another possibility for customers to comply with the new regulations for fuel efficiency and CO_2 reduction, in which by adding this electric motor into their vehicle, they can achieve the miles per gallon that the governments require or this reduction in CO_2 emission. So the technology is identical to the one that we used to produce some engine blocks or transmission housing, so we have that capability. Our customers know us very well and we are now exploring the possibility of working directly with the conventional customers, which they are introducing this type of models or engines to provide the customers with these hybrid vehicles, as well as other companies that are specializing in producing only electrical motors. So, we are talking to these two type of customers and certainly we have expectations that we will continue growing in this segment, as well as on the structural component side.

Vanessa Quiroga - *Credit Suisse - Analyst*

Going to the topic of the metal lag, can you tell us in 2016 how much of the margin increase was due to the metal lag and how much was from the FX effect? Thanks.

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, Vanessa, on the metal lag, we had roughly about $20 million of effect on metal lag. That's why when you subtract that from the [2015] performance, you would see that our EBITDA per piece is essentially the same, slightly higher on 2017 versus 2016.

And related to the FX, I think it's important to mention that I mean, yes, sometimes we have little bit of positive effect due to the small portion of the peso-denominated cost in Mexico. But we also have the other currencies that are also weighing on different directions. So most of the -- what we assume as non-recurrent is primarily metal lag, which is one-off and we expect that as aluminum prices either increase a little bit or stabilize, that will not be there.

Operator

Juan Tavarez, Citi.

Juan Tavarez - *Citigroup - Analyst*

Maybe just to follow up on the recent question on the opportunities in EVs and Hybrids, would you need to make an acquisition to be able to fulfill that potential demand, or make incremental investments, or does your existing capacity kind of be adjusted for providing those case -- that engine housing for electric vehicles? And then, second, maybe if you can comment if you have any updated views of what the implications or any adjustments to your business model, if we do end up seeing a border adjustment tax in the US? Thanks.

Armando Tamez - *Nemak SAB De CV - CEO*

The first one is that, no, we do not need to acquire anyone to produce the components for the electric vehicles. We have the proven technology. For many, many years, we have made high pressure aluminum components and we have a lot of plants. We actually sell today more than $1.1 billion for high pressure die casting product. So our customers worldwide know our technical capabilities and great performance that we have in this. So we will look at the opportunity to reuse existing assets whenever it is possible and also if needed, we would make the additional capital expenditures if we have a solid business case that conveys a good profitability, as we do for any type of new business that we get.

On the second topic and we were expecting this question, certainly we believe, Juan, that I think it's today a little bit early to really give you an answer on what will happen with the possibility that the US government imposes new tariffs or taxes on -- or border taxes. I think it's important to let you know that the auto industry has developed a lot of capacity in the region, not only in Mexico but also in the US, as well as in Canada under the free trade agreement. There is a huge investment and there is a lot of automotive suppliers located in Mexico, for cost and quality reasons and certainly as I indicated, in our opinion, is a little bit too early to tell. We understand that the US government, Mexican government, as well as the Canadian one will start negotiations in May of this year and certainly we are looking what would happen. But I think it's also important to let you know the following. Approximately, only 20% of our total revenues are exported to the US, the rest it is produced in Mexico to customers in Mexico, or it is produced in the US, or North America, as well as in Canada, as I indicated, to also South America, Europe and Asia. So we will have only 20% potential impact. It is also important to mention that Nemak is the only Company and I would like to repeat it that has capacity to produce cylinder heads in the US and very few of our competitors have capacity to produce other type of components, a few may have for blocks automations, but not a lot.

There is no capacity located in the US to produce this type of components. It will take, in our opinion, between at least two and a half to three years to build new capacity, to provide these type of components. If someone imposes very high tariff and certainly that would potentially paralyze the industry. So we don't expect that to happen. That will have, in our opinion, a very negative effect, not only for the auto industry, but as well for the economy of the region.

And last but not least, in the potential event that they impose tariff, certainly we will talk to our customers and like to pass these potential additional cost to our customers. And they, on the other hand, most likely will try to pass that on the consumer. But as I indicated, I think it is still very early to give you a clear opinion on that regard. And certainly we are looking and see how this develops and we will adapt to the best of our abilities for that.

Operator

Gilberto Garcia, Barclays.

Gilberto Garcia - *Barclays - Analyst*

A couple of questions if I may. First, and apologies if I've missed this in your introduction remarks, can you give us a breakdown of your volume growth expectations for this year? And the second, I guess, going back to the topic of moving production back to the US, do you have spare capacity in your US facilities and if so, how feasible would it be to reallocate some of the Mexican production to the US?

Alberto Sada - *Nemak SAB De CV - CFO*

This is Alberto. Related to your first question on volume, we don't give guidance on a per-region basis on the volume side. But I think it's worth mentioning that directionally we are not seeing much growth in North America for the reasons that we just discussed. Essentially the industry is expected to be stable in the region, but where we're seeing our growth is primarily in Europe and in China, which is part of the Rest of the World operation. So that's where we're seeing the most of our growth for 2017.

Armando Tamez - *Nemak SAB De CV - CEO*

Answering your second part of your question, Gilberto, we don't have a lot of [total] capacity in the US, so we are our plants at approximately 80%, 85% of the nominal capacity. So we don't have a lot of opportunity and certainly we have a lot of production of castings in Mexico. It will be a huge investment to relocate that capacity and also I can tell you that it will be also a huge incremental cost of producing these products in the US. Those are labor intensive and just to give you a little bit of flavor, even though we have our plants located in Southern US, where we have more competitive wages and salaries, we have a cost difference of about four to five times on a per hour level. So that will certainly have an impact on the products that we produce.

Gilberto Garcia - *Barclays - Analyst*

A follow-up if I may. You mentioned that you are the only independent producer of relevant size in the US, but what about your clients, would they have capacity to insource some of the production that is currently done by you or by other players?

Armando Tamez - *Nemak SAB De CV - CEO*

When I was mentioning independent, that means not considering capacity that OEMs or customers will have in the US. Some of them do have capacity. I can tell you that Ford Motor Company doesn't have any capacity at all to produce aluminum components, not only the US but in the world. They decided to exit that. Chrysler, or Fiat Chrysler, they don't produce any cylinder heads in the US or in the region. General Motors, they do have capacity to produce heads and blocks in the US. And to our knowledge, they are operating close to capacity. So for the Detroit 3 that will mean new investments in capacity to produce the components. We do also sell to Nissan in the US and they don't have capacity to produce cylinder heads. They do have engine blocks and also, in our view, they're running at capacity. So for all -- or many of the customers -- the other customer is the Korean Hyundai, Kia, they also don't have capacity to produce these type of components in the US.

So I can summarize by telling you that in most of the cases, for existing customers that will mean to build new greenfield facilities to put capacity in place. That will take a significant amount of CapEx, plus an approximately two to three years to really launch these plants, plus validate the products and so on. So we feel it is very unlikely in the short to mid-term.

Operator

Alejandro Azar, GBM.

Alejandro Azar - *GBM - Analyst*

Congratulations on the results. I'm sorry, I couldn't hear the capacity on the FCA and GM. I don't know if you've said little to none.

Armando Tamez - *Nemak SAB De CV - CEO*

I'm going to repeat it. FCA doesn't have any capacity to produce cylinder heads in the region, in North America. They don't. They produce one single engine block in one of their facilities in Indiana. To our knowledge, they are running at capacity. That's what we know about the capabilities for FCA in the region. GM, on the other hand, they do have a casting plant, where they produce aluminum cylinder heads and engine blocks, certain portion. To our knowledge, they are operating at capacity, so there is to our knowledge not a lot that they can insource at least to our knowledge, or without making significant investments. And as I indicated, it could take some time for them to build that additional capacity, plus validate production and so on. Plus tooling cost which also represents huge investments.

Alejandro Azar - *GBM - Analyst*

And one more if I may. Regarding your CapEx expectations going forward, does the $430 million, would you say that that includes your new, let's say, guidance of 18 months to 20 months further the structural component business?

Alberto Sada - *Nemak SAB De CV - CFO*

Yes, it does. The $430 million certainly is to build the capacity that we will require for 2018, 2019. We are always investing ahead of time. So again takes some period of time to buy the equipment, test it, validate the new products and so and so. Basically we have some time that we need to invest ahead of the start of production.

Alejandro Azar - *GBM - Analyst*

So my question would be if that $430 million is reduced from a [previously] number that you had in mind, before reducing that timeframe or expanding that timeframe? I'm sorry.

Alberto Sada - *Nemak SAB De CV - CFO*

It is aligned to what we were projecting just a few years ago. Yes, it is aligned maybe -- a small reduction, but not very different.

Operator

Jean Bruny, BBVA.

Jean Bruny - *BBVA Bancomer - Analyst*

Just many of my questions have been answered. Just a couple of doubts. The first one is in terms of your guidance in volumes. Can you give us the contribution from the assets in Europe, in Turkey, just both and the Slovakian plant as well, if it's already operating? And the second one is on the structural business. Do you see any threat for this business -- or the growth of this business coming from a new political landscape that may be less favorable for the environment action? Thank you.

Alberto Sada - *Nemak SAB De CV - CFO*

Yes Jean, this is Alberto. Related to your first question about our volume guidance, yes, it does include the volume from our acquisition of Turkey. So, we consolidated that plant in -- started to consolidate the financial figures in early November. So that includes Turkey for the full year. Remember, Turkey is not that big, it's a relatively small facility.

Armando Tamez - *Nemak SAB De CV - CEO*

Related to second part of your question Jean, what I can tell you is the following. There is, right now, no indication that there will be changes in the landscape related to regulations in the US, or at least not to our knowledge. Certainly there are some people that are questioning if they need to continue investing heavily to comply with these regulations, but to our knowledge the US government has not made any decision yet related to changing the CAFE regulations that they have already in place. On the other hand, what I can tell you is that -- and we have a very close look with our colleagues in Europe, as well as in Asia, we are not foreseeing any changes in the environmental regulations in Europe. On the contrary, I think after the Volkswagen diesel scandal, regulators in Europe are more strict than before. And in China, due to the pollution problems that they have in (inaudible) or big cities, they are certainly trying to impose tougher regulations than in the past. So based on that again we cannot tell you that we're expecting a significant change. If any, it may come on a temporary basis, potentially in North America, in the US. But again, we don't have to-date any indication that this is going to change.

Operator

There are no further questions at this time. I will turn the call back over to management for any closing remarks.

Adrian Althoff - *Nemak SAB De CV - IR Associate*

Thank you, operator. I would just like to thank everyone for participating in today's call. Please feel free to contact us if you have any follow-up questions or comments. Have a good day.

Operator

Thank you ladies and gentlemen. This does conclude our teleconference for today. We thank you for your time and participation and you may disconnect your lines at this time. Have a wonderful rest of the day.