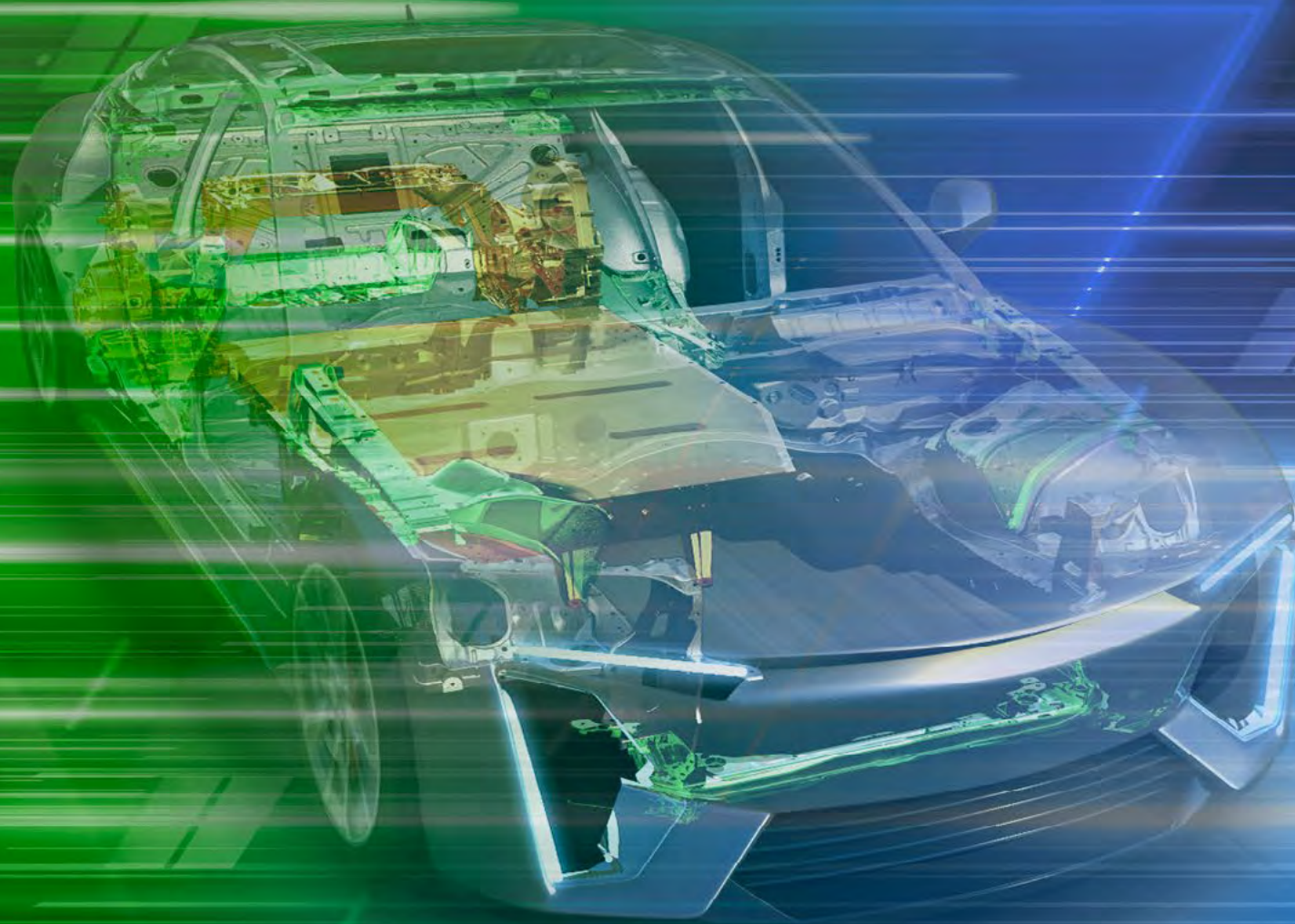


# 2021 ANNUAL REPORT



 **Nemak**  
*Innovative Lightweighting*





GRI Standards: 102-1, 102-7

Nemak, S.A.B. de C.V. (“Nemak”) is a leading provider of innovative lightweighting solutions for the global automotive industry, specializing in the development and manufacturing of aluminum components for powertrain, e-mobility, and structural applications. In 2021, the Company employed approximately 21,000 people at 38 facilities worldwide and generated revenue of US\$3.8 billion.

**For more information about Nemak, visit:**  
<https://www.nemak.com>

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# Nemak at a glance

GRI Standards: 102-4, 102-6

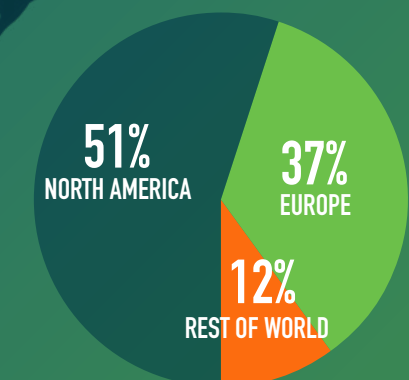


GRI Standard: 102-4, 102-6

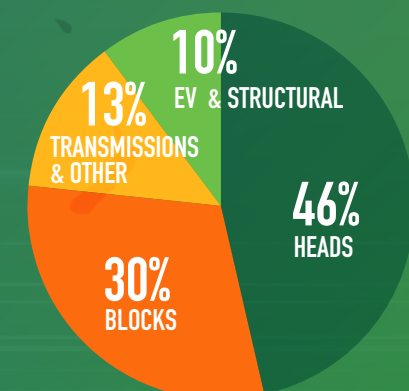
## Nemak at a glance

Nemak's manufacturing footprint spans 38 plants strategically located in 15 countries

### REVENUE



### SEGMENT REVENUE





# PRODUCT PORTFOLIO

GRI Standard: 102-2

## POWERTRAIN

- Cylinder Heads
- Engine Blocks
- Transmission Cases

## VEHICLE STRUCTURES

- Longitudinal Members
- Shock Towers
- Subframes

## E-MOBILITY COMPONENTS

- E-Motor Housings
- Battery Housings  
(Hybrid / Fully electric)





# Financial highlights

GRI Standard: 201-1

## MILLIONS OF US DOLLARS

	2021	2020	CHANGE
Volume (M. Eq. Units)	<b>35.7</b>	35.1	1.8
Total revenues	<b>3,798</b>	3,151	20.5
Gross profit	<b>471</b>	389	21.1
Sales & administrative expenses	<b>-247</b>	-235	5.1
Other income (expense), net	<b>5</b>	-48	-110.4
Operating income	<b>229</b>	107	114.0
Interest expenses	<b>-112</b>	-81	38.3
Interest income	<b>3</b>	3	0.0
Foreign exchange (loss)	<b>-20</b>	-50	-60.0
Financing expenses, net	<b>-129</b>	-128	0.8
Participation in associates results	<b>-1</b>	-1	0.0
Income tax	<b>-94</b>	-12	683.3
Net income	<b>5</b>	-34	-114.7
EBITDA <sup>1</sup>	<b>567</b>	432	31.3
CAPEX	<b>360</b>	269	33.8
Net debt	<b>1,306</b>	1,227	6.4

## VOLUME

(millions of equivalent units)



## TOTAL REVENUES

(millions of US dollars)



## EBITDA

(millions of US dollars)



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



# Dear Shareholders

GRI Standard: 102-10, 102-11, 102-14, 102-15

**During 2021, Nemak harnessed its talent, footprint, productivity improvements, and technological capabilities to deliver improved results amidst extraordinary industry volatility, while simultaneously capitalizing on secular growth opportunities linked to the changing mobility landscape.**



The COVID-19 pandemic continued to figure prominently in 2021, requiring Nemak to maintain targeted measures to safeguard employee health in the workplace and ensure stable supply to customers. At the same time, challenges emerged on new fronts – in particular, the global semiconductor shortage, which weighed on light-vehicle production among its customers, and therefore, demand for the parts it produces. In response, the Company implemented a variety of operational efficiency and flexibility initiatives, which helped it to mitigate the effects of these headwinds on its business.

Nemak also made further strides towards the implementation of its long-term strategy, including more than doubling revenue generation in its e-mobility and structural applications (EV/SC) segment compared to the previous year, and surpassing its goal of securing business to produce these parts worth US\$1 billion annually more than one year earlier than expected.

For full-year 2021, light-vehicle sales and production in the Company's markets were affected by the ongoing operational disruptions in the global semiconductor supply chain. Sales

in the US were 3% higher, reflecting a gradual recovery vis-à-vis 2020, when the onset of the COVID-19 pandemic triggered a slowing of overall consumer activity. However, Europe saw a 2% decrease in sales for the full year, as a stronger first half nearly compensated for a softer second half. Turning to light-vehicle production, North America and Europe finished 1% and 5% lower, respectively. In China, light-vehicle sales and production showed a more positive trend, increasing by 3% and 1%, respectively, whereas in Brazil they finished the year 2% and 6% higher, in the same order, mainly on base effects.

Consolidated volume was 35.7 million equivalent units, up 2% from 2020, as the ramp-up of new product launches in Nemak's EV/SC segment helped compensate for continued softness in light-vehicle production in its main regions. Revenue saw an even more pronounced uptick, as a combination of volume and aluminum prices drove a 21% increase, to US\$3.8 billion. EBITDA finished at US\$567 million, 31% higher than the previous year, supported mainly by the combination of an improved product mix and operational efficiencies. In turn, EBITDA

EBITDA finished at  
**US\$567**  
million, 31% higher  
than the previous year

per equivalent unit finished at US\$15.9, a 29% y-o-y increase; it is worth highlighting that this represented a tie for the highest-ever such figure recorded in the Company's history.

Net income also showed improvement, finishing slightly positive for the year on the same factors benefiting EBITDA.

Capital expenditures were US\$360 million, as Nemak prioritized investment geared towards supporting its customers' lightweighting and electrification plans. To this end, it allocated CAPEX primarily towards new product launches, with an increased focus on its EV/SC segment.





Nemak ended the year with Net Debt of US\$1.3 billion, which was slightly higher than a year ago. Meanwhile, cash and cash equivalents amounted to US\$282 million, which compared to US\$437 million the previous year, as the Company repaid credit lines that had been used to support liquidity at the onset of the pandemic.

In September, the merger of Controladora Nemak into Nemak was concluded successfully, in the culmination of a multi-step process to convert Nemak into a fully independent company trading under a single listed entity. The Company expects this transaction to have a positive effect on share liquidity.

During the year, the main rating agencies reaffirmed their ratings on Nemak's debt, while upgrading their respective outlooks from negative to stable, citing the Company's business performance amidst a challenging industry environment, among other factors. Nemak is rated investment grade by Fitch, and one notch below investment grade by Moody's and S&P.

Nemak also successfully placed two sustainability-linked bonds, which enabled it to reduce its cost of debt and extend its debt maturity profile under a standard investment grade structure. The first issuance comprised US\$500 million with

a 10-year maturity bearing a 3.625% coupon, and the second entailed a €500 million issuance with a 7-year maturity and a 2.25% coupon. Together, these transactions enabled the Company to reduce its financing cost by a total of approximately US\$11 million annually.

The proceeds from the two issuances were allocated to refinance outstanding debt. Moreover, under the terms of the notes, Nemak committed to reduce Scope 1 and 2 greenhouse gas (GHG) emissions by 18% by 2026 relative to a 2019 baseline; this goal is aligned with its plans to achieve a 28% reduction by 2030, which were approved by the Science Based Targets initiative (SBTi) in 2021.

These SBTi-approved targets are at the core of Nemak's climate strategy, which focuses on Green Production, Green Products, and Green Sourcing. Nemak approaches energy use in its production processes on multiple fronts, simultaneously implementing energy efficiency initiatives while also striving to increase renewable energy use. Nemak's development of new alloys, and increased use of recycled and end-of-life materials in its product portfolio also evidences its contributions to the automotive industry's shift towards emission-free mobility.





Moreover, as a substantial portion of the Company's carbon footprint comes from its supply chain, Nematik has programs in place that facilitate supplier engagement in its emissions reduction efforts.

Nematik's commitment to sustainability is evidenced by the inroads it has made towards assessing and mitigating its environmental impacts, all while continuing to advance efforts to foster employee health and safety, as well as social well-being in the communities where it operates. The Company's prioritization of sustainability initiatives has earned it a place in several stock indices that include companies with leading economic, social, and environmental practices, such as the DJSI MILA Pacific Alliance, the S&P/BMV Total Mexico ESG Index, and the FTSE4Good Index Series.

During 2021, Nematik's commitment to innovation and cutting-edge technology was recognized in the form of several awards from OEM customers.

The main highlights included being recognized as a top-performing global supplier to Ford and General Motors, as well as receiving an award for best-in-class quality performance in support of Volkswagen Group in China.

As Nematik and the automotive industry as a whole advance more decisively towards electrification and a future of sustainable mobility, the Company will continue to push the limits of technology and innovation, seeking to remain at the forefront of new ideas, new materials, new technologies, and operating excellence.

On behalf of the Board of Directors, we would like to extend our gratitude to all of you—our customers, suppliers, employees, shareholders, and members of the communities where we operate—for your interest and support throughout the year. We look forward to continuing our efforts to deliver best-in-class performance in our business, while reinforcing our foundation for long-term value creation going forward.

San Pedro Garza García, N.L. México  
January 31, 2022

**Álvaro Fernández Garza**  
Co-Chairman of the Board of Directors

**Armando Garza Sada**  
Co-Chairman of the Board of Directors

**Armando Tamez Martínez**  
Chief Executive Officer



# Lightweighting Developments

GRI Standard: 201-2

Over the years, Nemak has made substantial contributions to global automakers' efforts to make vehicles lighter and therefore more efficient. The Company began its leadership journey in traditional powertrain applications, such as cylinder heads and engine blocks, before diversifying its product portfolio further into growing addressable markets linked to its customers' accelerating shift towards a more sustainable mobility.

~US\$1.05  
billion annually in  
contracts to produce  
EV/SC applications



Nemak's track record of innovation and performance has helped it build customer trust, while giving it ample opportunity to deepen its R&D and product development capabilities around a variety of highly engineered automotive solutions, including e-mobility and structural applications (EV/SC).

Going forward, the Company seeks to continue to capitalize on electrification and lightweighting trends to drive growth and transformation in its business, by tapping into its technological capabilities, which span casting as well as joining and assembly processes.

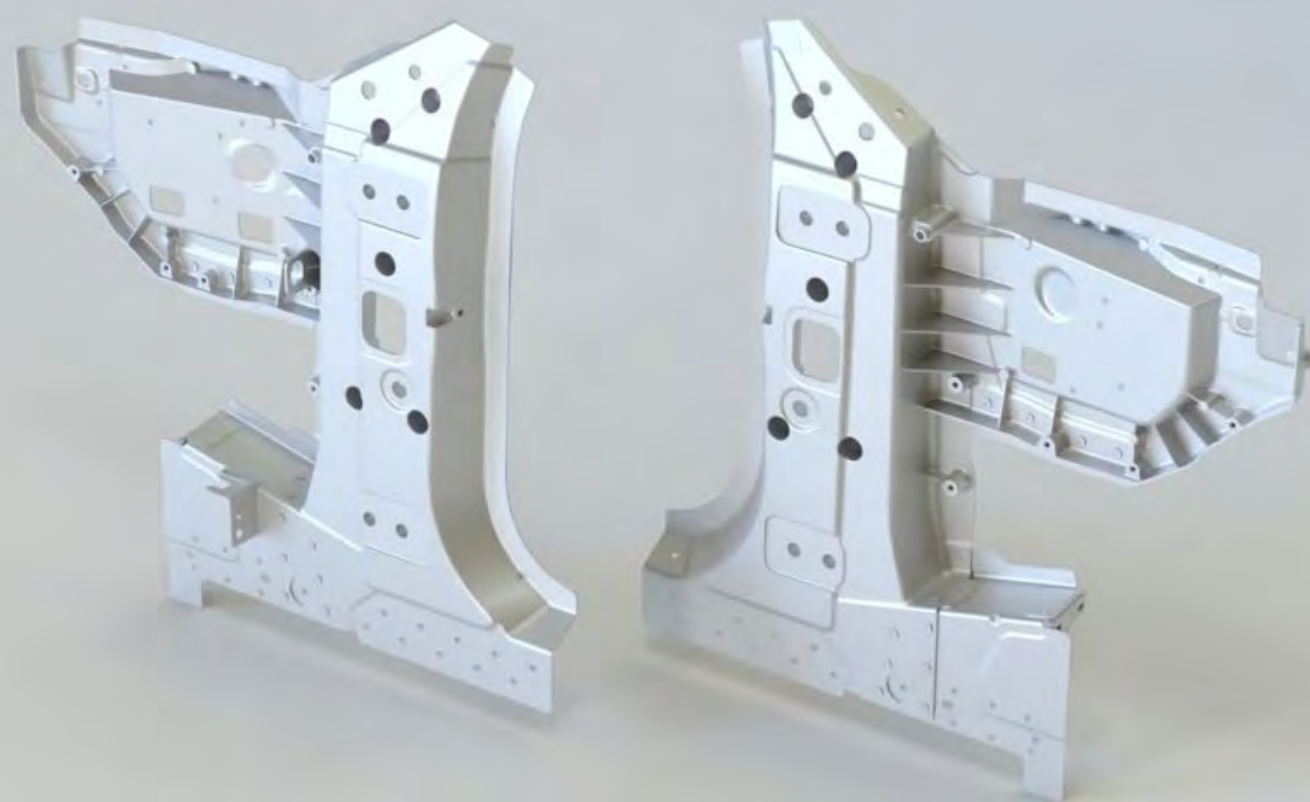
Given the prospects for increased global penetration of electric vehicles, Nemak estimates that its EV/SC segment—including high value-added components such as battery housings for fully electric and plug-in hybrid vehicles, e-motor components, and structural parts—could represent close to 60% of its consolidated revenue by 2030.

Nemak's R&D processes are a key differentiator as it continues to adapt to meet market needs. In order to develop tailor-made solutions to support its customers' plans, it draws on capabilities that include state-of-the-art, computer-aided engineering infrastructure and a global pool of talent with deep expertise in design and materials engineering.

During 2021, key innovation highlights included:

- Development of aluminum alloys featuring up to 90% end-of-life material. With these alloys, Nemak aims to deliver advanced mechanical properties while helping its customers make greater use of recycled material, thereby reducing their CO<sub>2</sub> footprint.
- Development of lightweighting solutions for chassis applications. Nemak assumed full design responsibility for safety parts in the vehicle of a German OEM customer, achieving a weight reduction of approximately 30%.
- Development of proprietary welding process for battery housings. Nemak developed a propriety welding process, which enables it to improve seam welding quality, thereby reducing the weight of extrusions used in battery housings for fully electric vehicles.
- Production launch of ultra-large, single-piece battery housings. Nemak leveraged its expertise in casting process design to successfully initiate series production of ultra-large, single-piece battery housings for the electric vehicle market.

Nemak is currently focusing most of its R&D efforts on EV/SC applications, and it expects that this will continue to be the case through the end of the decade.





The Company's offerings in its EV/SC segment target primarily body-in-white and chassis applications—which help OEMs minimize the weight of electric vehicles, and therefore improve their driving range—together with highly specialized solutions supporting the vehicle's electric propulsion system, ranging from fully integrated e-motor components to casting, gluing, riveting, friction stir-welding, laser welding, and MIG and TIG welding processes for battery housings.

Nemak currently produces components for an estimated 520 vehicle nameplates, including 100 fully electric or plug-in hybrid vehicle nameplates.

As of the date of this report, Nemak had been awarded contracts to produce EV/SC applications worth a total of approximately US\$1.05 billion

annually, representing a diverse set of customers, including Audi, BMW, Daimler, Ford, General Motors, Jaguar Land Rover, Porsche, Stellantis, Volkswagen, and Volvo, among others.

Additional recent milestones in the implementation of its technology roadmap have included the launch of its Electric Mobility Center, where it is harnessing state-of-the-art joining and assembly processes to produce battery housings for fully electric vehicles such as the Ford Mustang Mach-E and Ford E-Transit.

Nemak is currently producing and launching EV/SC applications—including battery housings, e-motor components, and structural parts such as longitudinal members, shock towers, and subframes, among others—at a total of 12 plants spanning Europe, North America, and Asia.

Producing components for  
~100 BEV and PHEV nameplates





# Sustainability

GRI Standard: 201-2

In 2021, Nemak made significant progress in a variety of areas to support the automotive industry's ongoing shift towards sustainable mobility. As part of its efforts to contribute to the goals of the Paris Climate Agreement, it continued with initiatives to optimize resource consumption and decrease energy use. In parallel and in light of the global pandemic, the company implemented a series of extraordinary measures to continue protecting its employees and the communities where it operates.

~70%  
of our products manufactured  
from recycled aluminum.



# Sustainability Strategy

Despite the challenges of 2021, Nematik made substantial progress in implementing its sustainability strategy, which resulted in improved performance in external ratings and assessments, including from the CDP, EcoVadis, and the CSA.

The Company also advanced its net-zero strategy and received validation of its Science-Based Targets. In addition, Nematik further developed its Sustainability Roadmap 2030, which lays out the Company's plan to contribute to sustainable mobility while shaping the internal sustainability framework and defining the strategy's future core objectives and targets. The following sections contain a general overview of the Company's strategic approach to sustainability, and an overview of progress towards its Environmental, Social and Governance (ESG) goals.

## REPORTING STRUCTURE

GRI 102-12, 102-46, 102-54

Nematik strives to provide transparency to all stakeholders and continuously seeks to improve and expand the quality and scope of its data. The following report outlines Nematik's key material topics and is aligned with the Core option of the GRI (Global Reporting Initiative). Furthermore, it also reflects the reporting recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD).

The report focuses on the following three key material topics.

### Environment & Climate Innovation

E

### People & Communities

S

### Value Chain Engagement & Business Integrity

G





## SUSTAINABILITY ROADMAP

GRI 102-11, 102-16, 102-43

In the Company's efforts to drive innovation and shape the future of automotive lightweighting, Nemak is committed to using its technology, operations and business practices to contribute to sustainable mobility. The increasing demand for e-mobility components is a key pillar in the Company's overall sustainability strategy, and Nemak is well-positioned to continue growing its business with existing and new customers in e-mobility and structural applications (EV/SC).

By 2030, Nemak estimates the total addressable market of its EV/SC segment will be worth approximately US\$27 billion. This market includes high value-added components such as battery housings for fully electric and plug-in hybrid vehicles, e-motor housings and structural parts such as longitudinal members, shock towers and subframes.

Nemak's innovation capabilities—including its Research and Development (R&D) function—enable it to take a sustainable approach to developing new products for e-mobility. As a result, the Company is making significant advances in reducing emissions in its manufacturing processes and developing new and more sustainable alloys that increase the use of end-of-life materials and reduce the carbon footprint of its components.

As part of its overall business strategy, Nemak strives to create greater value for its stakeholders by enhancing environmental, social, and economic well-being in line with its core values: customer focus, trust and collaboration, innovation, and respect and responsibility. While developing its sustainability strategy roadmap, Nemak identified four key focus areas that are critical to transforming and sustaining its operations based on the Company's latest materiality assessment:

### Climate Protection



Reducing emissions by improving energy efficiency, purchasing renewable electricity and preparing for long-term decarbonization by switching to alternative fuels.

### Innovation and Products



Developing and creating new products to establish a stronger market position while ensuring all products have exceptional quality and safety characteristics.

### Circularity



Integrating circular economy principles throughout its business operations and increasing its use of recycled aluminium.

### Supply Chain Management



Actively supporting the Company's supply chain and encouraging suppliers to align with Nemak's sustainability strategy.

Throughout the reporting period, Nemak continued to make substantial contributions to e-mobility by developing energy-efficient solutions such as cast and assembled battery housings and highly integrated e-motor housings. In addition, through its expertise in lightweight design, the Company offers its customers both primary alloys and secondary alloys (alloys made of recycled material) that significantly reduce their CO<sub>2</sub>e product carbon footprint (PCF). As circularity and recycling are key measures for Nemak, it manufactures approximately 70% of its products from recycled aluminum.



## Nemak's sustainability framework

Nemak understands that its technological progress and contributions to electric mobility are only some of many aspects of the sustainability model; its strategies must also actively protect the environment, its employees and the communities where it operates.

To align Nemak's strategic sustainability approach, the Company conducted an intensive stakeholder dialogue to proactively integrate emerging sustainability-related demands and pressures into its strategic framework. Nemak embraces its commitment to sustainable mobility by focusing on key material topics where Nemak has the potential to make a real difference both now and in the future.



Together, we make sustainable mobility possible. We are creating sustainable value for our stakeholders by integrating sustainability in our daily business practices. By doing so, Nemak can make a real difference today and in the future in sustainable mobility.





Within each pillar, Nematik has identified the topics that are most relevant to it, and it has defined targets aligned with its overall values as the basis for its 2030 strategy.

Nematik's Sustainability Roadmap 2030:

	UN SDG ALIGNMENT	CORE OBJECTIVE	TARGET VALUE 2030
<b>ENVIRONMENT AND CLIMATE (INNOVATION)</b>	9.2 9.4 12.2	Climate protection	<ul style="list-style-type: none"> <li>Reduce Scopes 1 &amp; 2 by 28% by 2030 based on 2019; Scope 3 by 14%</li> <li>Energy efficiency: ISO 50001 (100% by 2022)</li> <li>Renewable energy percentages: 25% by 2025, 70% by 2030</li> </ul>
	13.1 13.2	Circularity	<ul style="list-style-type: none"> <li>Increase the recycled content quota of new product groups</li> <li>Reduce the volume of solid waste streams by implementing waste reduction and recycling programs</li> <li>Minimize water losses</li> </ul>
		Innovation and products	<ul style="list-style-type: none"> <li>Conduct Life Cycle Assessments (LCA) for products and technologies</li> <li>60% of products for electrified portfolio by 2030</li> </ul>
<b>VALUE CHAIN AND BUSINESS INTEGRITY</b>	12.6 12.8 13.2 13.3	Business integrity	<ul style="list-style-type: none"> <li>Continuous improvement in governance and sustainability practices using external ratings as benchmarks and guiding principles</li> </ul>
		Responsible supply chain	<ul style="list-style-type: none"> <li>Critical supplier screening via EcoVadis</li> <li>Full implementation of Code of Conduct</li> <li>Aluminum Stewardship Initiative (ASI) as standard for aluminum suppliers</li> </ul>
		Sustainable leadership	<ul style="list-style-type: none"> <li>Achieve A Level at the Carbon Disclosure Project (CDP)</li> <li>Continuous inclusion in the Dow Jones Sustainability Indices (DJSI)</li> <li>Expansion of the sustainability team</li> </ul>
<b>PEOPLE AND COMMUNITIES</b>	4.4 4.5 4.7	Diversity, inclusion and talent development	<ul style="list-style-type: none"> <li>Create an inclusive culture that reflects the diversity of the communities in which Nematik operates</li> <li>Further development and introduction of talent KPIs</li> </ul>
	8.5 8.7 8.8	Occupational health and safety	<ul style="list-style-type: none"> <li>Reduce the frequency and severity of incidents measured by year-over-year reduction in TRIR (20%)</li> <li>10% year-over-year reduction of incidents that result in temporary or permanent lost time or restrictions</li> </ul>
		Corporate citizenship	<ul style="list-style-type: none"> <li>Continuously strive to implement stakeholder tools and mechanisms of interaction and shared value-creating opportunities</li> </ul>





## Highlights 2021

In 2021, Nemak made continued progress on its journey towards sustainable mobility. The Company's key milestones included:

- Development of the Company's climate strategy 2030 and beyond
- Approval of CO<sub>2</sub> reduction targets by the Science Based Targets initiative (SBTi) in March 2021
- Successful launch of Sustainability-Linked Bonds (SLBs) along with Nemak's SBTi-approved targets
- Update of Nemak's materiality assessment and redefinition of the Company's material topics
- Reinforcement of the Company's commitment to the UN Global Compact and its ten principles
- Introduction of a Sustainability Capex Committee
- B rating in the internationally recognized CDP Climate Change questionnaire and Leaderboard in the SER (Supplier Engagement Rating A) plus other relevant ratings
- Introduction of the concept of Life Cycle Assessment (LCA) for key products
- Preparation and commitment to begin ASI certification starting in early 2022
- Implementation of global initiatives to reduce the environmental, health and safety impacts of the Company's operations
- Continuous commitment to Nemak's world-class COVID-19 pandemic control plan to ensure employee safety

## Nemak's contributions to the UN Sustainable Development Goals

In an effort to address global challenges in a united arena, Nemak has closely aligned its sustainability roadmap with the United Nation's Sustainable Development Goals (SDGs). The Company focuses its efforts primarily on the following SDGs: Quality Education; Industry, Innovation and Infrastructure; Responsible Consumption and Production; Climate Action; and Decent Work and Economic Growth. As outlined in Nemak's sustainability framework, the Company uses the specific points of the SDGs to guide the development of its sustainability strategy.

### WE SUPPORT



In line with the SDGs, Nemak is also a signatory member of the UN Global Compact and provided its first Communication on Progress (COP) in 2021. For more information, please visit:

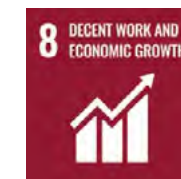
<https://unglobalcompact.org/participation/report/cop/create-and-submit/active/459188>



## Our targets matched to UN SDGs



**Goal 4 Quality Education:** Through several measures in the area of learning and development, Nemak enables its employees to continually advance their personal and professional development.



**Goal 8 Decent Work and Economic Growth:** Nemak pursues ambitious growth targets in parallel with good working conditions, a competitive pay scheme, and a key focus on its employees' health and safety.



**Goal 9 Industry, Innovation and Infrastructure:** Innovation is the basis for future growth and the development of environmentally friendly products. Nemak therefore makes significant investments in innovation initiatives, and sets incentives inside as well as outside the organization to encourage the generation of new ideas.



**Goal 12 Responsible Consumption and Production:** Nemak seeks to reduce the consumption of natural resources in its production processes by implementing measures throughout its manufacturing facilities. Furthermore, the Company continues to integrate sustainability criteria into its purchasing procedures.



**Goal 13 Climate Action:** Nemak's environmental strategy focuses on consistently reducing greenhouse gases. This applies to both its own production sites as well as the entire value chain.





CEO

VP OF PURCHASING AND SUSTAINABILITY

GLOBAL SUSTAINABILITY MANAGER

GLOBAL HSE DIRECTOR

SUSTAINABILITY COMMITTEE

CLIMATE TASK FORCE

CAPEX COMMITTEE

## SUSTAINABLE LEADERSHIP

*Material aspect: Sustainable leadership*

To Nemak, sustainable leadership means being a leader in the transition towards sustainable mobility by implementing stakeholder tools and mechanisms of interaction, and shared opportunities for value creation. Such leadership entails strengthening stakeholder relations, including customer relations, shareholder, investor, and bondholder relations, as well as clear, transparent communication and engagement with the entire value chain.

In order to achieve and maintain its leading position within the industry, Nemak anchors related areas of responsibility in its internal organizational structure to the highest executive levels, Committees, and Task Forces. To improve global collaboration and multisite coordination, Nemak created a dedicated sustainability team in 2020, which expanded in 2021 and will continue to grow in 2022. External ratings and rankings evaluate Nemak's ambitions and efforts and demonstrate the Company's progress.

## Key roles and responsibilities

GRI 102-18, 102-19, 102-20, 102-22, 102-29, 102-31

### Chief Executive Officer

The CEO has ultimate operational control over sustainability-related matters such as making long-term strategic decisions, setting Company priorities, aligning roles, and defining responsibilities relating to targets such as climate protection or water preservation. Nemak holds regular Executive Team meetings, in which the executives review, validate and discuss the Company's strategic, operational and sustainability targets, and where necessary, they make decisions for improvements on a global scale. The CEO provides overall guidance on the Company's long-term strategic goals and framework and consults with external stakeholders such as investors and shareholders to study trends in the mid- to long-term future. Additionally, the CEO oversees risks and opportunities related to climate change.





## Vice President of Purchasing and Sustainability

The Vice President of Purchasing and Sustainability is a C-Suite officer who reports directly to the CEO and is responsible for overseeing and implementing Nemak's sustainability strategy (including climate-related issues and targets) in consultation with the CEO and the Co-Chairmen of the Board. The VP guides the Company on key priorities in its sustainability strategy by breaking down long-term goals, such as its net-zero goal, into regional and functional targets as part of the sustainability roadmap. The VP also ensures senior leadership alignment on these priorities and ensures proper support and resource allocation. The strong connection to purchasing allows for leverage within supply chain sustainability-related topics, such as the ability to influence sourcing decision frameworks based on associated Scope 3 emissions. The VP is also responsible for externally communicating Nemak's sustainability strategy, and is the leader of both the Sustainability Committee and the Climate Task Force, which comprises various members within Nemak's core functions. The VP ultimately executes the outlined sustainability strategy by uniting the global effort and aligning Nemak's processes with relevant KPIs for sustainability and climate protection.

## Global Sustainability Manager

The Global Sustainability Manager (GSM) is responsible for continuously developing and implementing the sustainability strategy by creating an executable roadmap and integrating issues such as climate protection and circularity into Nemak's operations. The GSM is also responsible for developing and implementing Science-Based Targets, setting CO<sub>2</sub> footprint targets for external suppliers, and overseeing Nemak's participation in major sustainability programs such as the UN Global Compact and the Aluminum Stewardship Initiative. Additionally, the GSM oversees the tracking and achievement of each region's progress in sustainability, including their CO<sub>2</sub>e-related goals. The GSM therefore works closely with the individual plants and regions to monitor their progress towards established targets in line with Nemak's sustainability goals and climate roadmap. Furthermore, the GSM works together with the Global Communications Manager and Investor Relations Officer to draft and publish the sustainability section of the Company's Annual Report, and leads the yearly contribution in the main sustainability ratings and rankings.

## Global HSE Director

The Global HSE Director is responsible for leading the Health, Safety and Environment (HSE) management team, taking an active role in the development and implementation of Nemak's sustainability strategy, in addition to being a member of the Global Sustainability Committee and Climate Task Force. Together with the VP of Purchasing and Sustainability and the Global Sustainability Manager, the Global HSE Director defines and tracks progress on environmental and health and safety objectives. Additionally, the role is responsible for global performance standards such as audits and ASI and for leading and supervising major global energy efficiency projects to reduce the Company's CO<sub>2</sub> impact. For more details on the roles and responsibilities of the Global HSE team, please refer to the section "Climate and environment" and "People and communities".



## NEMAK'S CLIMATE TASK FORCE



## Sustainability Committee and Climate Task Force

Nemak's Sustainability Committee meets every six to eight weeks and is directed by the VP of Sustainability and Purchasing and the GSM. It comprises members from the following areas: Global Health, Safety and Environment (HSE), Business Development, Manufacturing, Purchasing, Commercial, Governance, Human Resources, Communications and Finance & Investor Relations. The HSE department manages the environmental impacts of Nemak's operations and supports the definition of global emission targets.

The Climate Task Force is part of the Sustainability Committee and is responsible for developing and implementing the Company's climate strategy. Led by the VP of Purchasing and Sustainability, its responsibilities are divided into three areas: Global HSE, Global Purchasing, and Global R&D. Within the Task Force, Global HSE is responsible for measuring and tracking Nemak's emissions progress, as well as implementing emissions management programs. Global Purchasing is responsible for driving Nemak's purchasing behavior towards sustainability criteria, which has resulted in the integration of sustainability principles into most of the Company's purchasing decisions. In addition, the Global Purchasing defines and executes the renewable energy strategy globally and communicates the Company's sustainability commitments to suppliers to ensure they align with Nemak's climate strategy. Global R&D provides the basis for continuous innovation in production processes by developing, among others, alternative production technologies, smart and efficient product designs and alternative fuels.

## Capex Committee

Additionally, in 2021, Nemak founded the Capex Committee to achieve its climate targets through strategic investments. It comprises the VP of Purchasing and Sustainability, the VP of Manufacturing and the CFO. The Committee oversees the approval process for climate-related investments and primarily targets CO<sub>2</sub>-reduction efforts at the Company's manufacturing sites. At the Committee's recommendation, Nemak plans to spend between US\$15 and US\$20 million annually in sustainability-related capex.

## External ratings and rankings

With the growing importance of sustainability in the global market, Nemak continued investing significant time and effort into developing its sustainability strategy in 2021, with focus areas such as Climate Protection, Diversity and Inclusion, Sustainable Leadership and many others. Each year, the Company participates in various rating schemes, including the S&P Global Corporate Sustainability Assessment (CSA), the CDP, the EcoVadis Assessment and other disclosure platforms listed in the following table. These assessments serve not only as valuable benchmarking tools for the Company and its major stakeholders but also help to identify key areas for improvement.

Rating provider	Rating 2021	Rating 2020
CDP Climate	B	C
CDP Water	B-	B-
CDP Supplier Engagement	A (Leaderboard)	A-
CSA	45 points, 79th percentile	41 points, 69th percentile
EcoVadis	Silver	Bronze
FTSE4Good	Member	Member

Nemak's participation in the CDP and CSA began in 2016. Since then, the Company has significantly improved its scores across all ESG ratings, as well as in the three different CDP assessments (climate change, water, and supplier engagement). In 2021, The Company received an overall grade of "B" in its CDP rating, a considerable upgrade from the previous year's result of "C". The B rating represents the Management band, meaning Nemak is ranked higher than the North American regional average of C, and higher than its identified sector, Powered Machinery, which also has an average of C. In addition, the Company improved its EcoVadis rating from "bronze" in 2020 to "silver" in 2021. In recognition of the Company's continuous efforts, Nemak has also been selected to be part of the Dow Jones Sustainability Indices for the third consecutive year, and it is the only automotive company included in the 2021 DJSI MILA Pacific Alliance. The results of these ratings are essential for Nemak's customers, financial markets and the Company itself, as it uses the feedback to improve its sustainability performance.



# MATERIALITY ASSESSMENT AND STAKEHOLDER DIALOGUE

In 2021, Nematik performed a comprehensive materiality assessment to identify areas requiring increased focus and reviewed its long-term priorities to enhance its contributions toward a sustainable future. The Company gathered input from throughout the organization to ensure the assessment contained the most accurate information and reflected Nematik's organizational priorities. In addition, the Company conducted interviews with external stakeholders in September 2021 to incorporate their expectations into its future sustainability management. These stakeholders included shareholders, employees, customers, suppliers, community members, media, and non-governmental organizations.

## Material topics

GRI 102-46, 102-47

During the analysis, Nematik also updated its materiality matrix to include changing global social and economic scenarios and the requirements of ESG performance disclosure platforms. The matrix's key inputs included the Sustainability Accounting Standards Board (SASB) Materiality Map for the automotive industry and the rapidly changing global legislation landscape regarding sustainability.

Nematik identified fourteen areas that underpin its sustainability model and strategy, and that guide its efforts to implement long-term targets and foster greater engagement, dialogue and trust with stakeholders. In order of relevance, these areas are as follows:

- 1) Climate protection
- 2) Product quality and safety
- 3) Supply chain management
- 4) Innovation
- 5) Occupational health and safety
- 6) Circularity
- 7) Sustainable leadership
- 8) Business ethics
- 9) Labor practices
- 10) Diversity and inclusion
- 11) Waste management and hazardous materials
- 12) Water management
- 13) Training and development
- 14) Corporate citizenship





**COMMUNITIES**  
where Nemak can provide  
support and create new  
opportunities

**INVESTORS**

who provide capital that  
enables the Company to  
transform and succeed



**CUSTOMERS**  
are the primary source  
of Nemak's business



**SUPPLIERS**  
that Nemak strongly relies  
on to guarantee a high  
level of quality in its own  
products

**EMPLOYEES**

who drive business growth  
through their performance,  
engagement and collaboration



## Stakeholder engagement

GRI 102-40, 102-42, 102-43, 102-44

Nemak defines its stakeholders as any individuals or organizations that directly impact or are impacted by the Company's activities. Nemak identifies its stakeholders by investigating the entire value chain, from the mining of raw materials used in its production processes to the final end-users of its products.

The stakeholders Nemak engages with are those perceived as either most impacted by Nemak's choices or those that Nemak is most reliant on for sustainable business performance. These stakeholders include, but are not limited to:

	CUSTOMERS	INVESTORS	SUPPLIERS	EMPLOYEES	COMMUNITIES
Form of engagement (related to sustainability topics)	Customer meetings Customer requests Materiality assessments	Annual Report Quarterly calls Sustainability-Linked Bonds (SLBs) Investor Day Materiality Assessment	EcoVadis assessments Commitment letters Supplier meetings (sustainability round tables) Materiality Assessment	Sustainability workshops (for example for sales) HSE Week Materiality Assessment	Local Initiatives Refer to People and Communities section of Annual Report for more information
Reasons for engagement	Improve customer confidence that Nemak will achieve its sustainability strategy Actively engage and align with customer expectations	Increase confidence in Nemak and its sustainability commitments to encourage further investment	Raise awareness of Nemak's initiatives and encourage suppliers to align with the Company's sustainability objectives	Increase employee awareness and motivation to proactively engage with sustainability topics Align Company and employee sustainability values	Support the communities in which Nemak operates Educate community members about the Company and its activities Learn from communities and raise awareness about their local issues
Frequency of engagement	Ongoing	Ongoing	Ongoing	Ongoing	Ongoing (depending on local initiatives)



In 2021, the most frequently raised topics by Nemak's stakeholders were related to climate protection and emissions reduction. The Company also received a growing number of requests for greater emissions transparency and evidence of its proactive climate strategy implementation. In addition, the issuance of the sustainability-linked bonds (SLBs) has magnified investor attention to Nemak's emission reduction progress. In response to stakeholder requests, Nemak continues to evolve its climate strategy, including ongoing investments in energy efficiency projects and the purchase of renewable energy.

Similarly, circularity and supply chain management are critical topics for Nemak and its customers, employees, and investors. Within this context, the Company is working to minimize the

environmental impacts of its upstream materials and end-of-life activities by using more recycled materials in its production processes.

In addition, as the global community began to recover from the COVID-19 outbreak, Nemak observed an unprecedented amount of supply chain disruptions. The Company has shown strong perseverance and reported no interruptions in 2021. However, as Nemak's production share of assembled goods increases, so does the pressure on its supply chain. Therefore, effective and efficient supply chain management is critical for the Company to continue providing high-quality products to its customers. In response, Nemak continues to actively engage with its suppliers through commitment letters, EcoVadis assessments, events and supplier round tables.

Continuous engagement and dialogue with its stakeholders is important for Nemak. The Company conducted a full materiality assessment during 2021, outlining key material issues which guide Nemak's overall sustainability strategy.





# Environment and climate

**As a leading manufacturer in the automotive industry, Nemak aims to maximize value for all its stakeholders, protecting the environment in the communities where it operates, while simultaneously implementing a broader vision of climate protection that aligns with principles of the United Nations Global Compact.**

Nemak believes it has a particular responsibility to reduce its climate impact thoughtfully and consistently, to conserve resources, and ultimately to protect nature. Based on its comprehensive understanding of the climate crisis, Nemak continuously evaluates potential risks and takes various measures to improve its environmental management, conducting analyses to prioritize the most pressing issues.

During its 2021 materiality analysis, Nemak ranked the key risks and opportunities based on their relevance to its stakeholders, including investors, customers, suppliers, and communities. The results enable the Company to make more informed decisions, understanding its overall impact and potential for influence, and guiding Nemak towards an improved sustainability strategy. Based on the results of this comprehensive analysis, climate protection and innovative approaches to protecting the climate were identified as the Company's predominant fields of action, representing growing priorities for its stakeholders. In effect, Nemak's environmental management program focuses on reducing emissions and energy consumption, while implementing a circular economy approach towards the use of raw materials, water, and waste management in Nemak's operations.

## Overall management approach

In its business operations, Nemak applies industry best practices, technology, and innovation to prevent environmental pollution, following numerous strict guidelines and regulatory requirements. The Company's environmental management strategy sets clear targets to improve its performance based on various ISO frameworks, such as ISO 14001 and ISO 50001. With this strategy, Nemak aims to enhance its environmental performance beyond mere compliance, in effect setting an example as a company committed to improving its sustainability management year after year. Currently, 97% of Nemak's sites are ISO 14001 certified, and the total number of certified locations continues to increase.

## Organization and responsibilities

Nemak strives to integrate sustainability principles into all its functions, assigning responsibility for environmental management to various levels of management across multidisciplinary teams. At the upper management level, Nemak's Vice President (VP) of Purchasing

and Sustainability is a C-Suite officer who regularly consults with the CEO and who is responsible for the Company's sustainability strategy, as well as overseeing Global HSE. The Company's global environmental management is led by the Health, Safety and Environment (HSE) Management team that collaborates with Nemak's manufacturing operations, Global Sustainability, Human Resources, Finance, Procurement, Sales, and Engineering.

The global HSE team is responsible for implementation of the environmental management system. Each operating site reports its relevant environmental management system activities to a regional HSE manager, who then reports to the Global HSE Director. The Company's Sustainability Capex Committee, founded in 2021 and comprised of company executives – the CFO, the VP of Manufacturing and Product Development, and the VP of Purchasing and Sustainability – approves all sustainability projects and investments. These investments can include energy efficiency, emission control and reduction, green energy, and other related sustainability projects.



# Climate protection and climate innovation

SDG 13: Climate Action  
Material aspect: Climate protection  
GRI 302, GRI 305

Combatting the impending climate crisis and achieving the target established in the Paris Climate Agreement of limiting the global temperature increase to 1.5 degrees Celsius is one of the key challenges facing society over the next decade. Due to the energy-intensive nature of Nematik's business, it has a responsibility to take meaningful actions to reduce carbon dioxide equivalent (CO<sub>2</sub>e) greenhouse gas (GHG) emissions. Emissions reduction and energy efficiency are therefore vital topics for innovation at Nematik, driving its focus on increasing the fuel efficiency of vehicles while also reducing its own emissions during the manufacturing process. As a key member of the global automotive supply chain, Nematik has a particular responsibility to reduce its direct Scope 1 and indirect Scope 2 emissions, as well as its Scope 3 emissions to decrease pollution along the entire value chain.

WE'VE HAD OUR  
SCIENCE-BASED TARGET APPROVED



## Nematik's ambitions

Based on different projections of volume development, energy consumption and growth scenarios, Nematik has developed a holistic climate strategy that includes mid-term targets to 2030, and the ambition to become carbon neutral by 2050 or earlier. In March 2021, the Science Based Targets Initiative (SBTi) officially validated Nematik's targets, marking a significant milestone in the Company's climate journey.

### The Company has set the following targets for reducing its greenhouse gas emissions:

Reduce Scope 1 and 2 emissions\* by at least

28%

by 2030 from a 2019 baseline

Reduce Scope 3 emissions by at least

14%

by 2030 from a 2019 baseline

\* Scope 1 & 2 targets are in line with a well-below 2°C global warming scenario



In 2021, the most frequently raised topics by Nematik's stakeholders were related to climate protection and emissions reduction.



Nemak's method for calculating its Scope 1 and Scope 2 emissions will be independently verified by a third party in 2022\*. In the future, based on the verification results, the Company may consider committing to the more ambitious goals of the SBTi in line with limiting global warming to a 1.5-degree Celsius scenario.

### Nemak's approach to meeting its climate targets:

**GREEN PRODUCTION**  
Energy efficiency  
Technical Innovation

**28%**

Reduction in CO<sub>2</sub>e footprint in Scope 1 & 2 by 2030

**GREEN SOURCING**  
Renewable energy  
Low carbon materials

**14%**

Reduction in CO<sub>2</sub>e footprint in Scope 3 by 2030

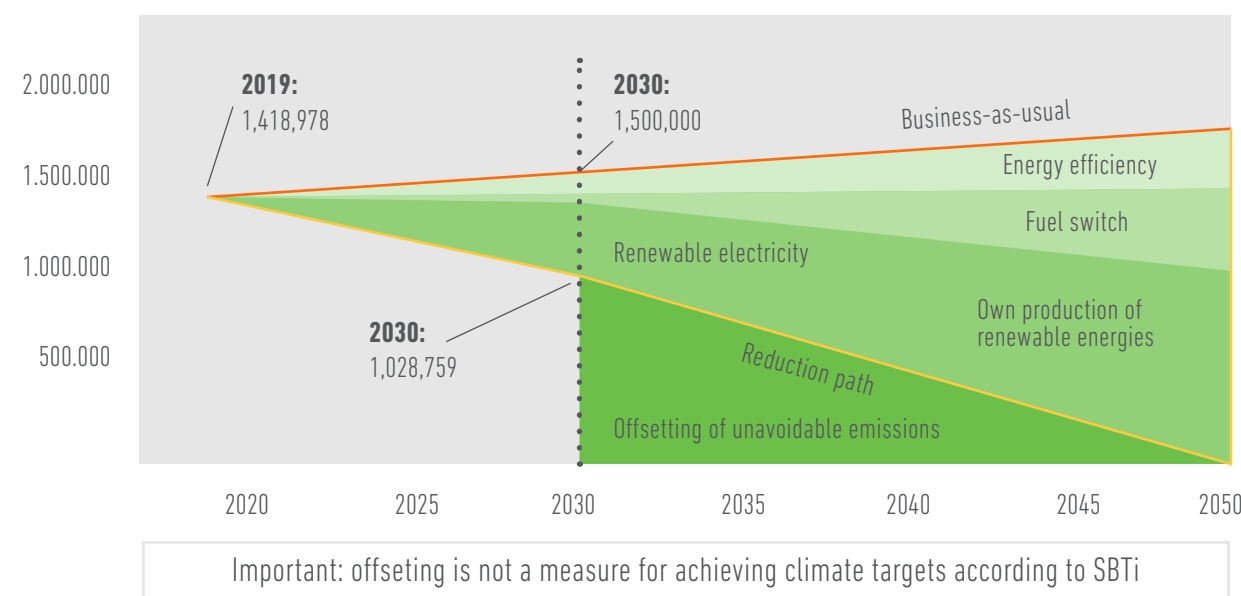
**GREEN PRODUCTS**  
Low carbon materials  
and solutions

CARBON NEUTRAL  
LATEST BY 2050

\* Verification of Scope 1 and Scope 2 emissions will be available by the end of 2022

### The Figure below shows Nemak's path towards net-zero Scope 1 and Scope 2 emissions.

#### PROJECT PATHWAY TO NET ZEO



**Scope 1+2 in metric tons of CO<sub>2</sub>e**

To reinforce its commitment and increase funding towards attaining these climate objectives, Nemak completed the issuance of two sustainability-linked bonds (SLBs). The first was for US\$500 million with a ten-year maturity, and the second was for €500 million with a seven-year maturity. The issuance of these bonds enables the Company to gain additional access to capital, which it can invest in the execution of its climate-related initiatives as well as its broader strategy. As part of each issuance, Nemak has committed to specific environmental outcomes and targets by setting ambitious science-based timelines to achieve sustainability targets that are relevant, core and material to its business. This commitment linked to the SLBs comprises a 18% reduction in Scope 1 and 2 emissions by 2026, based on 2019 levels.

Additionally, under the terms of these transactions, if Nemak is unable to execute its strategy and meet its SBTi-aligned targets, a premium will be payable by Nemak in the form of a step-up in coupon margin.

To reach its targets, Nemak has developed a Decarbonization Maturity Model (DMM), which includes establishing specific objectives in the areas of life cycle assessment (LCA), amount of renewable energy purchased and generated, and several other measures. With the DMM, Nemak narrows down specific targets based on regional and local circumstances to ensure that implementation of the decarbonization strategy is successful on an aggregated global level.



## Climate-related risks and opportunities

GRI 102-15, 201-2

In line with the results of Nemak's materiality analysis and the growing importance of climate protection, the Company believes it is critical to assess, understand and evaluate the inherent risks of climate change and their associated financial implications. Nemak has begun implementing the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) in its strategy to 2030, and is continuously evaluating how it can align its risk management and reporting with the requirements. These initiatives enable both Nemak and its stakeholders to incorporate climate-related risks and opportunities into their business management, strategic planning, and decision-making processes to provide greater value and transparency.



### Climate scenario modeling

Along with Nemak's implementation of TCFD recommendations, the Company conducted a scenario analysis in 2021 using two cases – business as usual (BAU) and a 1.5-degree Celsius scenario – that it identified as the most likely and impactful based on its risk assessment process.

The first emerging risk is associated with the automotive industry's rapid and accelerating shift towards electrification. In 2021, around 90% of Nemak's revenue came from vehicle applications with internal combustion engines (ICE). However, the increasing market penetration of electric vehicles (EV) presents Nemak with both risks and great opportunities. More information about the measures Nemak has already taken and its long-term targets in the field of electromobility can be found in the Lightweighting Developments chapter.

The second risk relates to the rising costs associated with carbon pricing systems expected to be developed in the near future, such as carbon taxation and Emission Trading Systems (ETS). Nemak has assessed the potential impacts that carbon pricing will have on its future growth, as its core business involves purchasing significant volumes of electricity, natural gas, and fuel. Different carbon pricing schemes are already in place in several of Nemak's markets. As the Company expects more ambitious climate policies to be implemented in the future, there is a growing risk of rising operating costs for energy and freight transport.

Based on the results of the aforementioned risk analysis, Nemak has updated its strategy to include various measures related to climate protection, the circular economy, and the supply chain. More information can be found in Nemak's TCFD Index as outlined below.



# TCFD INDEX

GRI Standards 201-2

PILLAR/RECOMMENDATION	KEY POINTS
GOVERNANCE	
Describe the board's oversight of climate-related risks and opportunities.	<p>The Board of Directors evaluates the overall performance of Nematik's sustainability efforts at least once every two years, focusing specifically on climate-related issues as the topic becomes more material. In 2021, the Board discussed climate related topics, including topics such the impact of emerging environmental regulation on Nematik, changing market demands, and shifts in the Company's product portfolio. With the issuance of two sustainability-linked bonds (SLBs), vigilance over climate-related topics has increased, as the SLB framework is directly linked to Nematik's-emission abatement performance.</p> <p>A dedicated member of the Board of Directors is responsible for oversight of strategic alignment and integration of the sustainability strategy with the overall business strategy. This individual's responsibility is to support long-term plans and investment spending for Nematik's transition towards becoming a climate neutral company. The Global HSE department actively monitors the company's CO<sub>2</sub> emissions on a global level and reports on progress against its science-based targets, which in turn is communicated to investors and the Board of Directors.</p>
Describe management's role in assessing and managing climate-related risks and opportunities	<p>Nematik's CEO provides guidelines on the Company's long-term strategic goals and framework, and consults with external stakeholders such as investors and other shareholders to study trends in the mid- to long-term future, including assessing climate-related risks and opportunities. The CEO establishes the Company's vision, incorporating the results of the climate assessment.</p> <p>The VP of Purchasing and Sustainability is responsible for evaluating the identified climate -related risks and opportunities, in consultation with the CEO and the Co-Chairmen of the Board. The risk analysis is conducted by the Sustainability team in cooperation with Global Finance and Investor Relations, further presenting the results to the VP of Purchasing and Sustainability, the Sustainability Committee and Climate Task Force. Based on the identification and confirmation of climate-related risks and opportunities as a collective, the VP is responsible for integrating the results into the sustainability vision, and for implementing sustainability principles into Nematik's business strategy.</p> <p>The Global Sustainability Manager, Global Finance and Investor Relations Director, and HSE Director work together to identify and assess climate-related risks and opportunities, including preparing a financial assessment.</p> <p>The Sustainability Committee and Climate Task Force, both led by the VP of Purchasing and Sustainability, oversee and assess the results of identified climate-related risks and opportunities, alongside overseeing Nematik's climate strategy and emission reduction activities. The Sustainability Steering Committee and the Task Force comprise internal environmental, social and governance leaders and experts. Specific inputs on Nematik's Scope 1, 2 and 3 emissions are provided by the Energy Management Engineering Community and the Sustainability Investment Executive Steering Committee. The Global Sustainability Manager supports these processes and oversees the emission target setting, progress and implementation. In some cases, the Company includes other internal and external resources to support its environmental performance objectives.</p> <p>For more details on the Company's sustainability governance structure, please see Nematik's Annual Report 2021, p. 20.</p>



**STRATEGY**

Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.

Time horizons are defined by Nematik as:

- 1) Short, 1 – 3 years
- 2) Medium, 3 – 5 years
- 3) Long, 5 – 10 years

Opportunities:

- (Medium – Long term) Dynamic market shift towards electrification, opening up new markets, new products, new customers, and new technologies
- (Short term) Improvements in operational efficiency and performance
- (Short term) Use of financial instruments linked to sustainability (ex: sustainability-linked bonds)

Risks:

- (Medium) Current and emerging regulations on carbon emissions, including implicit and explicit carbon -pricing schemes
- (Short – Medium) Market and reputation, stringent requirements from customers and stakeholders
- (Short – Long) Acute and chronic physical changes, risks of impacts from extreme weather events and catastrophes, and long-term land changes

Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

The outcome of Nematik's climate-related assessment is discussed at all levels of upper management, including with the CEO, VP of Purchasing as well as the Sustainability Committee. The assessment results in integration and consideration of all identified climate risks and opportunities in strategic and financial planning.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

In 2021, Nematik conducted a scenario analysis in a business-as-usual scenario and a 1.5-degree Celsius IPCC scenario, based on assumptions from diverse sources, such as IEA, World Bank, NGFS climate scenario database. This analysis is in line with TCFD recommendations and helps to evaluate the financial risks and opportunities from the most pressing climate issues, including transitional market and regulatory risks, such as electrification and current and emerging carbon regulations. These results were integrated into short-, medium-, and long-term strategic, business, financial, and sustainability planning.

**RISK MANAGEMENT**

Describe the organization's processes for identifying and assessing climate-related risks

Through consultation with internal management, including the VP of Purchasing and Sustainability, Global Sustainability Manager, HSE Director, and Global Finance and Investor Relations Director, Nematik has created an inventory with all relevant climate-related risks, which is updated on a yearly basis. Based on a quantitative evaluation by Nematik's management, including the CFO and all VPs, climate-related risks are ranked by magnitude and financial impact. The most relevant and pressing climate-related risks are evaluated using a scenario analysis, in line with TCFD recommendations, yielding financial impact values. Additionally, Nematik maintains an ongoing dialogue with its stakeholders that is centered on listening and understanding expectations in relation to the Company's sustainability activities, including any relevant information on climate-related risks.

To enrich the results of this process in 2021, Nematik supplemented the risk inventory analysis with the results of the materiality assessment, which had identified climate change as the key topic for all stakeholders. Through a series of internal and external interviews, participants identified specific key points of the climate change topic that they perceived as risks or opportunities for Nematik, the results of which were used to adjust the risk inventory accordingly.

Describe the organization's processes for managing climate-related risks.

The climate-related risk inventory, scenario analysis, and materiality analysis are presented and discussed with the CEO, VP of Purchasing and Sustainability, the Sustainability Committee, and the Climate Task Force. The ongoing dialogue with external stakeholders on climate-related topics further supports and reaffirms the outcomes of this process. Findings from this multi-dimensional assessment pinpoint the areas that need improvement, and those that will have the greatest impact on climate protection. The Company uses this information to determine the focus of Nematik's climate strategy and goals. The results and impacts of this process, along with the defined climate change strategy, including Nematik's commitment to SBTi, are further integrated into business, strategic, and financial decisions.



**RISK MANAGEMENT**

Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.

As ESG topics become more relevant, Nematik continuously adapts its business and sustainability strategy in response to market shifts and changing stakeholder expectations. With the results of the climate-related risk analysis as well as the scenario analysis, Nematik actively considers and takes appropriate actions based on the findings to mitigate the impacts of such risks. This includes the integration of climate-related topics, including emissions, water and waste, into the overall process of risk management and business planning. In addition, Nematik locations certified with ISO 14001, 45000 and 50001 have biannual third-party certification audits and surveillance audits in the years between certification. Overall, Nematik's shifting focus and prioritization of sustainability topics is evident in the company's significant improvement in 2021 in ESG ratings such as the CDP and EcoVadis.

**METRICS AND TARGETS**

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

To achieve its ultimate objective of Net Zero emissions at least by 2050, Nematik has defined a strategy based on three pillars: Green Products, Green Production and Green Sourcing. To achieve its net-zero target, Nematik has developed a Decarbonization Maturity Model (DMM), which includes establishing specific targets in the areas of life cycle assessment (LCA), renewable energy share and various others. With the DMM, Nematik strives to narrow down specific targets based on regional and local circumstances to ensure the decarbonization strategy's implementation is successful on an aggregated global level. However, it is important to take note that as part of Nematik's material issues, the aspects of this strategy apply not only towards Climate Protection, but also to Circularity, and Waste and Water Management. As a result, Nematik established specific environmental targets in all of these areas, outlined in its Sustainability Roadmap 2030.

As a fundamental pillar of Nematik's Climate Strategy, the Company has committed to Science Based Targets (SBT) to reduce Scope 1 and 2 emissions by 28%, and Scope 3 emissions by 14% by 2030, based on 2019 levels. To achieve these Scope 1 and 2 goals, Nematik tracks and focuses on environmental management, including energy efficiency under the ISO 50001 standard. Nematik is working towards having 100% of its facilities ISO 50001 certified by 2022. Additionally, the Company recognizes the potential of renewable energy in attaining its climate goals and mitigating the impacts of climate-related risks. Based on its Sustainability Roadmap 2030, Nematik aims to increase its global renewable energy use to 25% of total energy consumption by 2025, and 70% by 2030.

In reference to Scope 3 emissions, Nematik tracks the use of recycled material used in its products, which currently stands at approximately 70%. In line with circular economy principles, the Company aims to increase the recycled content quota of new product groups, especially those relevant to the rapidly expanding EV market. Additional investments are being made in R&D to ensure the usability and quality of Nematik products made from recycled alloys. Nematik maintains strong relationships with its suppliers through constant communication, supporting and encouraging them towards higher levels of transparency in ESG topics, including climate change. As a tactic towards attaining its Scope 3 reduction target, the Company secured 26 commitment letters from key suppliers, which are dedicated towards reaching net zero. Additionally, Nematik requires key suppliers to take part in EcoVadis as a screening practice and establishes specific score thresholds for key suppliers to meet. EcoVadis is a comprehensive and globally recognized ESG assessment as a method increased transparency, as well as encouraging its suppliers toward more proactive action in sustainability topics.

As a powerful tool, Nematik uses insights from the internationally recognized Life Cycle Assessment (LCA) methodology to help the Company understand where most of its global warming impacts originate from. As Nematik's product portfolio evolves, the Company continues to deepen its LCA approach, with the goal of completing LCAs for all product categories in the short term.

Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.

Please see p. 31 of the Annual Report for a detailed breakdown of Nematik's Scope 1, 2 and 3 emissions, as well as the related risks.



80%

of supply chain-related emissions come from the main raw materials used for Nematik's products

## Emissions

GRI 305: 305-1, 305-2, 305-3, 305-5

### Management approach

Electromobility plays a critical role in the transition towards a sustainable automotive industry and reducing greenhouse gas emissions worldwide. As an active player in this global transition, Nematik aims to become a leading producer and supplier of EV/SC components, including lightweight electric motor housings, battery housings, and structural components for electric vehicles.

Thirty percent of Nematik's total carbon footprint is generated by Scope 1 emissions from its on-site use of natural gas and other fossil fuels, and indirect Scope 2 emissions emanate from selected electricity and district heating suppliers. While Nematik's Scope 2 emissions increased by 1% in 2021, its Scope 1 emissions were 8% higher than

the previous year. This increase was in part a reflection of the exceptional circumstances of 2020 including reduced fuel consumption, particularly natural gas, during the various shutdowns of the Company's facilities worldwide and lower production between March and May.

More than 70% of Nematik's CO<sub>2</sub>e emissions result from its supply chain. It is therefore critical for the Company to engage with suppliers to reduce its global carbon footprint and progress towards its net-zero goal. As 80% of those supply chain-related emissions come from the main raw materials used for Nematik's products — aluminum and aluminum alloys, which are 100% recyclable — circular economy principles are becoming an ever-more pressing topic, presenting huge opportunities for future improvement in material.

EMISSIONS IN TONS CO <sub>2</sub> e*			
	2021	2020	2019
Scope 1	648,628	598,629	719,659
Scope 2	568,291	563,095	699,319
Scope 3	3,878,933	3,150,516	3,384,960
Total	5,095,852	4,312,240	4,803,938

\* Emissions values are estimates



Scope 3 emissions main contributors are related to category 3.1, Purchased Goods and Services. Within 3.1, by far the biggest contributor are aluminum, alloys and scrap with an overall contribution of 75% of the total scope 3.1.

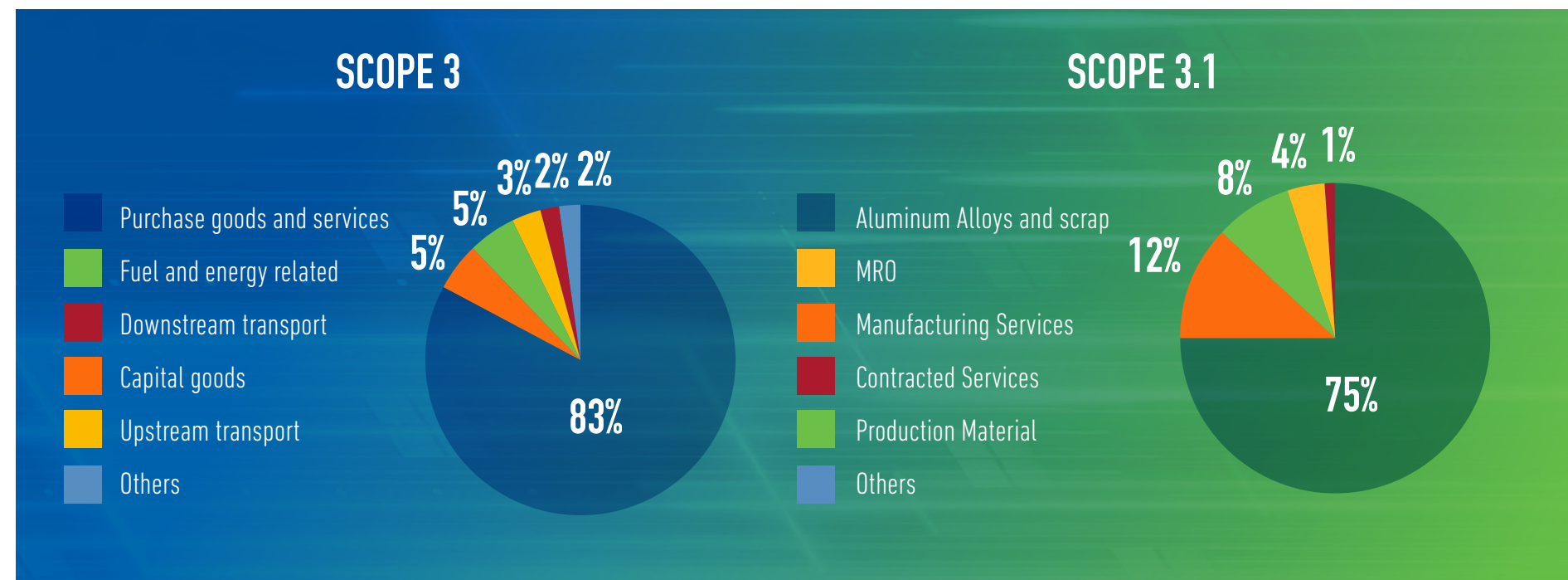
During 2021, scope 3 emissions increased by 23% in comparison to 2020. While the majority of the scope 3 categories stayed at a comparable level to 2020, the predominant contributor to the growth of scope 3 is related to scope 3.1 and more specific to Aluminum, alloys and scrap. Here a mixture of different effects leads to an increase of CO<sub>2</sub> emissions: firstly, a higher volume of purchased metal (including aluminum, master alloys and scrap) of 4.1% contributed negatively to the overall effect. Secondly, a rising share of primary metal used in Nemak's products increased overall level of emissions. The share of primary material increased from 25% to 30% in relation to all metal used, which represents an 24% increase on primary material. The increased share of primary metal mainly resulted from more stringent technical specifications and requirements, related to the new product portfolio, which in turn requires more primary material. At the same time, high LME prices limited the availability of primary scrap material with a lower carbon footprint, which contributed negatively to the overall CO<sub>2</sub> footprint. Specifically, in the North American region, the availability

of primary raw aluminum (P1020) was restricted with limited options to purchase metal with optimized footprint. In order to secure the availability of low carbon primary material in future strategic supply contracts have been signed.

A key element in the reduction strategy of Nemak's scope 3 footprint is a cohesive and long-term supplier engagement effort. During the reporting year, Nemak created different occasions of exchange and shared learning, while at the same time requesting its key supply base to take action. Due to the increased efforts, Nemak demands more concise data from its supply base and has consistently replaced the general

emission factors through primary data and increased the accuracy and validity of the overall emission footprint calculation. As a result, in some cases, the emission factors per supplier deviate negatively from the standard factors provided from relevant databases.

The weighted global average CO<sub>2</sub>e factors for Nemak's primary material in 2020 was 10.97% kg CO<sub>2</sub>e / kg material, while the global weighted average in 2021 was 11.34% kg CO<sub>2</sub>e / kg material. This increase is driven by a higher share of primary emission data directly reported by Nemak's suppliers.





## Organization and responsibilities

While the global sustainability team provides the strategic roadmap for Nemak's climate strategy, the HSE team's responsibility is to measure and forecast the Company's climate change performance for Scope 1 and 2 emissions. Nemak's emission strategy is approved by the Company's Sustainability Steering Committee and supported by the Global Climate Task Force. The Sustainability Steering Committee and the Task Force comprise internal environmental, social and governance leaders and experts. Specific inputs on Nemak's Scope 1, 2 and 3 emissions are provided by the Energy Management Engineering Community and the Sustainability Investment Executive Steering Committee. The Global Sustainability Manager supports these processes and oversees the emission target-setting, progress, and implementation. In some cases, the Company includes other internal and external resources to support its environmental performance objectives.

## Progress and measures

To achieve the target of reducing Scope 3 emissions, 26 of Nemak's critical suppliers have signed a commitment to measure and reduce their CO<sub>2</sub> emissions in line with Nemak's ambitions. In addition, the Company has introduced a bonus-malus mechanism to evaluate the suppliers that share information about their climate strategy and CO<sub>2</sub> emissions. For example, Nemak encourages its suppliers to be evaluated by reputable third parties such as EcoVadis. In 2021, Nemak assessed 57 new suppliers in conjunction with EcoVadis, thus the Company now has a total of 88

assessed suppliers with valid scores. In the future the Company plans to introduce engagement programs for suppliers of key inputs, particularly aluminum, to ensure they do not exceed the emission levels targeted by Nemak.

The Company also conducted two stakeholder roundtables in 2021, and one webinar with suppliers and guest speakers, including specialists from the Aluminum Stewardship Association, to discuss Nemak's emissions reduction targets and commitments. In total, around 20 of the Company's key suppliers participated in these roundtables, and approximately 100 joined the webinar.

In 2021, Nemak invested US\$5 million to reduce the amount of Significant Air Pollutants such as Hazardous Air Pollutants (HAP), Particulate Matter (PM) and Volatile Organic Compounds (VOC) released into the atmosphere. These investments included applying filters and hoods for casting areas, and improving filter systems and engineering control systems to reduce HAP and VOC emissions.

## Evaluation

Nemak's locations certified to ISO 14001, 45000 and 50001 undergo third-party certification audits every two years, and surveillance audits in the years between certification. In 2021, as part of the ISO 50001 certification, gap assessments were conducted at some sites during the reporting year. In addition, during the reporting year, Nemak improved its ratings and scores from various sustainability rating agencies such as EcoVadis, DJSI and CDP.





## Energy

SDG 7: Affordable and Clean Energy

GRI 302: 302-1, 302-4

### Management approach

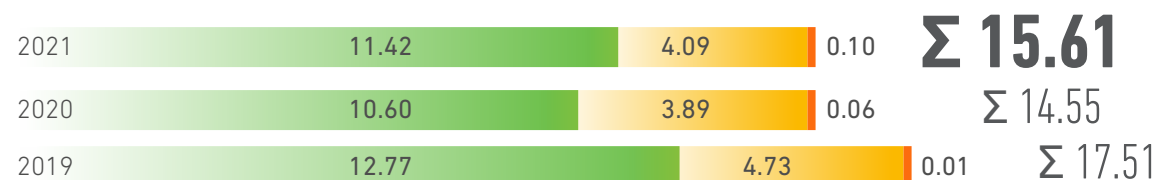
Under the Company's climate strategy, Nemak is increasingly prioritizing energy efficiency and using renewable energy in production processes to foster greener and more sustainable operations. The Company's energy management program, based on ISO 50001 guidelines, is structured with varying levels of responsibility, including the leadership team, which comprises members from the HSE department, Sustainability Committee, department managers and domain experts. The team is responsible for monitoring, controlling, and saving energy in manufacturing processes, and identifying energy-related risks and opportunities. The Company also develops strategies to improve energy efficiency and invests in new machinery, equipment, and processes, with a focus on transitioning to carbon-free energy sources. In addition, where possible, Nemak purchases renewable energy in the form of renewable energy certificates (RECs) to achieve its climate protection goals. Currently, 42% of Nemak's locations are certified to ISO 50001 and the Company is aiming for 100% of sites to be certified by 2023.

### Nemak's ambition

Increasing the percentage of renewables in Nemak's energy mix is a central pillar of its energy transition strategy in line with the overall climate strategy. The Company's ambition is to supply at least 25% of its energy needs with renewable sources by 2025, and 70% by 2030.

Nemak's locations in India and Poland currently receive a portion of their power directly from solar photovoltaic (PV) sources, and its Polish site uses a waste energy recuperation system. In Monterrey, Mexico, 15% of the site's total energy comes from wind power. In addition, Nemak's site in Dillingen, Germany, applies renewable energy credits to 40% of its energy use, Spain applies 60%, and its manufacturing facilities in Austria purchase renewable energy certificates for 100% of their energy use. Overall, Nemak's total renewable energy contracts and certificates represent 443k GJ or approximately 10% of its overall electricity consumption.

#### ENERGY CONSUMPTION IN M GJ



■ Fossil fuels
 ■ Electricity
 ■ District heating & cooling

*Energy consumption data is part of the verification process and therefore values for 2019-2021 are estimates.*

### Progress and measures

In 2021, the Company undertook a variety of measures to advance and improve its energy management program. In one example, Nemak contracted a global energy management consultant to enhance performance and reduce risk in its energy supply chain by monitoring energy inventories, assisting with energy contract negotiations, as well as forecasting and improving data management methods. The Company also formed a cross-functional energy management team, and in 2021, it conducted ISO 50001 assessments and evaluations at all Mexican sites to identify any performance gaps prior to official certification.





# CIRCULARITY

SDG 12: Responsible Consumption and Production  
Material aspect: Circularity

The extraction and use of natural resources throughout the entire value chain significantly impact the health of local environments and influence global climate conditions. As a member of the resource-intensive automotive industry, Nematik believes it has a responsibility to design its innovation and production processes in a resource-friendly way.

By applying circular economy principles, Nematik strives to design products that maximize the reuse of aluminum and other materials, minimize waste and pollution in its manufacturing processes, and help regenerate natural systems. The Company is contributing to circularity by improving resource efficiency, using secondary materials such as recycled aluminum, and producing lightweight EV/SC components that help reduce emissions during the product use phase.

## Waste management and hazardous materials

Material aspect: Waste management and hazardous materials  
GRI 301: 301-1, 301-2, 306: 306-3, 306-4, 306-5

### Management approach

Nematik strives to use materials sustainably and minimize its waste and environmental impact as much as possible. It develops its products with maximum material efficiency by using life cycle assessments to identify and minimize their environmental impact. Aluminum and sand, the materials most heavily used in the Company's production processes, are recovered, recycled and/or reused as much as possible, thus conserving resources and lessening Nematik's carbon footprint. Key measures towards this end include recycling aluminum scrap and facilitating dross treatment for aluminum alloys.

Nematik also creates local solutions to reduce waste and improve operating efficiency. For example, recycled aluminum is used in approximately 70% of its products, and the Company is taking

steps to increase use of recycled aluminum in new product groups. Additionally, the Company offers its customers alloys made from recycled material, which can reduce the product carbon footprint by up to 90%.

Furthermore, Nematik proactively engages with its supply chain and encourages similar environmental responsibility among its suppliers, while forming technical collaborations with its customers. For example, Nematik takes an active role in advising its customers on design and alloy composition in the development phase.

WASTE GENERATED IN K TONS			
	2021	2020	2019
Waste generated total	940	290	361
Sand-related	621*	108	183
Aluminium and metal	128	108	132
Water/ aqueateous solutions or liquid	27	17	12
Oils/lubricants/emulsions	92	15	10
Industrial & Commercial wastes not other classified	72	42**	24**
Diverted from disposal: Waste that is diverted from disposal includes waste sent to any of the following recovery operations: preparation for reuse, recycling, other recovery operations	778	119	139
Directed to Disposal: Waste that is directed to any of the following disposal operations: incineration (with or without energy recovery), landfilling or other disposal methods	162	147	201

\* In 2021, a new waste stream is disclosed related to sand.

\*\*In 2019 and 2020, waste treatment methods such as chemical treatments and other treatments were not disclosed in the waste treatment categories .

### Material risk management

Nematik does not use or source any conflict minerals – defined by the OECD as tin, tungsten, gold, and tantalum – nor does it source its aluminum from conflict countries defined by the OECD and the EU. As part of its commitment, Nematik has implemented a risk management process focusing on how critical suppliers' goods and services affect the Company's end products. These critical materials and services include vehicle components, manufacturing services, aluminum, and alloys. More information can be found in the Value Chain Engagement and Business Integrity chapter of this report.



## Progress and measures

To demonstrate its commitment to circularity, in 2021, Nemak started recycling metal from aluminum dross and reusing inorganic sand in its processes. In addition, the Company held its HSE Week for the fifth consecutive year, which included webinars on circular economy principles. Internal and external experts worked together in teams, discussing the topic of sustainability, and the importance and integration of resource circularity into Nemak's operations.

## Water management

Material aspect: Water management

GRI 303: 303-1, 303-2, 303-3, 303-4, 303-5

Water management is an important part of Nemak's environmental stewardship program. Even though the Company does not use water intensively in its production processes, it recognizes that water scarcity is one of the most significant global risks for the economy and society. Nemak is working to minimize its water consumption and maximize the potential for clean water discharge to help protect, restore, and enhance the natural environment.

## Management approach

To address the issue of water scarcity, Nemak has developed a water management strategy pursuant to ISO 14001 requirements, and has implemented it on a location-specific basis. Within the strategy, each site sets targets based on its water consumption and local legal regulations, ensuring its wastewater discharge meets or exceeds local requirements for water purity. To meet their objectives, some sites have also implemented engineering controls to prevent water leakage, recover wastewater for internal reuse, and preserve green spaces to manage surface water. In addition, Nemak owns and operates 23 wastewater treatment plants that remove contaminants and purify wastewater prior to discharge into local systems. Untreated wastewater is sent to local treatment facilities. A small amount of water is included in other regulated waste, which is then collected and shipped to a third party for treatment and disposal. Furthermore, one of the Company's sites substitutes material pollutants in processes by replacing neutralization water with another acid to enable direct discharge into the sewer system, thus avoiding disposal via a third party.

Water is mainly used for cooling processes and sanitary facilities in Nemak's manufacturing sites. At some sites, water is drawn from either municipal source, groundwater sources, or wells. Some of this water is consumed and vaporized throughout the operation. Still, most of it is returned to third-party suppliers for water treatment or to the municipal sewerage system, pretreated in compliance with applicable local regulations. Only water drawn from underground and third-party sources is used for sanitary, washing, and cooling processes. All wastewater is treated either on-site or at off-site municipal wastewater treatment plants.

GRI 303-3/4/5

WATER WITHDRAWAL AND CONSUMPTION IN K MEGALITERS			
	2021	2020	2019
Water withdrawal total*	<b>7.93</b>	7.60	9.16
Water discharge total	<b>6.89</b>	6.90	8.13
Water consumption total	<b>1.04</b>	0.72	1.03

\* Water withdrawal total includes water from areas with water stress

## Water risk assessment

To demonstrate the Company's commitment to improving its overall environmental performance, it has conducted a water risk assessment using the Aqueduct tool, developed by the World Resources Institute, to identify water-stressed zones where the Company has operations. In the reporting year, Nemak identified four such areas: Garcia, Nuevo León, Mexico, Chennai, Tamil Nadu, India, and Izmir, Turkey, which have "very high" water stress, and Wernigerode, Germany with a "high" water stress. Water withdrawals from these zones represent 10.3% of the Company's total withdrawals. Nonetheless, Nemak received a B- rating for the second consecutive year in the CDP water security questionnaire showing its proactivity towards the topic.





# PRODUCT AND INNOVATION

SDG 9: Industry, Innovation and Infrastructure  
Material aspect: Innovation

Innovation and new technologies, particularly in electric transport, are sustainably transforming the automotive sector while providing mobility to growing populations, improving air quality, and protecting the climate. Nematik sees itself as a key part of this transformation and is using its technology, innovations, and business operations to actively reduce the automotive industry's carbon footprint. Additionally, with the shift towards electrification and the increasingly strict safety requirements for batteries, Nematik views product quality and safety as critical issues. The Company therefore strives to ensure that all of its products, including new technologies, comply with all applicable safety requirements and exceed customer expectations.

## Management approach

Nematik supports the industry's sustainable transformation through its electromobility and structural applications business, which produces castings, assembled battery housings and highly integrated e-motor housings. These weight-reducing innovations enable carmakers to achieve sustainability targets relating to CO<sub>2</sub>e emissions and fuel efficiency, while meeting growing consumer expectations around vehicle performance, range and pollution levels. All Product Development Centers focus on advancing both existing and predominately new commercially viable casting technologies.

## Nematik's ambition

Over the last three years, the Company's research and development spending has averaged around 2% of its sales. Going forward, Nematik will continue investing in the design, development, and testing of new lightweight components and casting technologies to reduce the environmental impact of its products throughout the entire value chain. Based in part on expected growth in the global penetration of electric vehicles, along with automakers' efforts to minimize the weight of these vehicles in order to increase their driving range, the Company expects its total addressable market in its EV/SC segment alone to reach US\$27 billion by 2030. Under such a scenario, the Company estimates that this segment could represent close to 60% of its consolidated revenue by that time. As of the date of this report, Nematik has been awarded contracts in its EV/SC segment worth approximately US\$1.05 billion annually.

To improve sustainability, Nematik initiated life cycle assessments for some of its key products in 2021. The studies measured each product's environmental impact throughout all phases, including the extraction of raw materials, production, and consumption. To date, Nematik has evaluated three of its core product categories using the LCA methodology, providing insights into the most impactful areas of the Company's production. These results provide valuable data to guide Nematik's future investments and highlight opportunities for improvement where it can most effectively reduce its environmental footprint. In 2022, Nematik aims to conduct LCAs for each product group and increase its overall company knowledge and working capabilities using LCA methodology. As a result, Nematik's [sustainability roadmap](#) also outlines specific key performance indicators (KPIs) on this subject.





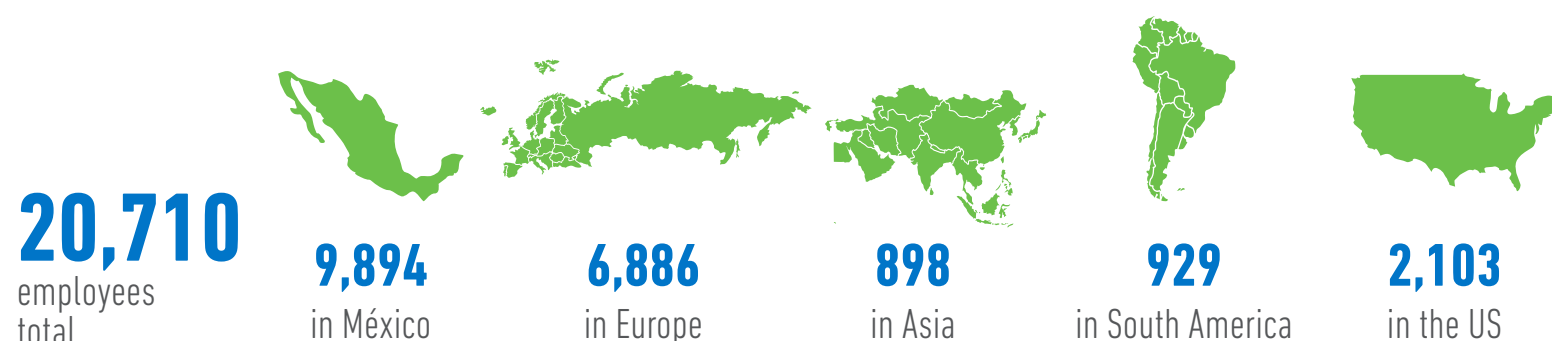
# People and communities

SDGs 4: Quality Education and 8: Decent Work and Economic Growth  
GRI 102-8, 401: 401-1

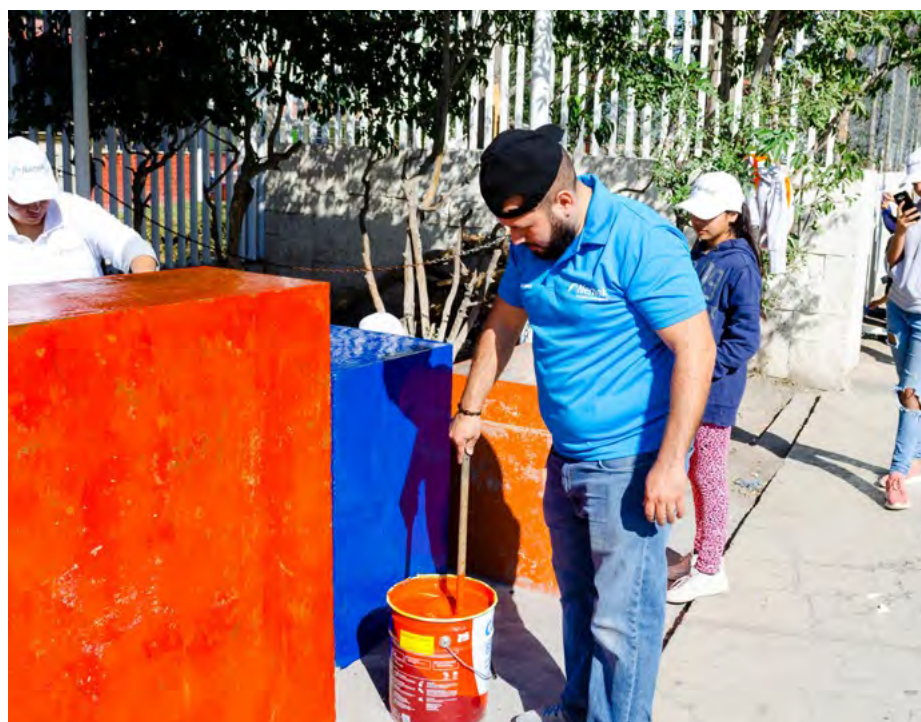
Nemak seeks to foster a positive company culture that aligns with its core values of customer focus, trust and collaboration, innovation, and respect and responsibility. The Company believes that through the creation of strong working relationships, its approach to employees, society, and the environment, will in turn contribute to business growth and value creation.

By developing and implementing measures that support well-being, occupational health and safety, diversity, and corporate citizenship programs, the Company's initiatives aim to boost personal and professional development in a safe and structured work environment.

In 2021, the workforce at Nemak was distributed as follows:



NUMBER OF EMPLOYEES BY CONTRACT		
	PERMANENT CONTRACT	TEMPORARY CONTRACT
Total	20,615	95
Mexico	9,809	85
Europe	6,878	8
Asia	898	0
South America	929	0
US	2,101	2
	FULL TIME	PART TIME
Female	1,879	72
Male	18,506	253







New hires in 2021:

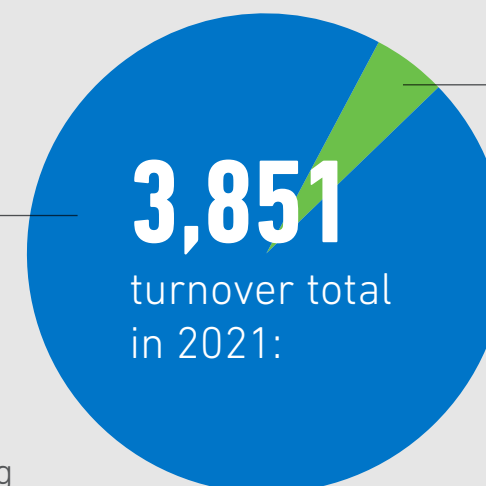
**3,141** employees

In 2021, Nematik hired a total of 3,141 new qualified employees across all regions. The total employee turnover in the reporting period was 18.6%, with a 25.6% reduction compared to the previous year. Voluntary leaves increased slightly from 8.7 to 9.3% in 2021, reflecting a general mobility trend in an industry that is still feeling impacts from the COVID-19 pandemic. Talent is key for Nematik, and Nematik continues implementing actions to strengthen its Employee Value Proposition, with the aim of helping to improve employee engagement.



**3,729**

with a permanent  
contract, representing  
a 18.1% turnover rate



**122**

with a temporary  
contract



# WELL-BEING AND TALENT DEVELOPMENT

Material aspect: Labor practices  
GRI 401: 401-2, 404, 102-41

Nemak's growth has always been linked to attracting, developing, and retaining the best talent. As a global provider of innovative lightweighting solutions, employee talent is fundamental to meeting and exceeding its customers' needs. In addition, Nemak understands how critical a positive working environment is to its business, therefore, it focuses on implementing programs that meet its employees' unique expectations, enabling them to thrive in their roles at work.

## Organization and responsibilities

The Human Resources leadership team is responsible for all employee-related issues. Nemak also has a Talent Development Center of Excellence, which is responsible for promoting best practices, creating policies, and overseeing all HR-related activities. Nemak's Human Resources departments are organized regionally, with the plant manager or managing director of each location making decisions regarding training and development with their local HR departments. These decisions are made at the start of the year as part of each site's annual objective setting.

## Policies and guidelines

Nemak acts responsibly towards its employees and is committed to complying with all applicable social and labor standards. The Company asserts this commitment in its Global Code of Conduct, Global Human Rights Policy, Diversity and Inclusion Policy, and Global HSE Policy, which are all continuously updated.

## Employee well-being

GRI 102-41, 401: 401-2

### Management approach

Nemak maintains a fair, equitable and consistent approach to its compensation decisions throughout the talent management process, resulting in an average entry-level wage that is 48%

higher in comparison to the respective country's legal minimum base salary. In addition, 77% of all employees are covered by a collective bargaining agreement. Nemak's compensation decisions aim to ensure fair pay among employees using a standardized job valuation methodology that it applies across all regions without bias.

At some locations, Nemak offers its employees benefits that go above and beyond the minimum regulations of the countries where it operates. Nemak's full-time employees receive salary and have options for other benefits, including retention bonuses, holiday pay, savings funds, recognition for seniority, and pension plans. Nemak provides a fair, equitable and consistent approach to compensation decisions throughout the talent management process. The company's compensation decisions aim to ensure fair pay among employees using a standardized job valuation methodology that is applied across all regions without any bias. These compensation systems do not differentiate on anything other than what is job related. Nemak continually evaluates its practices to make sure any potential bias is identified so that the necessary corrective measures can be implemented.

In addition, all employees receive feedback on their target achievement, which forms the basis of their performance-related remuneration. Nemak continually evaluates its practices to ensure that the Company identifies any potential bias and implements the necessary corrective measures.

### Progress and measures

In 2021, Nemak conducted its third Global Employee Engagement Survey, "YOUR VOICE," which saw a new record of employee participation at 92%. Based on the results, the Company has progressed in all the evaluated areas, maintaining a positive trend since the first edition in 2015. The survey evaluates 17 categories selected to provide a quantitative measurement of the progress made in strengthening Nemak's Employee Value Proposition across its operations compared to previous years, global benchmarks from the automotive industry, and top-performing organizations. All results and related data are handled with the strictest confidentiality to guarantee the anonymity of participants' views and comments. The survey



results are presented to Nemak's leadership and analyzed and discussed at different organizational levels to generate concrete action plans to improve employee engagement. In addition, the implemented measures are communicated to employees as "ECHO OF YOUR VOICE," to increase awareness that all employees' responses are considered and transformed into actions that are catalysts of change.

## Employee development

SDG 4: Quality Education

Material aspect: Training and development

GRI 401: 401-1, 404: 404-1, 404-3

### Management approach

As Nemak continues to help drive the automotive industry's shift towards electrification, employees with advanced skills and knowledge who can help implement emerging growth opportunities are more important than ever. The Company has developed a model that includes talent development activities around key skills in the area of tooling, assembly and joining, quality assurance, product development, R&D, and maintenance. In addition, as part of its training and development strategy, Nemak aims to fill critical and management positions with internal candidates. In 2021, out of a total of 648 open salary positions, the Company filled 52.9 % of these roles with internal candidates. Salary positions refers to white collar positions with fixed pay rates, rather than hourly ones.



Another aspect of Nemak's talent development plan is to provide employees with consistent and helpful feedback. In line with this plan, the Company has a performance management process structured with objective targets, midterm reviews and performance evaluations. In 2021, 67% of Nemak's total employees and 99% of the Company's administrative personnel received performance evaluations. The Company also supported employees with regular dialogue about career development and personal growth plans based on each individual's skills and aspirations.

This table summarizes the average training hours Nemak provided to employees:

TRAINING HOURS		
AVERAGE HOURS OF TRAINING BY GENDER		
Female	17.1	hrs
Male	17.4	hrs
AVERAGE HOURS OF TRAINING BY EMPLOYEE CATEGORY		
Executives	7.3	hrs
Top management	15.9	hrs
Junior management positions	19.2	hrs
Management positions in revenue-generating functions	9	hrs
Employees below management level	14.3	hrs



### Progress and measures

In 2021, Nemak invested US\$2.2 million in training and developing technical talent across the Company's core processes. This investment ensures high levels of functional skill, leadership development, and teamwork in various strategic areas. The training sessions conducted in 2021 primarily covered health and safety topics, including COVID-19 safety measures, leadership training, manufacturing-specific sessions such as "Forklift" and "Load Security," and training in environmental and sustainability issues. The Company is also helping 235 employees attend capacity-building courses via paid scholarships with external institutions.





## DIVERSITY AND INCLUSION

Material aspect: Diversity and inclusion  
GRI 405: 405-1, 406

Diversity and inclusion play a fundamental role in everything Nemak does and support the foundations of the Company's core values. Nemak is committed to promoting and nurturing a culture of respect and responsibility towards people, the environment, and local communities. Given Nemak's global footprint, it serves a wide variety of customers in diverse business environments; therefore, embracing diversity and inclusion provides a competitive advantage that helps it exceed stakeholder expectations.

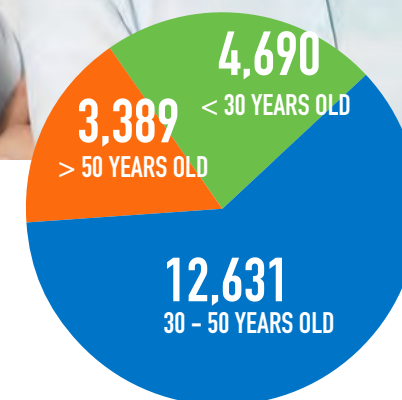
### Management approach

The responsibility for all diversity- and inclusion-related measures is anchored in Nemak's Human Resources department, which works closely with the Chief Executive Officer (CEO) and the Talent Attraction department. In the reporting period, Nemak defined its diversity and inclusion goals for the coming years based on five milestones: building foundations and basics, creating a common awareness, focusing on integrating diversity and inclusion into the Company's culture, processes and systems, and implementing diversity and inclusion as a core element of Nemak's sustainable performance and innovation.

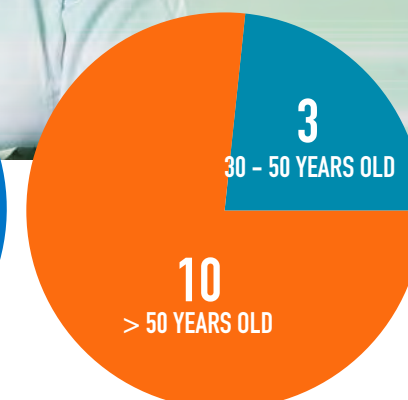
Nemak supports equal opportunities for everyone and opposes discrimination of all kinds. The Company's policies are clear that no person should be discriminated against based on their age, race,

ethnicity, family or marital status, gender identity or expression, sexual orientation, language, nationality, physical and mental ability, political affiliation, religion, socio-economic status, veteran status, or any other characteristics. Nemak is committed to maintaining and promoting an environment that is free of discrimination and harassment by actively promoting diversity and inclusion in the workplace. In line with these goals, the Company acknowledges the inherent barriers female employees face in the automotive industry, particularly in heavy manufacturing jobs. Therefore, Nemak's Diversity and Inclusion roadmap aims to eliminate these barriers and provide women with a safe and more appealing work environment.

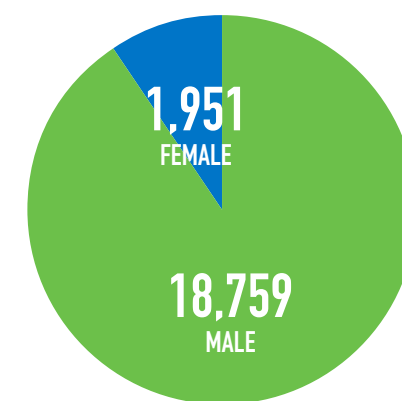
The Company's global workforce currently consists of approximately 90% men and 10% women, with 15% of board positions filled by women. Of the executive-level positions, 14.9% are filled by women. As a company policy, Nemak does not provide information on the remuneration of its employees to external bodies.



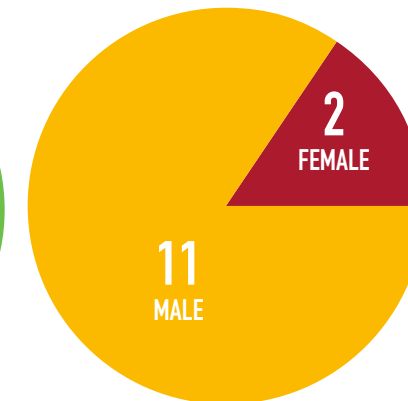
AGE GROUP



AGE GROUP  
BOARD DIRECTORS



GENDER



GENDER  
BOARD DIRECTORS



## Policies and regulations

Nemak's Global Diversity and Inclusion Policy aligns with its values, Code of Conduct, Business Code for Suppliers, and other business policies covering diversity and employee relations. This policy also includes key principles from the International Bill of Human Rights, the International Labor Organization's Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact, the UN's Sustainable Development Goals (SDGs), and the UN's Guiding Principles on Business and Human Rights.

The Global Diversity and Inclusion Policy applies to all Nemak employees, contractors, and joint venture employees under Nemak's management control.

## Dealing with incidents of discrimination

Nemak requires its employees to report all known or suspected violations of its Global Diversity and Inclusion Policy. All stakeholders can safely raise concerns or report violations through one of the following channels:

- Their direct manager or next-level manager
- The Human Resources manager or director
- Nemak's Governance and Compliance department (governance@nemak.com)
- Integrity and Transparency Toll-free Helpline

All reports are handled confidentially. Nemak prohibits any form of retaliation against individuals who, in good faith, report suspected violations or who cooperate in an investigation of a suspected violation reported by someone else. Additionally, Nemak strictly adheres to all international whistleblower protection laws and standards. Any retaliation against a person for reporting an issue in good faith is a violation of the Company's Global Code of Conduct and is strictly prohibited.

## Progress and measures

In 2021, Nemak published its corporate Global Diversity and Inclusion Policy and conducted global Diversity and Inclusion training sessions for employees in 15 countries and 11 languages. The learning objectives focused on strengthening the link between diversity and inclusion and Nemak's corporate values, communicating the Company's policies and commitment regarding the topic, uncovering employees' unconscious biases, and broadening their horizons regarding diversity and inclusion issues. Following the initial sessions, 795 managers worldwide received unconscious bias training and learned how to identify and minimize its impact in the three key processes of talent acquisition, performance evaluation and talent management.

The Company also participated in the General Motors Diversity & Inclusion Supplier Council and the Diversity, Equity & Inclusion Council of the Original Equipment Suppliers Association (OESA). Additionally, Nemak sponsored the Society of Women Engineers (SWE) annual conference, the largest conference and career fair for women in engineering, to further empower female talent in the engineering sector. In Mexico, Nemak runs the Women in Nemak (WIN) program, which focuses on talent development and leadership. The Company has also organized numerous events on women's health services, career development, and work-life balance in recent years, helping more than 600 women.







## OCCUPATIONAL HEALTH AND SAFETY

*Material aspects: Occupational health and safety, product quality and safety*  
GRI 403: 403-1

Occupational health and safety is integrated into every aspect of Nemak's business and is fundamental to its long-term success. The Company's commitment to safety means that its work is never so urgent or important that its employees cannot take the time to perform their functions safely. Nemak recognizes that there are inherent dangers in its business activities and continually uses risk analysis tools and corrective action tracking systems to lower the probability of injury and illness.

### Management approach

Nemak's Occupational Health and Safety Management System (OSHAS) covers all employees and includes health monitoring, risk identification and mitigation, safe work practices, employee training, and fulfilling legal obligations. In addition, 53% of the Company's locations are certified to the international safety management system ISO 45001.

Core components of Nemak's occupational health and safety program include:

- Management reviews of risk assessments and incident reports
- Union, Works Council and Health and Safety Committee involvement
- Reporting near-misses, incidents, non-compliance, and improvement suggestion programs
- Training competency and knowledge checks
- Physical examinations and occupational health medical evaluations (health risk assessments)
- On-site health professionals, such as nurses and doctors
- Industrial hygiene, psychosocial, and working condition measurements
- Programs to prevent COVID-19 outbreaks and transmission: cleaning, personal hygiene, education, and training
- Health and safety mailbox and hotline

Nemak's Occupational Health and Safety Management System complies with the respective laws in the countries where it has operations, and keeps workers' health-related information confidential in accordance with internal policies and legal requirements, such as HIPAA and ADA in the USA, and GDPR in Europe.



## Organization and responsibilities

The global HSE team is responsible for developing goals and strategies for occupational health and safety, which the sites implement in accordance with their local regulations. The sites' local health and safety teams proactively address any safety concerns or issues raised by employees or their unions. They also collaborate with relevant key staff to create improvement opportunities by investigating and analyzing the root causes of any work-related incidents at Nemak's facilities.

## Nemak's ambition

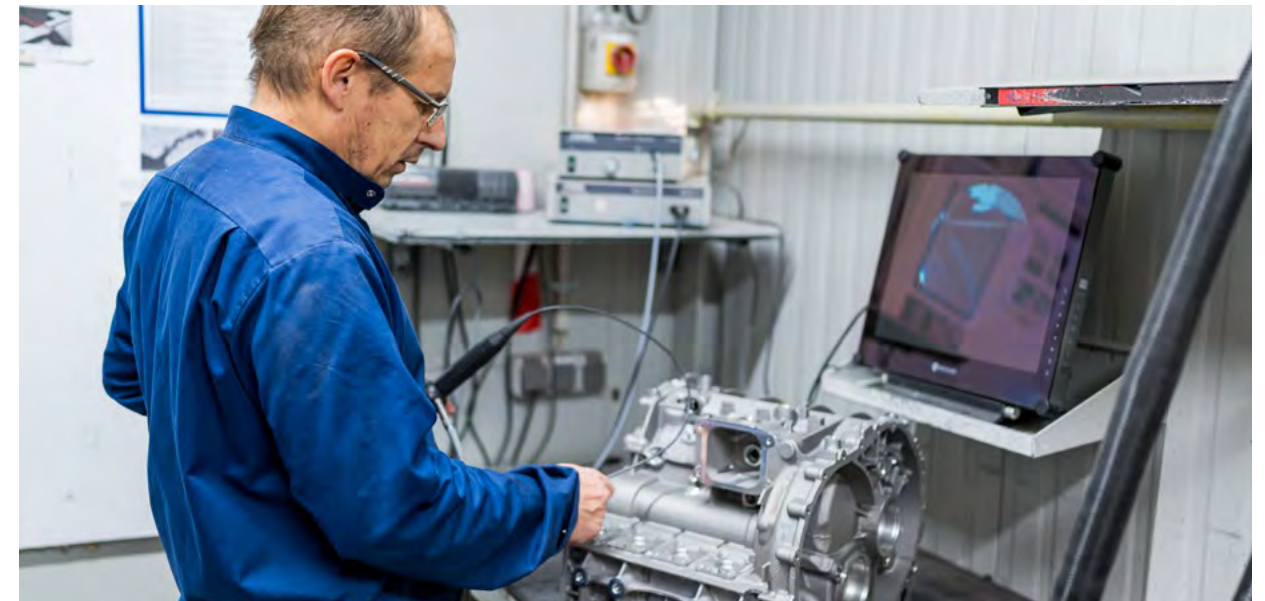
GRI 403-9

The Company measures its safety performance via the frequency of injuries per 100 employees (Total Recordable Incident Rate, "TRIR") and the severity of injuries resulting in restrictions or time away from work. Each location sets annual targets aiming not to exceed the prior year's performance for TRIR, LTC (Lost Time Case) and DART (Days Away, Restricted or Transferred).

HEALTH AND SAFETY METRICS			
	2021	2020	2019
Total recordable incidents	<b>277</b>	296	442
Accidents with serious consequences*	<b>26</b>	-	-
Accidents with lost time	<b>94</b>	87	131
Fatalities*	<b>0</b>	-	1
Total recordable incidents rate**	<b>1.41</b>	1.57	1.86
Lost time case rate**	<b>0.48</b>	0.46	0.55

\* Nemak only began reporting this indicator in 2021.

\*\* per 100 employees



## Risk identification and assessment

GRI 403-2

All facilities conduct quantitative risk assessments to identify risks and develop action plans to minimize their likelihood. Risk assessments and corrective actions are included in the management review process of ISO 45001. The OSHAS requirements apply to all employees, visitors, and contractors whenever work is being performed on behalf of the Company, including offsite and during travel. Nemak requires all employees to immediately report any risks or incidents so that the Company can take corrective action.

## Occupational health services

GRI 403-3

Nemak's sites perform annual health checks to identify any potential health risks, supported by the placement of at least one nurse in each manufacturing facility. Commonly diagnosed diseases include diabetes, cancer, high blood pressure, and other chronic illnesses. The sites also run vaccination campaigns for extra protection against seasonal diseases. In addition, each site promotes initiatives to improve employee well-being, including nutritional services and healthy canteen meals, fresh fruit deliveries, funds for social activities, recreation and rehabilitation, gym discounts, and psychological support.





## Progress and measures against COVID-19

The impact of COVID-19 continued to extend throughout the world, putting pressure on Nemak's staff and operations. The Company's top priority is to continue ensuring the highest health and safety standards for all its employees, their families, and local communities. Therefore, Nemak has developed a Pandemic Response Control Plan, which supports the global effort to combat the COVID-19 pandemic.

The organizational structure for the plan's execution is as follows:

- Executive Crisis Management Team: CEO and Executive Management Team
- Business Unit Crisis Management Team: Business Unit Director and staff
- Global Business Continuity Crisis Management Teams: individual teams from global HSE, Finance, Human Resources, Purchasing, and Commercial Sales
- Operations Crisis Management Teams: plant managers and employees

The Pandemic Response Control Plan consists of a COVID-19 occupational health care management system, including controls to prevent virus transmission, facility preparedness initiatives, and internal and external communications. The plan has been recognized by employees, customers, and government health agencies as an effective response to the crisis.

## Employee participation in occupational health and safety

GRI 403-4

As a leading global company, Nemak establishes defined roles and responsibilities for occupational health and safety supported by direct and transparent reporting systems.

Employees can use various channels to communicate any health and safety concerns or needs occurring in the workplace. These communication channels include Nemak's internal website (MyNemak), email, on-site verbal discussions, and messages via secure messaging applications (Mexico and USA). To maintain health and safety, Nemak's employees

are not permitted to start operational work until they have attended onboarding training about their role and the risks involved.

Additionally, Nemak hosted its fifth annual HSE week dedicated to increasing employee engagement with Health, Safety and Environment topics. During the HSE week in 2021, Nemak hosted a series of webinars with the participation of external experts, including webinars on the topics of "Enabling Positive Psychology" and "Bouncing Back from COVID". Nemak hosted activities on a global level, as well as local initiatives at plant level.

## Employee training in occupational health and safety

GRI 403-5, 403-7

Nemak provides specific training at each site based on local regulations identified by the HSE global department. These training sessions include:

- Risk assessments
- COVID-19 and other infectious diseases
- Principles of organizational safety in the program "safety differently"
- The preventive and correct use of chemicals
- Worker stress and mental health
- Machine safety
- Ergonomics and physical health
- Control of hazardous energy and machine lock-out programs
- First aid
- Emergency response



# CORPORATE CITIZENSHIP

Material aspect: Corporate citizenship

GRI 413: 413-1, 203: 203-1

## Management approach

As part of its commitment to social development, Nematik believes it is actively responsible for its employees and the communities in which it operates. Indeed, one of the three pillars in the Company's sustainability model is to give back to its local communities around the world. As a good corporate citizen, Nematik implements social, cultural, and community projects as a core element of its strategy, and it aims to be a trusted local provider of structural development, education, and equal employment opportunities. In addition, Nematik's Sustainability Committee addresses all its corporate citizenship-related goals and measures.



## Progress and measures

In 2021, due to preventive measures to combat the spread of COVID-19, Nematik's facilities were forced to suspend most of their community engagement activities. Despite the crisis, Nematik supported philanthropic activities through investments and enabled employee volunteering during paid working hours.

### INVESTMENTS IN PHILANTHROPIC ACTIVITIES

Monetary investments in citizenship/ philanthropic activities total	US \$2,761,727
Cash contributions	US \$1,679,393
Monetary contributions to projects/partnerships	US \$952,143
Products/services	US \$90,310
In-kind giving	US \$13,964
Others	US \$25,917

### CORPORATE CITIZENSHIP ACTIVITIES

Time investments in citizenship/ philanthropic activities total	960.5 hrs
Employee volunteering during paid working hours	779 hrs

The Company completed several initiatives, primarily local development programs comprising educational programs, environmental campaigns, and community support throughout the year.





## Mexico

In Mexico, Nemak supported the maintenance and renovation of school infrastructure in low-income areas near its facility, benefitting around 2,500 children in partnership with the regional government. In 2021, the Company also continued its annual support for the ALFA Fundación, donating approximately US\$950,000 and helping more than 1,700 people.

The Company also continued to support organizations and programs such as Autism ABP, House Indi, and a variety of social assistance institutions. Throughout 2021, Nemak donated more than US\$1.39 million to the benefit of approximately 5,000 people in Mexico, and over 200 employees joined initiatives to help local communities while adhering to all social distancing and COVID-19 restrictions.

## US

In Sylacauga, United States, Nemak participated in the SAFE initiative, providing training and education to family members. Additionally, the Company held work programs with young people to support university career days and training courses in new technologies. Nemak also launched sponsorships and formed collaborations with numerous academic institutions to promote art and sports.



## South America

Through its two Social Responsibility Programs, Bem Social Esporte and Viver Bem, Nemak Brazil carried out several initiatives to support families and communities in 2021. The programs involved either active participation by employees or direct financial donations. Nemak Argentina also made donations and provided support to local institutions.

In April, Nemak donated around 200 essential food baskets to Brazilian families who lost their jobs due to the pandemic crisis, followed by 669 toys to five schools close to Nemak's facilities. Additionally, the Company donated 3,558 personal care items to a non-governmental organization that fights cancer (ORCCA). During the Christmas season, the Company also supplied 200 food baskets to a nearby school to help families in need.

## Europe and Asia

In Europe and Asia, Nemak carried out a variety of initiatives, including providing support to schools via scholarships and book donations. In 2021, the Company supported fire brigades, Ronald McDonald Child Welfare, NGO "Ö-Tafel," Parents' Association ASO6, SOS Child Welfare Organization, Cancer Aid for Children, the Austrian Charity "Volkshilfe," the Austrian Handicapped Sports Association, local football teams, and other community programs.



# Value Chain Engagement and Business Integrity

## BUSINESS INTEGRITY

SDG 12: Responsible Consumption and Production  
Material aspect: Business Ethics

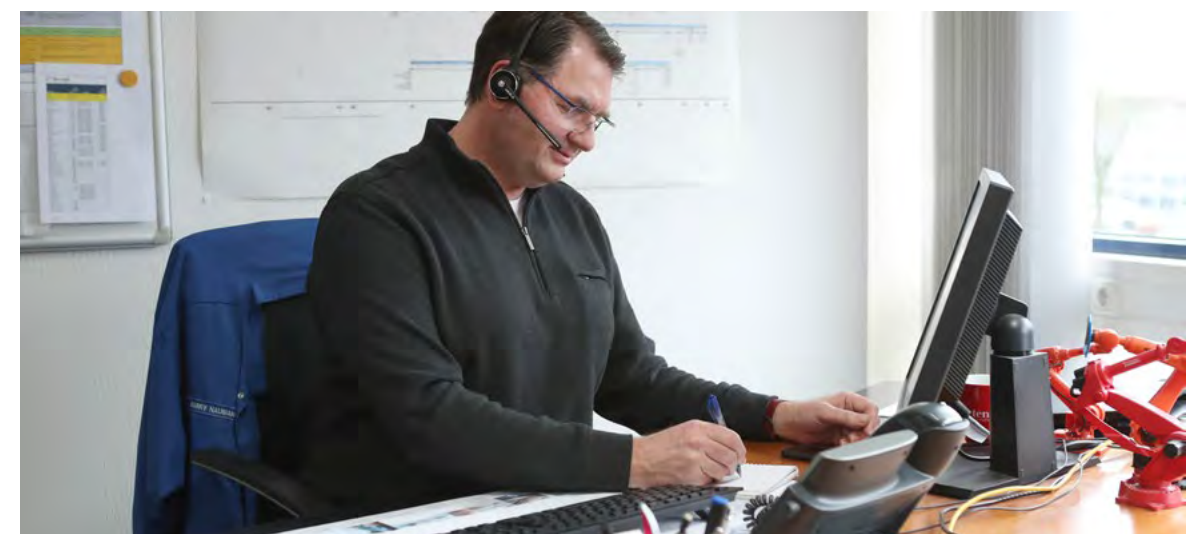
Business integrity at Nemak means operating with ethics, honesty, and accountability while continuously improving corporate governance and sustainability practices. To meet these aims, the Company uses external benchmark assessments and has established a series of guiding principles to ensure safe, fair, and equitable conduct throughout its business activities. These initiatives include the compliance of Nemak and its stakeholders with the policies outlined in the Code of Conduct and broader international human rights initiatives.

### Compliance and integrity

Nemak's Employee Code of Conduct cements its approach to promoting a culture of honesty and integrity. The Code of Conduct states that it does not tolerate employees or contractors engaging, ordering, authorizing, promising, conspiring, or inducing corrupt or fraudulent practices, either The Company

provides regular training on its Code of Conduct, and in 2021, 94% of its employees participated. It also launched an additional training module in December 2021, which covers various aspects of compliance. The first module includes anti-bribery practices, advice for avoiding retaliation, and information about giving and receiving gifts for all salaried employees worldwide.

Completion of Corporate Compliance Training Module 1 as per table below.



Every two years, the Company releases an electronic version of its Conflict of Interest Letter to all salaried employees via its internal Learning Management System (LMS), with the next release set to occur during 2022. The letter includes a brief overview and a questionnaire regarding the Code of Conduct, and explains the types of issues that can present conflicts of interest. In 2020, the Company received responses from 96% of employees worldwide. As a result, Nemak will now include this exercise in the LMS tool for all new employees during their orientation period.

	EMPLOYEES WITH MODULE COMPLETE	% COMPLETED
South America	212	100%
Europe	1219	92%
Asia	195	86%
Mexico	1088	82%
US/CAN	363	78%
Global staff	123	85%
<b>Total</b>	<b>3200</b>	<b>86%</b>



## Socioeconomic compliance

GRI 419: 419-1

Nemak's Code of Conduct states that it expects all employees to perform their duties in an ethical manner in accordance with applicable laws, rules, and regulations in the countries where it operates.

Nemak's legal department is responsible for advising all business and operational departments regarding the legal compliance of the Company's business operations, while each department is responsible for ensuring on-the-ground compliance. Every employee is expected to approach either the legal department or their respective Human Resources Manager for advice on the lawfulness of specific practices or activities in the event that issues arise. Legal compliance with certain aspects of the law (i.e. tax, accounting, fraud) is part of the external audit programs performed periodically by the Company's external auditors.

As part of its compliance program, Nemak conducts regular supplier screenings based on sanctions compliance. By the end of 2021, the Company had screened 100% of its existing suppliers to ensure that none was listed in the Specially Designated Nationals and Blocked Persons list or the Consolidated Sanctions list maintained by the Office of Foreign Asset Control of the United States and other similar lists maintained by governmental authorities that implement sanctions programs. Additional lists, such as lists maintained by the European Union, by the European Union Members, and others, are expected to be added to the screening process during 2022. The Company undergoes this same screening process with each of its new suppliers and its existing suppliers, thus ensuring that supplier screening is performed on a regular basis.

Nemak has several global policies that address its compliance ambitions. These include policies on Global Purchasing, Human Rights, Diversity and Inclusion, Anti-Bribery, Antitrust and Fair Trade, Anti-Money Laundering and Sanctions Compliance, Data Privacy and Confidential Information, and various Accounting Policies based on international financial reporting standards and auditing procedures.

To the Company's knowledge, there were no instances of non-compliance with laws or regulations in 2021 that caused economic impacts relevant to its business, operations, or results.

## Anti-bribery and corruption

GRI 205: 205-2

As a leading automotive supplier, Nemak does not tolerate corruption at any level, including in its relationships with other companies, institutions, and authorities. It continually strives to ensure that all activities comply with international anti-corruption and anti-bribery laws. Starting in 2022, the internal audit team will include anti-bribery and corruption in its periodic audit program.

Nemak's Global Anti-Corruption Policy determines the basic principles and frameworks for preventing, detecting, investigating, remedying and, if applicable, applying penalties to any employee that accepts bribes or engages in corrupt behavior. The instances most likely to violate this policy are interactions with clients and suppliers deemed legitimate due to a lack of knowledge, but which still fall under the scope of bribery. The Anti-Corruption Policy can be found at the following link: <https://nemak.com/media/1644/nemak-global-anti-corruption-policy.pdf>.

All salaried employees receive training in Nemak's Anti-Corruption Policy. The Company launched a new compliance training module in December 2021 covering anti-bribery and the protocols for giving and receiving gifts. Employees must demonstrate their understanding of the modules by completing a quiz and confirming they accept the Anti-Corruption Policy. Nemak has also developed each business unit's training module in its respective native language to ensure all employees can participate and understand the content.

All salaried employees receive training in Nemak's Anti-Bribery Policy.

Training model is offered in employee native language



Nemak published two new policies in 2021, the Anti-Money Laundering (AML) and Sanctions Compliance, as well as the Anti-Trust and Fair Trade Policies, which will be included in the Sustainability section of Nemak's website (<https://nemak.com/media/2238/antitrust-and-fair-trade-policy.pdf>).

Any employees violating these policies are subject to disciplinary actions ranging from warnings to termination of their employment contracts. Nemak has also implemented a Transparency Helpline to report all known or suspected violations to its policies. The Helpline forwards all complaints to Nemak's Governance and Compliance Manager and senior management, who are responsible for addressing any violations and opening investigations. All findings are discussed with top management and the legal department.

In 2021, there were no legal cases regarding corruption against Nemak or its employees.



## Anti-competitive behavior

GRI 206: 206-1

Nemak strives to conduct its business according to Fair Trade principles, and it complies with the applicable antitrust laws in the jurisdictions where it operates.

The Company's legal department thoroughly analyzes all activities exposing Nemak to potential anti-competitive violations, such as exclusivity provisions, buying groups, exchange of sensitive information, and mergers and acquisitions. In cases of doubt, the business development, commercial, legal, and governance and compliance departments share their input with top management and create action plans ensuring Nemak does not violate anti-trust or anti-competitive laws.

The Code of Conduct also includes the topic of anti-competitive behavior. Given the high importance of this topic, Nemak developed an Antitrust and Fair Trade Policy in 2021. The policy describes situations in which the Company or its employees could be exposed to intentional or unintentional anti-competitive behavior. The legal department is responsible for providing advice in these situations and ensuring appropriate safeguards are in place to avoid even the perception of anti-competitive behavior.

In 2022, Nemak will provide training for all salaried employees in the Antitrust and Fair-Trade Policy. Employees or contractors in breach of this policy

are subject to disciplinary actions ranging from warnings to termination of their employment or contract. Nemak expects its employees to report all known or suspected violations of the policy via the Transparency Helpline.

During the 2021 reporting period, the Company had no legal proceedings associated with anti-competitive behavior. Starting in 2022, this topic will be part of the periodic audits performed by the internal audit team.

### ANTITRUST AND FAIR TRADE POLICY

- Starting in 2022, Nemak aims to train all salaried employees in the Antitrust and Fair Trade Policy.
- Expectation for employees to report suspected violation via the Transparency Helpline
- No legal proceedings in reporting period associated with anti-competitive behavior.





## Information technology security

Information technology (IT) security is the critical foundation that protects Nemak's intellectual property as well as its employees' and customers' information. The Company has a formal set of policies and processes outlining how it defines, measures, and applies risk mitigation to ensure the confidentiality, integrity, and availability of its systems and data. Nemak's leadership understands the critical need for high-level IT security throughout the Company and has created an Information Security Steering Committee comprised of leadership members and functional Vice Presidents. The Steering Committee conducts regular meetings to review Nemak's short- and long-term security strategy and performance, and helps the Company prioritize and participate in the implemented Information Security Management System (ISMS) program. The Steering Committee then cascades IT security and strategy directives to all IT departments globally, along with defined annual objectives. These objectives may include launching technical security systems, which fulfills ISO 27001 requirements, as well as identifying measurables for tracking at operational levels—such as security patches, vulnerability, and security incidents—and measuring deliverables based on audit findings regarding overall security metrics.



Nemak has a robust set of IT policies, guidelines and procedures covering all of its operations, ranging from the performance of its information security management system to its suppliers' security requirements. The foundational design of the Company's IT security is structured and certified according to ISO 27001. Nemak's IT systems also comprise a risk measurement and management system with an integrated follow-up process and dashboard that is regularly reviewed by the Information Security Steering Committee and members of senior management.

The Company also provides internal education and awareness training to all IT-using employees via yearly mandatory training sessions supported by awareness campaigns and education programs. Additionally, all new employees must participate in IT onboarding training covering a variety of important topics.

All global IT operations are tracked and assessed by internal auditing. In addition, Nemak partners with world-class security firms and performs knowledge transfers with other organizations to stay ahead of emerging security threats.





## Human rights

GRI 412: 412-1, 414: 414-1

Promoting human rights throughout the entire value chain is a critical priority for Nematik. Thus, its sustainability assessment and adherence to Human Rights principles, such as the prohibition of forced and child labor, freedom of association and collective bargaining, and anti-discrimination, among others, are a critical focus of its compliance guidelines. As part of its compliance assurance measures, Nematik conducts supplier screenings based on social criteria. At the end of 2021, the Company screened 32% of its existing suppliers and 13% of new suppliers for sustainability criteria, including social standards such as Human Rights. Nematik also works with peer companies, chambers, and associations to form collaborative alliances that are united with the same goals. In 2021, the Company actively participated in 61 chambers and associations, and in several instances, was part of their board or strategic committee.

Nematik's policies and codes include the Global Business Code for Suppliers, Sustainable Purchasing Policy, Human Rights Policy, and Diversity and Inclusion Policy. The Company is committed to complying with the United Nations Global Compact and internationally recognized human and labor rights policies, and relevant laws, regulations, and social standards.

The Vice President of Purchasing and Sustainability and the Purchasing Business Support Team are responsible for addressing the topic of human rights. Nematik has also set up a purchasing committee that evaluates and considers sustainable aspects (which include working conditions) in every decision.

## SUPPLIER SUSTAINABILITY ASSESSMENTS

32%

of existing Nematik  
suppliers screened based  
on sustainability criteria

13%

of new suppliers  
screened



## Freedom of association and collective bargaining

GRI 407

Labor practices are a material topic for Nemak, and the Company respects its workers' rights to freedom of association and collective bargaining. Its suppliers must sign the Global Business Code for Suppliers to confirm they will also grant their employees the same rights and freedoms. In addition, Nemak has a specific clause in its contracts and purchase orders, which applies to all participants in its production chain, that the supplier acknowledges and follows the ten principles of the United Nations Global Compact. In locations where these rights do not exist due to legal constraints, suppliers must provide appropriate channels for employees to voice their concerns.

Overall, the Company aims for 100% of its suppliers to commit to respecting their employees' freedom of association and right to collective bargaining by signing the Global Business Code for Suppliers. To date, 90% of active suppliers have formally signed the code, and those that have not signed the Code have been excluded from business activities. Nemak also observes the results of external third-party assessments by EcoVadis, with the objective that all assessed suppliers achieve a score above 45 out of a possible total of 100 to indicate there is no risk in this area.

In 2021, Nemak assessed 57 new suppliers with EcoVadis, leading to a total of 88 assessed suppliers with valid scores. In

the current reporting period, the Company has not identified any risks or violations regarding freedom of association and collective bargaining.

## Forced and child labor

GRI 408, 409

The Company strictly prohibits any use of forced or child labor. By signing and accepting the Global Business Code, suppliers agree that in order to keep supplying products to Nemak, they will not allow any form of forced or compulsory labor. Suppliers are also not allowed to use child labor or employ workers under the age of 15 or the legal minimum age if it is higher in the respective country.

To prevent forced and child labor internally and through suppliers, Nemak has included this topic in its codes and policies, including its Human Rights Policy, Business Code for Suppliers, and Sustainable Purchasing Policy. By signing and accepting the Global Business Code for Suppliers, suppliers commit to protecting internationally recognized human rights prohibiting forced and child labor across all sites. In addition, Nemak contracts and purchase orders contain a specific clause stating that suppliers must adhere to the Company's specific codes and guidelines.

Internally, the Purchasing and SQA departments are responsible for on-site audits, which also address the issues of forced labor and child labor. Nemak assesses its suppliers via an external third party (EcoVadis) and reports on their CSR

## NEMAK'S THIRD-PARTY SUSTAINABILITY ASSESSMENTS FOR SUPPLIERS

31 + 57 = 88

Previously assessed  
suppliers satisfying  
EcoVadis score  
criteria

Newly assessed  
suppliers satisfying  
EcoVadis score  
criteria

Nemak suppliers  
assessed with  
EcoVadis satisfying  
score criteria

performance. Their adherence is monitored by the Company's active supply base and the results of the external third-party assessments.

Nemak's goal is for 100% of its suppliers to commit to respecting human rights by signing and adhering to the Global Business Code. The Company will continue monitoring human rights compliance with external assessments, and it will include more suppliers.

During the reporting period, Nemak has not identified any risks in the areas of forced and child labor within its current procedures.

90%  
of active suppliers have signed  
Nemak's Global Code





## RESPONSIBLE SUPPLY CHAIN MANAGEMENT

*SDG 12: Responsible Consumption and Production, SDG 13: Climate Action*

*Material aspect: Supply Chain Management*

*GRI 102-9, 102-10, 301*

The circular economy was one of the top priorities identified in Nemak's materiality analysis. With more than 70% of the Company's CO<sub>2</sub>e emissions resulting directly from its supply chain, Nemak is working with suppliers to embed world-class performance standards and reduce their ecological impacts. The Company actively cooperates with suppliers to align their engagement and management tools with Nemak's corporate targets and values, including responsible environmental, social, and economic practices.

Nemak's supply chain emissions start with the initial extraction of bauxite and alumina. The Company's business activities have a high environmental impact as its core business consists mainly of aluminum products, 30% of which are primary aluminum. In addition, approximately 70% of the supply chain-related emissions come from aluminum and alloys, which are nearly 100% recyclable. In an effort to foster responsible

production, sourcing, and stewardship of aluminum, Nemak aims to have all of its aluminum suppliers certified to the Aluminum Stewardship Initiative (ASI) standard by 2030 as well as engage its suppliers to adhere to principles of the Science-Based Targets initiative.

Due to the growing portfolio of assembled (rather than manufactured) components and products, Nemak expects to increase its reliance on suppliers, thus it requires a stable and transparent supply chain to maintain successful business relations and transactions. In light of the current global supply crisis, shareholders and investors are looking more closely at the effectiveness of the supply chain and its potential weaknesses.

### Management approach

To accelerate the shift from a linear to a circular economy, Nemak is working to establish clear guidelines and means of engaging with its value chain regarding its sustainability strategy. The Company is progressing towards this goal by implementing supplier commitment letters related to climate change strategies, conducting supplier audits, and applying strict selection criteria.

With its Sustainable Purchasing Policy, Nemak commits that it will:

- Respect and uphold all legal regulations when working with suppliers
- Establish mandatory sustainability requirements enforced by the Purchasing department during supplier onboarding. These requirements include, but are not limited to, acceptance and adherence to Nemak's Global Business Code for Suppliers, Human Rights Global Policy, Anti-Corruption Global Policy, and other applicable supplier policies
- Consider sustainable aspects such as economic, social, ethical, and environmental practices in its supplier selection process, including supplier execution, tracking, and reporting of CO<sub>2</sub> emissions and reduction targets. Set annual objectives to improve the sustainability practices of Nemak and its suppliers
- Annually assess its suppliers' sustainability performance based on criticality analysis and priorities according to its supplier management process
- Identify, track and act on any potential risks based on its supplier risk management process
- Support locally based community suppliers when feasible

Nemak's Global Business Code for Suppliers reflects its commitment to a culture of integrity, honesty, and accountability, and it expects suppliers to follow these principles when conducting business

The Code, the Sustainable Purchasing Policy and other relevant documents are available via <https://www.nemak.com/suppliers>.



## Organization and responsibilities

The Vice President of Purchasing and Sustainability is responsible for the Company's sustainable purchasing performance, supported by the Purchasing Business Support Team. Evaluating the sustainability criteria of suppliers includes their environmental and social assessments. Every two months, Nemak's Sustainability Committee meets to discuss progress, approve decisions, and refine the sustainability strategy, including sustainable purchasing tactics.

## Progress and measures

Nemak is working diligently with its customers and suppliers to transition from primary to secondary alloys and increase the recycled content in its products. The Company collaborates with customers to make these improvements during the design phase, and it carries those advances through to its purchasing decisions. These initiatives are driving the development of new purchasing strategies and collaborations, resulting in more sustainable products. In addition, Nemak has established a Supply Financing Program, from which its supplier benefited from approximately US\$350 million in 2021.

Furthermore, the Company has implemented a risk management process focusing on how critical suppliers' goods and services impact Nemak's final products. This process includes a manual evaluation of dependency, performance, technical limitations, substitution possibilities, and an assessment of financial and geopolitical risks. Critical materials and services include vehicle components, manufacturing services, aluminum, and alloys. In addition, Nemak has several strategies to mitigate the corresponding risks, such as the Supplier Partnership Program, supplier development, risk and performance monitoring and strategic volume allocation.

In 2021, Nemak received an A rating in CDP's SER (Supplier Engagement Rating). The SER is a rating related to the company's ability to include and engage suppliers. As a result, it was recognized by CDP as a Supplier Engagement Leader - only 8% of all companies participating in the CDP's Climate Change Questionnaire received this honor.



## Supplier environmental assessment

GRI 308: 308-1

Approximately 70% of Nemak's carbon footprint is generated through its Scope 3 emissions profiles. The Company evaluates and actively works with suppliers to engage in emission-reduction programs and to identify new opportunities to minimize their carbon footprint.

Nemak conducts environmental supplier assessments by requesting and evaluating their primary carbon footprint data and calculating values based on the Science Based Targets initiative (SBTi). With this data, the Company can identify and prioritize the suppliers it needs to work with to help them reduce their emissions and initiate effective strategies.

Nemak uses an external third party, EcoVadis, to assess its suppliers and report on their CSR performance, including environmental KPIs and sustainable procurement. In 2021, the Company

assessed 57 new suppliers with EcoVadis and an additional 25 suppliers based on their primary CO<sub>2</sub> footprint calculation data. Overall, Nemak aims to evaluate its most prominent suppliers. Through EcoVadis' assessments, Nemak receives access to each supplier's corrective action plans and the opportunities they have identified to reduce their environmental impacts.

As a mark of further progress, the Company received 26 signed commitment letters from suppliers that participated in its sustainability round tables in 2020. These suppliers have pledged to become CO<sub>2</sub>-neutral by 2050 or earlier, and to promote decarbonization via CO<sub>2</sub> reduction targets, defined strategies, and environmental action plans. In the future, the Company aims for each supplier to sign their decarbonization commitment as a long-term measure.

Nemak's commitment to its suppliers and helping them meet their environmental targets is anchored in its Global Business Code for Suppliers and Sustainable Purchasing Policy. Furthermore,

the Company's CO<sub>2</sub> reduction targets are aligned with international climate change efforts such as the Paris Climate Agreement, and are publicly available. Nemak monitors internal KPIs such as its suppliers' compliance with the Global Supplier Business Code and the status of EcoVadis' ratings in the short- and medium-term.

Information on Nemak's supplier assessments related to social criteria is included in the section "Human Rights."

## Sustainability dialogue

Within the scope of supplier engagement, Nemak organizes and coordinates virtual sustainability events involving roundtables and webinars to engage with suppliers in decarbonizing the value chain. The Company's objective is to align its suppliers with its Sustainability Strategy and increase the transparency of the entire value chain.

During these sustainability events, Nemak and its participating suppliers share best practices, experiences, and lessons learned from measuring their CO<sub>2</sub> footprints. These events which were held virtually during the pandemic, are coordinated annually and provide a space for open discussions between Nemak and its suppliers. In 2021, 137 of Nemak's suppliers participated in Nemak's yearly Sustainability Round Tables.

The Vice President of Purchasing and Sustainability participates in some customers' sustainability committees, jointly developing supply chain engagement strategies and determining how Nemak can address and support its customers in sustainability matters. The objectives are to engage with suppliers, communicate Nemak's expectations, and discuss sustainability benchmarks and the lessons learned among participants.



Signed commitment  
letters from Nemak  
suppliers to become

CO<sub>2</sub> neutral  
by 2050





## REPORT PROFILE

*GRI Standards 102-45, 102-48, 102-50, 102-51, 102-52, 102-53, 201-2*

This Sustainability Report as part of the 2021 Annual Report comprises Nemak's sustainability activities during the 2021 fiscal year, from January 1 to December 31, and covers all of Nemak's locations.

Nemak has prepared this report in accordance with GRI Standards: Core.

Compared to the last reports and the 2020 Annual Report, which was published in March 2021, no sustainability information has been restated.

Questions regarding this Sustainability Report can be addressed to the Investor Relations department: [investor@nemak.com](mailto:investor@nemak.com)





# Operating summary

GRI Standard: 201-1

**As volatility in supply chains and OEM production schedules figured prominently in the global automotive industry in 2021, Nemak relied on its proven ability to act and react quickly, not only enabling it to meet the evolving needs of its customers, but also to win major contracts that strengthened the groundwork for the Company's future growth.**

Despite continued pandemic and industry-related headwinds, Nemak's 2021 results reflected improved underlying business performance over the prior year. Its cost-reduction and flexibilization initiatives kicked into high gear in 2020, shortly after the onset of the COVID-19 pandemic, as the Company took meaningful steps to support the long-term sustainability of its business. In turn, the continued pursuit of greater operational efficiencies, improved product mix, and new product launches helped Nemak maintain its unitary margins above pre-pandemic levels.

In 2021, the Company continued to work towards building a leaner and more efficient operating structure, adapting swiftly to changing market conditions while maintaining financial discipline and meeting and exceeding customer expectations.

During the year, US light-vehicle sales were 15.1 million units, a 3% increase year-over-year ("y-o-y") as supply chain constraints limited industry recovery. Light-vehicle production in North America fell 1% y-o-y as customer production continued to be hampered by effects of the semiconductor shortage.

In Europe, light-vehicle sales and production were 16.1 million and 15.3 million units, respectively, dropping 2% and 5% y-o-y. As with North America, the wide-reaching impacts of the semiconductor shortage affected Europe as well.

Volume increased 2% y-o-y in 2021, on the back of new product launches, mainly in the Company's e-mobility and structural applications (EV/SC) segment. Revenue increased 21% y-o-y, due to the combination of higher aluminum prices and equivalent units sold.

EBITDA for 2021 increased 31% y-o-y to US\$567 million, also driven by an improved product mix following the integration of new EV/SC products, combined with higher volume and operating efficiencies achieved through tighter cost and expense control. Nemak's EBITDA per equivalent unit was US\$15.9 in 2021, which matched the highest annual figure Nemak has ever reported, and 29% y-o-y growth. Operating income increased 114% y-o-y to US\$229 million, mainly due to the same factors that supported EBITDA.

Nemak recorded net income of US\$5 million in 2021, compared to a net loss of US\$34 million in

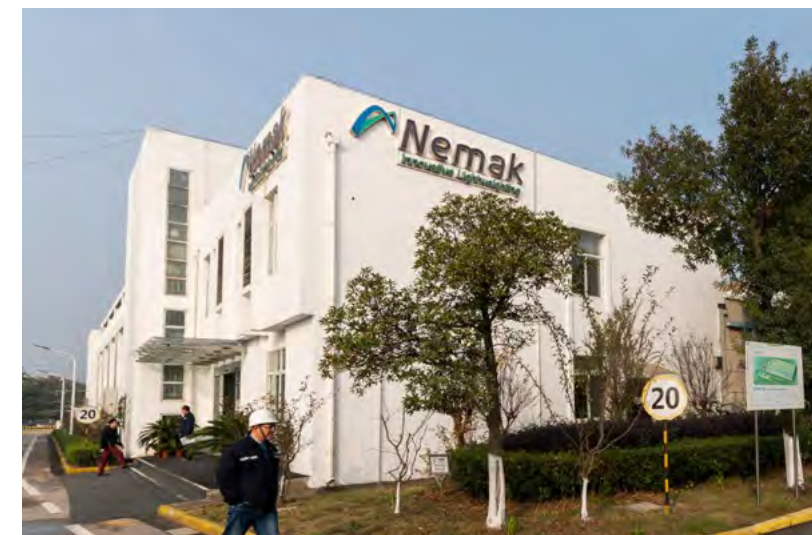
2020, as the factors behind operating income more than offset non-cash charges and the refinancing costs of the Company's senior notes due in 2024 and 2025. Adjusting for these non-recurring items, net income for 2021 would have been US\$90 million.

Capital expenditures totaled US\$360 million in 2021, compared to US\$269 million in 2020. More than half of this figure was directed towards new product launches, with an increased focus on the Company's EV/SC segment.





# Regional Operations



## NORTH AMERICA

During 2021, US light-vehicle sales were relatively stable compared to the previous year; however, production in North America remained constrained mainly due to widespread disruptions in the supply of semiconductors to OEMs.

US light-vehicle sales totaled 15.1 million units, 3% higher than in 2020, as strong first-half sales more than offset lower sales in the second half. However, semiconductor shortages weighed on OEM output, causing light-vehicle production in North America to finish 1% lower y-o-y.

Nemak's North American volume was 18.7 million units, 4% lower y-o-y mainly due to industry supply chain issues, which weighed on customer light-vehicle production and, therefore, demand. Revenue rose 17% y-o-y, due mainly to higher aluminum prices, while the 9% y-o-y increase in EBITDA was mainly attributable to an improved product mix—including new product launches in its EV/SC segment—and operating efficiencies.

## EUROPE

The industry factors impacting Nemak's business in Europe were similar to those in North America, as the global semiconductor shortage weighed on OEM light-vehicle sales and production in both regions.

Light-vehicle sales in Europe were 2% lower in 2021 compared to the previous year, while light-vehicle production decreased 5%, mainly due to constraints caused by widespread disruptions in the supply of semiconductors to OEMs. However, Nemak volume for 2021 was 12.6 million equivalent units, 11% higher y-o-y, as new product launches more than offset effects of volatility in OEM production.

Revenue and EBITDA increased 23% and 58% over the prior year, respectively, borne along by the same drivers supporting the Company's results in North America, in conjunction with higher volume.

## REST OF THE WORLD

The Rest of the World region for Nemak comprises its Asian and South American operations. Industry conditions in the Rest of the World saw an overall improvement on a year-over-year basis, with higher light-vehicle sales and production figures for both China and Brazil, the Company's main markets in the region.

Nemak's volume was 4.4 million equivalent units, as increased customer light-vehicle production contributed to a 6% y-o-y increase. In turn, revenue climbed 26% y-o-y, supported by volume as well as aluminum prices. EBITDA increased 81% y-o-y, driven mainly by a combination of higher volume and commercial negotiations in Brazil.



# Board of directors

GRI Standards: 102-18, 102-22

DIRECTOR	MEMBER SINCE	EXPERTISE & EXPERIENCE
<b>Armando Garza Sada</b> <sup>(3)</sup> <i>Co-Chairman of the Board of Nemark</i>	April 1999	Chairman of the Boards of ALFA and Alpek. Member of the Boards of AXTEL, BBVA México, CEMEX, Grupo Lamosa, and Liverpool.
<b>Álvaro Fernández Garza</b> <sup>(3)</sup> <i>Co-Chairman of the Board of Nemark</i>	March 2010	President of ALFA and Chairman of the Board of Universidad de Monterrey (UEM). Member of the Boards of Citibanamex, Cydsa, Grupo Aeroportuario del Pacífico, and Vitro. Mr. Fernández also served as President of CAINTRA from March 2013 to April 2015.
<b>Mónica Aspe Bernal</b> <sup>(1)</sup> <i>CEO of AT&amp;T Mexico</i>	July 2021	Previously, served as Ambassador of Mexico to the Organization for Economic Cooperation and Development (OECD) and as Mexico's Undersecretary of Communications. Current member of the Boards of Volaris and Sky Mexico.
<b>Juan Carlos Calderón Rojas</b> <sup>(1)</sup> <i>Vice President of Experience and Engagement of Employees at Talent &amp; Culture area of Sigma Alimentos Corporativo, S.A. de C.V.</i>	June 2015	Member of the Boards of Coparmex Nuevo León, Grupo Franca, and Movimiento Congruencia.
<b>Robert J. Fascetti</b> <sup>(1)</sup> <i>Former Vice President of Powertrain Engineering at Ford Motor Company</i>	December 2005	He served for more than 29 years in powertrain and product development at Ford Motor Company.
<b>Michael W. Felix</b> <sup>(2)</sup> <i>Director of Manufacturing – North America at Ford Motor Company</i>	February 2020	Mr. Felix has more than 31 years of experience in manufacturing engineering and global strategy development with Ford Motor Company.
<b>Antón Mauricio Fernández Zambrano</b> <sup>(3)</sup> <i>Director of Administration and Planning at Indelpro</i>	March 2021	Former member of the Board of the Mexican Association of the Chemical Industry (ANIQ).
<b>David J. Filipe</b> <sup>(2)</sup> <i>Vice President of Global Vehicle Hardware Models at Ford Motor Company</i>	December 2017	Mr. Filipe has more than 30 years of powertrain and vehicle programs experience with multiple global assignments at Ford Motor Company. He leads all vehicle hardware development and systems integration of exterior, interior, underbody, ICE powertrain, and electrified modules.



# Board of directors

GRI Standards: 102-18, 102-22

DIRECTOR	MEMBER SINCE	EXPERTISE & EXPERIENCE
<b>Eugenio Garza Herrera <sup>(1A)</sup></b> <i>Chairman of the Boards of Xignux, S.A. de C.V., Pak2Go, and Maixico</i>	June 2015	Member of the Boards of Corporación EG, Banco Nacional de México, S.A. (Citibanamex), Cydsa, México Evalúa, Arcelor Mittal México, the regional board of Banco de México, and the Roberto Garza Sada Center for Art, Architecture and Design of UDEM. Chairman of the Boards of Pak2Go and Maixico. He presides over the Consejo Consultivo Norte of Citibanamex and the Transparency, Effective Governance, and Regulatory Improvement Commission of Consejo Nuevo León para la Planeación Estratégica, and he is a member of the Development Committee of MIT Corporation. He is also a member of the Board of Trustees, the Institutional Governance Committee, and Chairman of the Development Committee of ITESM.
<b>Fabiola Garza Sada <sup>(2)</sup></b> <i>Investor</i>	June 2015	Member of the Board of ALFA Fundación.
<b>Eduardo Garza T. Fernández <sup>(1A)</sup></b> <i>President of Grupo Frisa Industrias</i>	June 2015	Member of the Board of Grupo Lamosa, BBVA México, Consejo Nuevo León para la Planeación Estratégica, and Grupo Ragasa.
<b>Gary Lapidus <sup>(1)</sup></b> <i>Independent Investor and Consultant</i>	June 2015	Former Institutional Investor-ranked automobile and auto parts Senior Equity Research Analyst at Goldman, Sachs & Co. and Sanford C. Bernstein & Co. Previously, Mr. Lapidus was a Principal with the management consulting firm Booz-Allen Hamilton.
<b>Adrián G. Sada Cueva <sup>(2)</sup></b> <i>President of Vitro, S.A.B. de C.V.</i>	June 2015	Member of the Boards of Vitro, ALFA, Grupo Financiero Banorte, and Dallas Museum of Art. Former President of CAINTRA. He also serves as a member of the Boards of Organización Vida Silvestre and Universidad de Monterrey (UEM).
<b>Carlos Jiménez Barrera</b> <i>Secretary</i>		
<p>1 Independent Board Member  2 Patrimonial Board Member  3 Related Patrimonial Board Member  A Audit and Corporate Governance Committee</p>		

# Management team

**Armando Tamez**  
*CEO*



**Knut Bentin**  
*Mexico Business Unit Director*



**Klaus Lellig**  
*Europe & Asia Business  
Unit Director*



**Luís Manuel Peña**  
*USA, Canada & South America  
Business Unit Director*



**Dirk Barschkett**  
*Vice President of Sales & Marketing*



**Alberto Sada**  
*Chief Financial Officer*



**Ernesto Saenz**  
*Vice President of Manufacturing &  
Product Development*



**Marc Winterhalter**  
*Vice President of Purchasing &  
Sustainability*





# Corporate Governance

GRI Standards: 102-18, 102-19, 102-20, 102-22, 102-25, 102-26

Nemak operates in accordance with the Code of Principles and Best Corporate Governance Practices in place in Mexico since 2000. The purpose of the Code is to establish a frame of reference for corporate governance and thereby increase investor confidence in Mexican companies.

Once a year, every company that is listed on the Mexican Stock Exchange (Bolsa Mexicana de Valores, S.A.B. de C.V.) (BMV) must disclose the extent to which they adhere to the Code by answering a questionnaire. The responses provided by each company may be found on the BMV's website.

A summary of Nemak's principles of corporate governance is presented below, reflecting the Company's responses to the questionnaire submitted in May 2021:

1. Nemak's Board of Directors is comprised of 13 members, six of whom (46%) are independent board members. This annual report provides information on all board members, identifying those who are independent and their participation in the Audit and Corporate Governance Committee.
2. In order to correctly perform its functions, Nemak's Board of Directors is advised

by the Audit and Corporate Governance Committee. The Chairman of this Committee is an independent board member, as are all members of the Committee.

3. The Board of Directors of Nemak convenes four times a year. Meetings of the Board may be called by the Co-Chairmen of the Board, the Chairman of the Audit and Corporate Governance Committee, the Secretary of the Board, or at least 25% of its members. At least one such meeting per year is dedicated towards defining the Company's medium and long-term strategies.
4. Members inform the Co-Chairmen of the Board of any conflicts of interest that may arise, and refrain from participating in any related discussions. Average attendance at Nemak's Board meetings was 96% in 2021.
5. For a large part of fiscal year 2021, the meetings of Nemak's Board of Directors and the Audit and Corporate Governance Committee were held by videoconference, due to the pandemic (COVID-19) caused by the SARS-CoV-2 virus. The videoconferences allowed the board members to interact with each other effectively, given the availability of audio and video functions.





6. Nemak's Audit and Corporate Governance Committee evaluates and issues recommendations to the Board of Directors on matters such as selecting and determining the fees to be paid to the external auditor, coordinating with the Company's internal audit area, studying accounting policies, and reviewing environmental, social and governance matters, among others.
7. Additionally, Nemak's Audit and Corporate Governance Committee issues recommendations to the Board on matters related to corporate practices, such as employment terms and severance payments for senior executives, compensation policies, and succession planning, among others.
8. Nemak has internal control systems with general guidelines that are submitted to the Audit and Corporate Governance Committee for its opinion. In addition, the external auditor validates the effectiveness of the internal control systems and issues reports thereon.
9. Nemak's Board of Directors is advised by the Administration and Finance Department regarding the feasibility of investments, strategic positioning of the Company, alignment of investing and financing policies, and review of investment projects.
10. Nemak has a department specifically dedicated to maintaining an open line of communication between the Company and its shareholders and investors. This ensures that its shareholders and investors have the financial and general information they require to evaluate the Company's development and progress. To this end, Nemak uses press releases, notices of material events, quarterly results conference calls, investor meetings, and its website, among other communication channels.
11. Nemak promotes corporate social responsibility and has a mission, vision, values, and code of ethics that are promoted within the organization.



# Independent Auditors' Report and Consolidated Financial Statements

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

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# Management's Discussion and Analysis of Results ("MD&A")

## 2021

The following report should be considered in conjunction with the Letter to Stockholders (pages 6-8) and the Audited Consolidated Financial Statements (pages 65-123). Unless otherwise indicated, amounts are expressed in millions of Mexican pesos for information from 2019 to 2021. Percentage changes are presented in nominal terms. In addition, some amounts are expressed in millions of US dollars (US\$) and millions of euros (€). The financial information included in this Management's Discussion & Analysis refers to the last three years (2019, 2020 and 2021), and is presented in accordance with International Financial Reporting Standards (IFRS). This information has been prepared in compliance with the General Provisions applicable to Public Companies and Other Participants of the Securities Market, as issued by the National Banking and Securities Commission (CNBV, as per the Spanish acronym) through December 31, 2021.

San Pedro Garza García, N. L., January 31, 2022

## ECONOMIC ENVIRONMENT

The Mexican economy continues to recover from its most serious decline in decades, driven by growth in the US and the progress of vaccination against COVID-19.

Mexican authorities were able to maintain financial and fiscal stability during 2021. Manufacturing and export indexes have returned to pre-pandemic levels, services are being reactivated gradually, and the employment rate has shown signs of recovery. However, the difference in real per capita income versus the US continues to increase, creating a significant gap in purchasing power. Mexico's key economic problems continue to be low productivity growth and poverty rates.

There was marked MXN/USD exchange rate volatility throughout the year, posting depreciation of 3% with respect to the prior year. Nonetheless, the Mexican peso was one of the currencies that underwent the greatest recovery during the year, together with the currencies of Norway, China, and Russia.

Trends in Gross Domestic Product (GDP) and other variables in Mexico and abroad, which are key to understanding Nematik's results, are described in the following paragraphs:

During 2021, Mexico's GDP grew by 5.4%(a) (estimated) following a contraction of -8.5% in 2020, while the national consumer price index in Mexico recorded an annual change of 7.4%(b), thus exceeding the 3.2%(b) recorded for 2020. The Mexican peso experienced annual nominal depreciation of 2.8%(c) in 2021, and 5.5% in 2020. In real terms, the average annual overvaluation of the Mexican peso versus the US dollar increased from -2.7%(d) in 2020 to -3.6%(d) in 2021.

According to the monetary policy agreed by Banxico during the year, the average 28-day Interbank Interest Rate (TIIE) in 2021 was 4.6%(b) in nominal terms, compared to 5.7%(b) in 2020. Expressed in real terms, the annual average was -0.9%(b) in 2021, compared to 2.4%(b) in 2020.

The annual average LIBOR three-month rate in US dollars was 0.2%(b) in 2021, compared to 0.7%(b) in 2020. Considering the nominal depreciation of the Mexican peso versus the US dollar, the LIBOR rate in constant pesos fell from 8.7%(a) in 2020 to -10.6%(a) in 2021.

### Sources:

(a) Instituto Nacional de Estadística, Geografía e Informática (INEGI). January 31, 2022.

(b) Banco de México (Banxico).

(c) Banxico. Exchange rate used for certain obligations denominated in foreign currency and payable in Mexico.

(d) Own calculations with INEGI data on the bilateral relationship with the United States, while considering consumer prices.





## RESULTS 2021

### 2021 VS. 2020 (NUMBERS ARE STATED IN MILLIONS OF MEXICAN PESOS UNLESS OTHERWISE INDICATED)

In 2021, Nematik continued to advance with the implementation of its strategy, focusing on ramping up its e-mobility and structural applications (EV/SC) business, while at the same time working to mitigate ongoing impacts from the COVID-19 pandemic and the global semiconductor shortage on customer light-vehicle production, and therefore on the Company's volume. Strategy execution, in conjunction with specific cost-cutting initiatives and improved operating performance, enabled the Company to exceed the EBITDA target established in its updated 2021 guidance, and match its highest-ever total for full-year EBITDA per equivalent unit.

Total Revenue for the year was \$77,078, 16.2% higher than the \$66,325 reported in 2020. This result was driven by a better product mix, higher aluminum prices, and to a lesser extent by increased volume, which was attributable in part to the launch of new products in its EV/SC segment.

Cost of Goods Sold (COGS), which includes depreciation of fixed assets, was \$67,526, up 15.7% over the \$58,343 reported in 2020. This variation is mainly due to increased aluminum prices and effects of higher volume, which were partially offset by the operating efficiency initiatives implemented.

Sales, General and Administrative (SG&A) Expenses were \$5,001, a 0.4% increase over the \$4,980 reported in 2020, as the expense-control strategy put into place by the Company helped offset effects of higher sales.

Operating Income in 2021 was \$4,662, an increase of 137% over the \$1,967 reported in 2020, largely driven by a more favorable product mix and higher volume, in conjunction with cost and expense reductions resulting from efficiency initiatives that were launched throughout the year.

EBITDA (Operating Income plus Depreciation and Amortization, plus/minus Other Non-Cash Charges) was \$11,522, which was 29.1% higher than the \$8,926 reported in 2020, reflecting the same factors that benefited Operating Income.

In 2021, there was a Net Financial Loss of \$2,593, compared to a loss of \$2,690 reported in 2020. This line item includes a premium for early payment of the senior notes expiring in 2024 and 2025, and certain non-cash exchange rate effects that can be attributed to the exchange rate fluctuations between the United States dollar, the Mexican peso, and the euro.

Income Taxes were \$1,962 in 2021, compared to \$181 reported in 2020. This increase is explained mainly by the non-cash charges caused by the revaluation of deferred income tax assets in Nematik's US operations during the fourth quarter of 2021, as well as a greater taxable base due to the Company's stronger performance.

Net income was \$85, compared to a loss of \$933 in 2020, as the factors behind the performance mentioned in the preceding lines were sufficient to compensate for the non-recurring impacts recorded in financing expenses and income tax.

Capital expenditures were \$7,343 in 2021, a 29.8% increase compared to the \$5,655 in 2020, as Nematik continued to focus on supporting new product launches.

At the close of 2021, Nematik's Net Debt was \$26,865 (US\$1.306 billion), higher than the \$24,468 (US\$1.227 billion) in 2020. Financial ratios were: rolling 12-month Net Debt to EBITDA of 2.3 times; and Interest Coverage of 5.2 times. Excluding the extraordinary financial costs related to early payment of the senior notes, interest coverage would have been 7.0 times. In comparison, these ratios were 2.8 and 5.6 times, respectively, at the close of 2020.

## HIGHLIGHTS 2021

### DEVELOPMENT OF THE E-MOBILITY AND STRUCTURAL APPLICATIONS BUSINESS

Nematik continued to harness its technological capabilities to capitalize on emerging opportunities in the fast-changing mobility landscape, moving forward with implementation of its strategy, which focuses on tapping into growing addressable markets in its e-mobility and structural applications (EV/SC) segment. Some key highlights included:

- During 2021, Nematik's EV/SC segment generated approximately US\$390 million in revenue, more than double the total of the previous year.
- Successfully launched new products used in electric vehicles of OEM customers—including battery housings, e-motor components, and structural parts—in North America and Europe. At year-end, Nematik was launching or producing EV/SC parts at 12 of its 38 manufacturing facilities worldwide.
- Awarded new business worth approximately US\$200 million annually to produce EV/SC, bringing its total order book in the segment to approximately US\$1.05 billion annually at year-end.

## CONCLUSION OF MERGER

The merger of Controladora Nematik, S.A.B. de C.V. ("Controladora Nematik") into Nematik was concluded successfully in September 2021, representing the culmination of a multi-step process to spin Nematik off from its former parent company, Alfa, S.A.B. de C.V. The number of shares outstanding remains unchanged, and Nematik, as the surviving company following the merger, is now a fully independent company trading under a single listed entity. The Company believes that this successful merger is an important milestone in driving value creation for its shareholders, with a higher stock float expected to ultimately have a positive effect on share liquidity.

## SUSTAINABILITY-LINKED BONDS

In 2021, Nematik successfully issued two sustainability-linked bonds, the first for US\$500 million, and the second for €500 million. Jointly, the proceeds from these two sustainability-linked issuances enabled the Company to extend its average debt profile while reducing its financing cost. Furthermore, these issuances reaffirm the Company's commitment to reduce Scope 1 and 2 GHG emissions by incorporating specific GHG emissions targets in the placements, with a step-up clause if the stated targets are not met.

## TARGETS TO REDUCE GREENHOUSE GAS EMISSIONS

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

## AWARDS AND RECOGNITION

Nematik received several accolades from customers, including being recognized as a top-performing global supplier at the 23rd annual Ford World Excellence Awards; being named a GM Supplier of the Year winner in General Motors' 29th annual Supplier of the Year award; and receiving an award for best-in-class quality performance in support of Volkswagen Group in China.

Nematik was also selected to be part of several stock indexes comprised of companies that meet relevant sustainability criteria, including, for the second consecutive year, the S&P/BMV Total Mexico ESG Index, and for

the third consecutive year, both the Dow Jones Sustainability MILA Pacific Alliance Index, and the London Stock Exchange's FTSE4Good Index.

Finally, the Company received the CDP's top Supplier Engagement Rating of "A," along with an industry-beating "B" rating in the 2020 CDP's internationally recognized Climate Change assessment.

## RESULTS 2020

### 2020 VS. 2019 (NUMBERS ARE IN MEXICAN PESOS UNLESS OTHERWISE INDICATED)

During 2020, Nematik harnessed a variety of initiatives across its regions to safeguard the health and well-being of its people as well as the long-term sustainability of its business amidst the COVID-19 pandemic. These efforts enabled the Company to make its cost structure leaner and more efficient while continuing to meet its customers' supply needs, positioning it to better capitalize on industry recovery and deliver improved results in the second half of the year.

Total Revenue was \$66,325 for the year, 14.3% lower than the \$77,363 reported in 2019. This decrease was due mainly to effects of the pandemic, as temporary shutdowns across the global automotive industry resulted in a reduction in light-vehicle sales and production, which in turn weighed on the Company's volume. While light-vehicle production picked up notably in the second half of the year, as OEMs rushed to restore inventories, which had dropped to historically low levels during the shutdowns, there was still an overall decrease for the full year.

Cost of Goods Sold (COGS), which includes depreciation of fixed assets, was \$58,343, down 12% from the \$66,276 reported in 2019. This was mainly due to a combination of lower volume and reductions in costs and expenses following restructuring initiatives implemented during the first half of the year.

Sales, General and Administrative (SG&A) Expenses fell to \$4,980, compared to \$5,328 reported in 2019, again on lower volume and efficiencies.

Operating Income for 2020 was \$1,967, down from the \$4,964 reported in 2019, due mainly to lower revenue and non-recurring severance payments and other COVID-related expenses incurred during the year, which outweighed benefits of efficiencies. EBITDA (Operating Income plus Depreciation and Amortization, plus/minus Other Non-Cash Charges) was



\$8,926, down 25.4% from the \$11,958 reported in 2019, basically as a result of the same factors affecting Operating Income.

There was a Net Financial Loss in 2020 of \$2,690, compared to the \$1,367 loss reported in 2019. This variation was largely attributed to exchange rate fluctuations between the US dollar, Mexican peso, and the euro.

Income Taxes for 2020 were \$181, down 84% against the \$1,145 reported in 2019, mainly due to the lower net taxable result.

Net Result reported was \$(933), over the \$2,493 reported in 2019, driven by the combination of non-cash exchange rate effects and lower operating income.

Capital expenditures for the year were \$5,655, 14.5% lower than the \$6,616 in 2019, as Nematik conserved cash and worked in tandem with its customers to defer non-essential investment in light of pandemic-related effects on the industry.

Nematik's Net Debt at the close of the year was \$24,468 (US\$1.227 billion), higher than Net Debt of \$22,718 (US\$1.206 billion) in 2019. By year-end, the Company had repaid most of the credit lines it had withdrawn in the first half of the year to increase its liquidity during the pandemic. Financial ratios were: Net Debt to EBITDA, 2.8 times for the last twelve months; and Interest Coverage, 5.6 times. When adjusted for non-recurring items associated with severance payments and other COVID-related expenses incurred during the year, these ratios were 2.5 times and 6.0 times, respectively.

## HIGHLIGHTS 2020

### NEW CONTRACTS

In 2020, Nematik signed contracts worth a total of approximately US\$700 million in annual revenue across its product lines, which break down as follows: US\$590 million to produce powertrain applications, and US\$110 million to produce e-mobility and structural applications.

## DEVELOPMENT OF E-MOBILITY AND STRUCTURAL APPLICATIONS BUSINESS

Nematik continued to ramp up its production of e-mobility and structural applications, while at the same time winning incremental business to further strengthen its foundation for long-term growth in this segment. The main highlights on this front included:

- The Company's order book in its e-mobility and structural applications segment reached approximately US\$850 million annually.
- Initiating series production of battery housings for the Ford Mustang Mach-E at Nematik's new Electric Mobility Center in Nuevo León, Mexico.
- Adapting existing capacity spanning Europe, North America, and Asia to support the production of electric vehicle applications of its customers.

## START OF TRADING OF CONTROLADORA NEMAK

On August 17, 2020, shareholders of Nematik's parent company, ALFA, approved a proposal to transfer their entire share ownership in Nematik to a new entity to be listed on the Mexican Stock Exchange: Controladora Nematik, S.A.B. de C.V. ("Controladora Nematik"). As a result of this transaction, shareholders received one share of Controladora Nematik for each of their ALFA shares on December 14, 2020, the first day of trading of Controladora Nematik.

## INDUSTRY RECOGNITION

Nematik was chosen as a recipient of the General Motors Supplier of the Year award for the third consecutive year. As a 16-time winner, Nematik is one of the most recognized suppliers in the 28-year history of the award.

Nematik also received the Volkswagen Group Award in the category "Launch of the Year," in recognition of the Company's performance in the development, innovation, and manufacturing of battery housings for plug-in hybrid electric vehicles.

Finally, for the second consecutive year, Nematik was selected to be an index component of the Dow Jones Sustainability Indices (DJSI) as well as the London Stock Exchange's FTSE4Good Index Series. It remains part of the Dow Jones Sustainability MILA Pacific Alliance Index, which is comprised of companies with leading economic, social, and environmental practices in Latin America. The DJSI is among the first set of global indices to track the largest and leading sustainability-driven publicly listed companies.

These awards exemplify Nematik's customer focus, and its commitment to continue delivering leading-edge sustainable mobility solutions.



## **EFFORTS TO PROTECT EMPLOYEES AND ADAPT TO EFFECTS OF THE COVID-19 PANDEMIC**

Throughout the year, Nematik remained focused on safeguarding the health and well-being of its people and communities, and ensuring business continuity amidst the COVID-19 pandemic.

In January, Nematik created a task force comprised of members of top management and health and safety experts, with the purpose of overseeing the implementation of best practices to help reduce the spread of the virus. The Company implemented a series of measures toward this end, including checkpoint screening, ongoing facility disinfection, and physical distancing protocols, among others. Additionally, the Company maintained close contact with its stakeholders all over the world, including customers, suppliers, non-profit organizations, and government agencies, in order to identify and implement additional actions in support of worldwide efforts to minimize virus transmission.

At the same time, Nematik intensified measures to optimize costs, expenses, and cash flow in the face of light-vehicle production cuts among certain customers. These include postponement of non-essential investments, implementation of flexible production schemes, and idling production at certain sites on a temporary basis. The Company also temporarily ceased production at certain plants and production lines in accordance with emergency declarations issued in certain jurisdictions where it operates.

Taken together, these efforts helped lay the groundwork for a successful rampup of production at Nematik locations worldwide, particularly in the second half of the year, as OEMs restarted light-vehicle production following the easing of pandemic-related lockdowns.



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

## OPINION

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

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## ASSESSMENT OF TESTS OF IMPAIRMENT OF GOODWILL AND LONG-LIVED ASSETS

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

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

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

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

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

## ASSESSMENT OF THE RECOVERABILITY OF DEFERRED INCOME TAX ASSETS

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

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

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

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

## EMPHASIS PARAGRAPHS

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

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



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

COVID-19 impact and semiconductor chips shortage impact.

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

### **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS’ REPORT THEREON**

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

In relation to our audit of the consolidated financial statements, our responsibility will be to read the additional information when it becomes available, and when we

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

### **RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS**

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

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

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

### **AUDITORS’ RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**

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

they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

We are responsible for the direction, supervision, and performance of the Company and subsidiaries audit. We remain solely responsible for our audit opinion.

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

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

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

**Galaz, Yamazaki, Ruiz Urquiza, S.C.**

Member of Deloitte Touche Tohmatsu Limited



**C. P. C. Carlos A. López Vázquez**

Monterrey, Nuevo Leon, Mexico

January 31, 2022



# Consolidated Statements of Financial Position

As of December 31, 2021, 2020 and 2019

In millions of Mexican pesos

AS OF DECEMBER 31

	NOTE	2021	2020	2019
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents	6	\$ 5,799	\$ 8,720	\$ 5,883
Restricted cash	7	100	121	120
Trade and other accounts receivable, net	8	10,389	9,229	7,860
Inventories	9	16,995	12,630	11,146
Assets held for sale	3x	185	55	-
Prepaid expenses	3w	400	436	394
<b>Total current assets</b>		<b>33,868</b>	31,191	25,403
<b>NON-CURRENT ASSETS:</b>				
Property, plant and equipment, net	10	52,679	51,491	48,140
Right-of-use assets, net	11	1,867	1,797	1,763
Goodwill and intangible assets, net	12	11,895	12,221	11,182
Deferred income tax	25	125	1,030	1,057
Other non-current accounts receivable	8, 26	-	-	2
Other non-current assets	13	961	1,002	1,197
<b>Total non-current assets</b>		<b>67,527</b>	67,541	63,341
<b>TOTAL ASSETS</b>		<b>\$101,395</b>	\$ 98,732	\$ 88,744



ARMANDO TAMEZ MARTÍNEZ  
Chief Executive Officer



ALBERTO SADA MEDINA  
Chief Financial Officer

AS OF DECEMBER 31

	NOTE	2021	2020	2019
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES:</b>				
Debt	15	\$ 4,116	\$ 4,490	\$ 2,297
Lease liability	16	441	422	372
Trade and other accounts payable	14	28,186	24,985	21,166
Income taxes payable		718	682	883
Other current liabilities	17	392	416	614
<b>Total current liabilities</b>		<b>33,853</b>	30,995	25,332
<b>NON-CURRENT LIABILITIES:</b>				
Debt	15	26,466	26,723	24,440
Lease liability	16	1,642	1,554	1,481
Employee benefits	18	1,454	1,568	1,408
Deferred income taxes	25	2,242	1,951	1,955
Other non-current liabilities	17	225	273	184
<b>Total non-current liabilities</b>		<b>32,029</b>	32,069	29,468
<b>Total liabilities</b>		<b>65,882</b>	63,064	54,800
<b>STOCKHOLDERS' EQUITY</b>				
Stockholders' equity	19			
Capital stock		6,553	6,599	6,599
Share premium		10,434	10,434	10,434
Retained earnings		9,970	10,201	11,373
Other reserves		8,556	8,434	5,538
<b>Total stockholders' equity</b>		<b>35,513</b>	35,668	33,944
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>		<b>\$101,395</b>	\$ 98,732	\$ 88,744

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

# Consolidated Statements of Income

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

In millions of Mexican pesos

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

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



ARMANDO TAMEZ MARTÍNEZ  
Chief Executive Officer



ALBERTO SADA MEDINA  
Chief Financial Officer



# Consolidated Statements of Comprehensive Income

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

In millions of Mexican pesos

	NOTE	2021	2020	2019
Net consolidated income (loss)		\$ 85	\$ (933)	\$ 2,493
Other comprehensive income for the year:				
<b>ITEMS THAT WILL NOT BE RECLASSIFIED TO THE CONSOLIDATED STATEMENTS OF INCOME:</b>				
Remeasurement of employee benefit obligations, net of taxes	25	159	(13)	(115)
<b>ITEMS THAT COULD BE RECLASSIFIED TO THE CONSOLIDATED STATEMENTS OF INCOME:</b>				
Effect of derivative financial instruments contracted as cash flow hedges, net of taxes	25	(20)	-	-
Cumulative translation effect of foreign entities	25	(63)	2,909	(1,846)
<b>Total comprehensive income (loss) of the year</b>		<b>76</b>	<b>2,896</b>	<b>(1,961)</b>
<b>CONSOLIDATED COMPREHENSIVE INCOME</b>		<b>\$ 161</b>	<b>\$ 1,963</b>	<b>\$ 532</b>

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



ARMANDO TAMEZ MARTÍNEZ  
Chief Executive Officer



ALBERTO SADA MEDINA  
Chief Financial Officer

# Consolidated Statements of Changes in Stockholders' Equity

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

In millions of Mexican pesos

	CAPITAL STOCK	SHARE PREMIUM	RETAINED EARNINGS	OTHER RESERVES	TOTAL STOCKHOLDERS' EQUITY
<b>BALANCES AS OF DECEMBER 31, 2018</b>	<b>\$ 6,604</b>	<b>\$ 10,434</b>	<b>\$ 11,567</b>	<b>\$ 7,499</b>	<b>\$ 36,104</b>
<b>Transactions with stockholders:</b>					
Others	(5)	-	14	-	9
Dividends declared (Notes 19 and 26)	-	-	(2,439)	-	(2,439)
	6,599	10,434	9,142	7,499	33,674
Net income	-	-	2,493	-	2,493
Total other comprehensive loss of the year	-	-	-	(1,961)	(1,961)
Comprehensive income	-	-	2,493	(1,961)	532
Effect of Adoption of IFRIC 23	-	-	(262)	-	(262)
<b>BALANCES AS OF DECEMBER 31, 2019</b>	<b>6,599</b>	<b>10,434</b>	<b>11,373</b>	<b>5,538</b>	<b>33,944</b>
<b>Transactions with stockholders:</b>					
Dividends declared (Notes 19 and 26)	-	-	(239)	-	(239)
	6,599	10,434	11,134	5,538	33,705
Net loss	-	-	(933)	-	(933)
Total other comprehensive income of the year	-	-	-	2,896	2,896
Comprehensive income	-	-	(933)	2,896	1,963
<b>BALANCES AS OF DECEMBER 31, 2020</b>	<b>6,599</b>	<b>10,434</b>	<b>10,201</b>	<b>8,434</b>	<b>35,668</b>
<b>Transactions with stockholders:</b>					
Others	(46)	-	(316)	46	(316)
	6,553	10,434	9,885	8,480	35,352
Net income	-	-	85	-	85
Total other comprehensive income of the year	-	-	-	76	76
Comprehensive income	-	-	85	76	161
<b>BALANCES AS OF DECEMBER 31, 2021</b>	<b>\$ 6,553</b>	<b>\$ 10,434</b>	<b>\$ 9,970</b>	<b>\$ 8,556</b>	<b>\$ 35,513</b>

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

  
**ARMANDO TAMEZ MARTÍNEZ**  
 Chief Executive Officer

  
**ALBERTO SADA MEDINA**  
 Chief Financial Officer





# Consolidated Statements of Cash Flows

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

In millions of Mexican pesos

	2021	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income taxes	\$ 2,047	\$ (752)	\$ 3,637
Depreciation and amortization	6,718	6,826	6,079
Gain on sale of property, plant and equipment	(1)	(6)	(4)
Impairment of property, plant and equipment	141	133	915
Exchange fluctuation, net	405	1,020	34
Interest expense, net	2,078	1,535	1,166
Other	279	276	152
Movements in working capital:			
Trade receivables and other accounts receivable	(972)	(1,232)	1,309
Inventories	(4,433)	(631)	1,048
Suppliers and related parties	2,744	1,800	(558)
Income taxes paid	(897)	(366)	(1,945)
<b>NET CASH FLOWS GENERATED BY OPERATING ACTIVITIES</b>	<b>8,109</b>	<b>8,603</b>	<b>11,833</b>

	2021	2020	2019
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest collected	60	66	189
Cash flow in acquisitions of property, plant and equipment	(6,250)	(4,439)	(5,102)
Cash flow in acquisition of intangible assets	(1,093)	(1,216)	(1,513)
Dividends received	24	24	-
Restricted cash	25	-	986
Other assets	51	(87)	766
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>	<b>(7,183)</b>	<b>(5,652)</b>	<b>(4,674)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from debt	18,168	15,851	7,164
Payments of debt	(18,884)	(13,410)	(7,584)
Lease payments	(698)	(298)	(380)
Interest paid	(2,225)	(1,498)	(1,368)
Repurchase of shares and others	(124)	5	(22)
Dividends paid	-	(306)	(2,439)
<b>NET CASH FLOWS (USED IN) GENERATED BY FINANCING ACTIVITIES</b>	<b>(3,763)</b>	<b>344</b>	<b>(4,629)</b>
Net (decrease) increase in cash and cash equivalents	(2,837)	3,295	2,530
Exchange fluctuation of cash and cash equivalents	(84)	(458)	(202)
Cash and cash equivalents at the beginning of the year	8,720	5,883	3,555
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<b>\$ 5,799</b>	<b>\$ 8,720</b>	<b>\$ 5,883</b>

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



ARMANDO TAMEZ MARTÍNEZ  
Chief Executive Officer



ALBERTO SADA MEDINA  
Chief Financial Officer

# Notes to the Consolidated Financial Statements

As of and for the years ended December 31, 2020 and 2019  
Millions of Mexican pesos, except where otherwise indicated

## 1. GENERAL INFORMATION

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

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

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

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

## 2. SIGNIFICANT EVENTS

### 2021

#### a. COVID-19 impact

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

Through its subsidiaries, the Company takes steps to counteract the effects that COVID-19 has had on the economic markets in which it participates, focusing on

(i) strengthening financial and operating performance by constantly monitoring its cost structure, key business processes, and a commitment to its employees, focusing specifically on remote-working experiences; (ii) maintaining a solid liquidity structure through detailed cash flow management; and (iii) constantly monitoring its financial position to ensure compliance with its established affirmative and negative covenants, as well as its key financial ratios.

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

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

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

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

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

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

On June 23, 2021, Nemak announced the successful placement of its first sustainability-linked bond in international markets. The placement consisted of an issuance of senior notes for US\$500, with a 10-year maturity and 3.625% coupon; the proceeds were used to prepay Senior Notes with maturity





date in 2025. Prior to the placement of this issuance, Nemak published a sustainability-linked bond framework in accordance with the Sustainability-Linked Bond Principles 2020, with a commitment to GHG reduction targets of 28% by 2030, approved by the Science-Based Targets initiative in March 2021. Nemak reaffirms its commitment to reduce Scopes 1 and 2 GHG emissions by incorporating in this placement a target of 18% reduction by 2026 (relative to a 2019 baseline).

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

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

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

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

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

## **2020**

### **g. COVID-19 impacts**

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

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

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

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

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

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



## 2019

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

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. BASIS FOR PREPARATION

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

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

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

## B. CONSOLIDATION

### i. Subsidiaries

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

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

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

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

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

Goodwill is initially measured as excess of the sum of the consideration transferred and the fair value of the non-controlling interest over the net





identifiable assets and liabilities assured. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the consolidated statement of income.

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

Transactions and intercompany balances and unrealized gains on transactions between 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 deemed necessary.

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

	COUNTRY <sup>(1)</sup>	PERCENTAGE OF OWNERSHIP(%) <sup>(2)</sup>	FUNCTIONAL CURRENCY
Nematik, S. A. B. de C. V. (Holding)	Mexico		U.S. dollar
Nematik Mexico, S. A. <sup>(3)</sup>	Mexico	100	U.S. dollar
Modellbau Schönheide GmbH	Germany	100	Euro
Corporativo Nematik, S. A. de C. V. (Administrative services) <sup>(3)</sup>	Mexico	100	Mexican peso
Nematik Canada, S. A. de C. V. (Holding)	Mexico	100	Mexican peso
Nematik of Canada Corporation	Canada	100	Canadian dollar
Nematik Gas, S. A. de C. V.	Mexico	100	Mexican peso
Nematik Automotive, S. A. de C. V. <sup>(3)</sup>	Mexico	100	U.S. dollar
Camen International Trading, Inc.	USA	100	U.S. dollar
Nematik Europe GmbH	Germany	100	Euro
Nematik Exterior, S. L. (Holding)	Spain	100	Euro
Nematik Dillingen GmbH	Germany	100	Euro
Nematik Dillingen Casting GmbH & Co. KG	Germany	100	Euro
Nematik Wernigerode GmbH	Germany	100	Euro
Nematik Wernigerode GmbH & Co. KG	Germany	100	Euro

	COUNTRY <sup>(1)</sup>	PERCENTAGE OF OWNERSHIP(%) <sup>(2)</sup>	FUNCTIONAL CURRENCY
Nematik Linz GmbH	Austria	100	Euro
Nematik Győr Kft	Hungary	100	Euro
Nematik Poland Sp. Z.o.o.	Poland	100	Euro
Nematik BSEU Sp. Z.o.o.	Poland	100	Euro
Nematik Slovakia, S. r. o.	Slovakia	100	Euro
Nematik Czech Republic, S.r.o.	Czech Republic	100	Euro
Nematik Spain, S. L.	Spain	100	Euro
Nematik Rus, LLC.	Russia	100	Russian ruble
Nematik Pilsting GmbH	Germany	100	Euro
Nematik Alumínio do Brazil Ltda.	Brazil	100	Brazilian real
Nematik Argentina, S. R. L.	Argentina	100	Argentinean peso
Nematik Nanjing Automotive Components Co., Ltd.	China	100	Chinese renminbi yuan
Nematik Chongqing Automotive Components, Co, Ltd.	China	100	Chinese renminbi yuan
Nematik Shanghai Management Co., Ltd.	China	100	Chinese renminbi yuan
Nematik Aluminum Casting India Private, Ltd.	India	100	Indian rupee
Nemre Insurance Pte Ltd.	Singapore	100	U.S. dollar
Nematik Commercial Services, Inc.	USA	100	U.S. dollar
Nematik USA, Inc.	USA	100	U.S. dollar
Nematik USA Services Inc.	USA	100	U.S. dollar
Nematik Automotive Castings, Inc.	USA	100	U.S. dollar
Nematik Izmir Döküm Sanayi A. Ş.	Turkey	100	Euro
Nematik Izmir Dis Ticaret A. Ş.	Turkey	100	Euro

<sup>(1)</sup> Country of company's incorporation.

<sup>(2)</sup> Direct and indirect ownership percentage of Nematik SAB. Share ownership percentages as of December 31, 2021, 2020 and 2019.

<sup>(3)</sup> Corporativo Nematik S.A. de C.V. and Nematik Automotive, S.A. de C.V. merged into Nematik México, S.A. on August 1, 2021.

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



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

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

**iii. Sale or disposal of subsidiaries**

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

**iv. Associates**

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

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

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

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

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

**C. FOREIGN CURRENCY TRANSLATION****i. Functional and presentation currency**

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

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

**ii. Transactions and balances**

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



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

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

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

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

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

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

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

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

##### *Non-hyperinflationary environment*

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

##### *Hyperinflationary environment*

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

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

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

Local currency to Mexican pesos							
COUNTRY	LOCAL CURRENCY	CLOSING EXCHANGE RATE AT DECEMBER 31,			AVERAGE EXCHANGE RATE AT DECEMBER 31,		
		2021	2020	2019	2021	2020	2019
Canada	Canadian dollar	<b>16.29</b>	15.66	14.53	<b>16.23</b>	16.03	14.56
United States	U.S. dollar	<b>20.58</b>	19.95	18.85	<b>20.28</b>	21.49	19.26
Brazil	Brazilian real	<b>3.69</b>	3.84	4.69	<b>3.78</b>	4.16	4.91
Argentina	Argentinean peso	<b>0.20</b>	0.24	0.31	<b>0.21</b>	0.31	0.41
Czech Republic	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Germany	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Austria	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Hungary	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Poland	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Slovakia	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
Spain	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56
China	Chinese renminbi yuan	<b>3.24</b>	3.06	2.71	<b>3.16</b>	3.12	2.80
India	Indian rupee	<b>0.28</b>	0.27	0.26	<b>0.28</b>	0.29	0.27
Russia	Russian ruble	<b>0.27</b>	0.27	0.30	<b>0.28</b>	0.30	0.30
Singapore	U.S. dollar	<b>20.58</b>	19.95	18.85	<b>20.28</b>	21.49	19.26
Turkey	Euro	<b>23.41</b>	24.41	21.15	<b>23.99</b>	24.51	21.56

## D. HYPERINFLATIONARY EFFECTS

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

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

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





- d. Revenues and expenses are restated by applying the change in the general price index, from the date on which the expenses and revenues were recognized, up to the reporting date.
- e. Gains or losses arising from the net monetary position are recognized in the consolidated statement of income.

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

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

## E. CASH AND CASH EQUIVALENTS

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

## F. RESTRICTED CASH

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

## G. FINANCIAL INSTRUMENTS

### Financial assets

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

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

### Classes of financial assets

#### i. Financial assets at amortized cost

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

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

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

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

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

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

- a. Present the subsequent changes in the fair value of a capital investment in other comprehensive income, as long as the investment is not held for trading purposes, that is a contingent consideration recognized as a result of a business combination.
- b. Designate a debt instrument that meets the criteria to be subsequently

measured at amortized cost or at fair value through other comprehensive results, to be measured at fair value through results, if doing so eliminates or significantly reduces an accounting asymmetry that would arise from the measurement of assets or liabilities or the recognition of gains and losses on them in different bases.

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

### Impairment of financial assets

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

#### a. Trade receivables

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

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

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

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

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

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

#### b. Other financial instruments

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

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

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

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

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



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

### Financial liabilities

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

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

### Derecognition of financial liabilities

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

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

### Compensation of financial assets and liabilities

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

## H. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

All derivative financial instruments are identified and classified as fair value hedges or cash flow hedges, for trading or hedging market risks and are recognized in the consolidated statement of financial position as assets and/or

liabilities at fair value and subsequently measured at fair value. The fair value is determined based on recognized market prices and using valuation techniques accepted in the financial sector.

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

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

### Fair value hedges

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

### Cash flow hedges

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

### Net investment hedge in a foreign transaction

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

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

### Suspension of hedge accounting

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

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

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

## I. INVENTORIES

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

## J. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

Assets classified as property, plant and equipment are subject to impairment tests when events or circumstances occur indicating that the carrying amount of the assets may not be recoverable. An impairment loss is recognized in the



consolidated statement of income in other expenses, net, for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use.

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

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

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

## K. LEASES

### The Company as lessee

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

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

lessee shall depreciate the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Depreciation begins on the lease commencement date.

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

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

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

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

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

**The Company as lessor**

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

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

**L. INTANGIBLE ASSETS**

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

Intangible assets are classified as follows:

**(i) Indefinite useful life**

These intangible assets are not amortized and are subject to annual impairment assessment. As of December 31, 2021, 2020 and 2019, no factors have been identified limiting the life of these intangible assets.

**(ii) Finite useful life**

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

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

Development costs	5 to 10 years
Relationships with customers	5 to 17 years
Software and licenses	3 to 11 years
Trademarks and patents	15 to 20 years

**a. Goodwill**

Goodwill represents the excess of the acquisition cost of a subsidiary over the Company's equity in the fair value of the identifiable net assets acquired,

determined at the date of acquisition, and is not subject to amortization. Goodwill is shown under goodwill and intangible assets and is recognized at cost less accumulated impairment losses, which are not reversed. Gains or losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

**b. Development costs**

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

**c. Other relationships with customers**

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

**M. IMPAIRMENT OF NON-FINANCIAL ASSETS**

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

**N. INCOME TAX**

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



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

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

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

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

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

## 0. EMPLOYEE BENEFITS

### i. Pension plans

#### *Defined contribution plans:*

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

#### *Defined benefit plans*

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

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

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

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

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

### ii. Post-employment medical benefits

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

### iii. Termination benefits

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

**iv. Short-term benefits**

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

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

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

**P. PROVISIONS**

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

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

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

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

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

**Q. SHARE-BASED PAYMENTS**

The Company has compensation plans based on the market value of Nematik and Alfa's shares (the latter was considered until the spin-off date) in favor of certain senior executives and subsidiaries (Note 20). The conditions for granting such compensation to the eligible executives include compliance with certain

financial metrics such as the level of profit achieved and remaining in the Company for up to 5 years, among other requirements. The Board of Directors has appointed a technical committee to manage the plan, and it reviews the estimated cash settlement of this compensation at the end of the year. The payment plan is always subject to the discretion of the senior management of Nematik. Adjustments to this estimate are charged or credited to the consolidated statement of income.

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

**R. TREASURY SHARES**

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

**S. CAPITAL STOCK**

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

**T. COMPREHENSIVE INCOME**

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

**U. SEGMENT REPORTING**

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



## V. REVENUE RECOGNITION

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

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

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

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

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

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

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

## W. ADVANCED PAYMENTS

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

## X. ASSETS HELD FOR SALE

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

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

## Y. EARNINGS PER SHARE

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

## Z. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

Additionally, the amendments include the following modifications:

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

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

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

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

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

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

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

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

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

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

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

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

**4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

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

The Company has a general risk management program focused on the unpredictability of financial markets, and seeks to minimize the potential adverse effects on its financial performance. The objective of the risk management program is to protect the financial health of its business, considering the volatility



associated with prices, foreign exchange and interest rates. The Company uses derivative financial instruments to hedge certain exposures to risks, including hedges of input prices.

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

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

	MAXIMUM COVERAGE (AS A PERCENTAGE OF THE PROJECTED EXPOSURE) CURRENT YEAR
Commodities	100
Energy costs	75
Exchange rate for operating transactions	80
Exchange rate for financial transactions	100
Interest rates	100

## CAPITAL MANAGEMENT

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

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

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

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

## FINANCIAL INSTRUMENTS BY CATEGORY

Below are the Company's financial instruments by category:

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

	2021	2020	2019
Cash and cash equivalents	\$ 5,799	\$ 8,720	\$ 5,883
Restricted cash	229	256	276
<b>FINANCIAL ASSETS MEASURED AT AMORTIZED COST:</b>			
Trade and other accounts receivable	10,193	9,133	7,518
	\$ 16,221	\$ 18,109	\$ 13,677
<b>FINANCIAL LIABILITIES MEASURED AT AMORTIZED COST:</b>			
Debt	\$ 30,582	\$ 31,213	\$ 26,737
Lease liability	2,083	1,976	1,853
Trade and accounts payable to related parties	20,674	17,451	16,061
	\$ 53,339	\$ 50,640	\$ 44,651

## FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTIZED COST

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

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

	As of December 31, 2021		As of December 31, 2020		As of December 31, 2019	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
<b>FINANCIAL ASSETS:</b>						
Non-current accounts receivable	\$ -	\$ -	\$ -	\$ -	\$ 2	\$ 1
<b>FINANCIAL LIABILITIES:</b>						
Non-current liabilities before issuance and obtaining costs	\$ 26,942	\$ 26,330	\$ 27,239	\$ 27,959	\$ 24,751	\$ 25,606

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

## MARKET RISKS

### (i) Exchange rate risk

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

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

The main risk of the Company associated with its financial instruments comes from its debt in foreign currency, mainly in euros, held by entities whose functional currency is the US dollar. In addition, the Company maintains assets and liabilities denominated in foreign currency in relation to the functional

currency of the subsidiaries in Mexican pesos and Euros. The monetary position in euros has been converted to millions of Mexican pesos at the closing exchange rate of December 31, 2021:

	MXP	EUR
Financial assets	\$ 1,182	\$ 173
Financial liabilities	(4,798)	(11,809)
<b>FINANCIAL POSITION IN FOREIGN CURRENCY</b>	<b>\$ (3,616)</b>	<b>\$ (11,636)</b>

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

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

## FINANCIAL INSTRUMENTS TO HEDGE NET INVESTMENTS IN FOREIGN TRANSACTIONS

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

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



The Company maintains the following hedging relationships:

As of December 31, 2021					
HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE (EUROS)	COVERED ITEM	NET ASSETS OF THE HEDGED ITEM (EUROS)
Nemak, S. A. B. de C. V.	USD	Sustainability-Linked Bonds	<b>EUR 249</b>	Nemak Dillingen GmbH	<b>EUR 155</b>
				Nemak Linz GmbH	<b>31</b>
				Nemak Gyor Kft.	<b>136</b>
				Nemak Slovakia, S.r.o.	<b>67</b>
				Nemak Wernigerode GmbH	<b>67</b>
				Nemak Czech Republic, S.r.o.	<b>58</b>
				Nemak Poland Sp.z.o.o.	<b>45</b>
				Nemak Spain, S.L.	<b>24</b>
				Nemak Pilsting GmbH	<b>14</b>
				Nemak Izmir Dokum Sanayi A.S.	<b>52</b>
				<b>EUR 249</b>	<b>EUR 649</b>

As of December 31, 2020					
HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE (EUROS)	COVERED ITEM	NET ASSETS OF THE HEDGED ITEM (EUROS)
Nemak, S. A. B. de C. V.	USD	Senior Notes	EUR 284	Nemak Dillingen GmbH	EUR 126
				Nemak Linz GmbH	27
				Nemak Gyor Kft.	130
				Nemak Slovakia, S.r.o.	53
				Nemak Wernigerode GmbH	66
				Nemak Czech Republic, S.r.o.	56
				Nemak Poland Sp.z.o.o.	40
				Nemak Spain, S.L.	28
				Nemak Pilsting GmbH	11
				Nemak Izmir Dokum Sanayi A.S.	50
				<b>EUR 288</b>	<b>EUR 587</b>

As of December 31, 2019					
HOLDING	FUNCTIONAL CURRENCY	HEDGING INSTRUMENT	NOTIONAL VALUE (EUROS)	COVERED ITEM	NET ASSETS OF THE HEDGED ITEM (EUROS)
Nemak, S. A. B. de C. V.	USD	Senior Notes	EUR 211	Nemak Dillingen GmbH	EUR 109
				Nemak Linz GmbH	29
				Nemak Gyor Kft.	125
				Nemak Slovakia, S.r.o.	43
				Nemak Wernigerode GmbH	67
				Nemak Czech Republic, S.r.o.	55
				Nemak Poland Sp.z.o.o.	45
				Nemak Spain, S.L.	36
				Nemak Pilsting GmbH	10
				Nemak Izmir Dokum Sanayi A.S.	46
				<b>EUR 215</b>	<b>EUR 565</b>

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

## (ii) Price risk commodities

### a. Aluminum

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

However, there is a residual risk since each OEM uses its own formula to estimate aluminum prices, which normally reflects market prices based on an



average term that may range from one to three months. As a result, the basis used by each OEM to calculate the prices of aluminum alloys may differ from the ones used by the Entity to buy aluminum, which could negatively or positively impact its business, financial position and the results of its operations.

#### **b. Natural gas**

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

### **INTEREST RATE RISK**

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

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

### **CREDIT RISK**

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

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

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

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

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

### **LIQUIDITY RISK**

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

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

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



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

	LESS THAN A YEAR	FROM 1 TO 5 YEARS	MORE THAN 5 YEARS
<b>AS OF DECEMBER 31, 2021</b>			
Trade and accounts payable to related parties	\$ 20,674	\$ -	\$ -
Debt (excluding debt obtaining costs)	4,093	2,179	2,767
Lease liability	441	724	918
Sustainability-linked bond (excluding issuance costs)	669	3,346	21,996
Interest payable	146	-	-
<b>AS OF DECEMBER 31, 2020</b>			
Trade and accounts payable to related parties	\$ 17,451	\$ -	\$ -
Debt (excluding debt obtaining costs)	4,267	1,741	3,776
Lease liability	422	1,189	365
Senior Notes (excluding issuance costs)	870	24,930	-
Interest payable	346	-	-
<b>AS OF DECEMBER 31, 2019</b>			
Trade and accounts payable to related parties	\$ 16,061	\$ -	\$ -
Debt (excluding debt obtaining costs)	2,163	1,937	4,011
Lease liability	372	1,151	330
Senior Notes (excluding issuance costs)	791	23,307	-
Interest payable	320	-	-

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

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

### FAIR VALUE HIERARCHY

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

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

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

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

The specific valuation techniques used to value financial instruments include:

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

## 5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

### A. ESTIMATED IMPAIRMENT OF GOODWILL

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

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

### B. RECOVERABILITY OF DEFERRED TAX ASSETS

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

### C. CONTINGENT LIABILITIES

Management also makes judgments and estimates in recording provisions for matters relating to claims and litigation. Actual costs may vary from estimates

for several reasons, such as changes in cost estimates for resolution of complaints and disputes based on different interpretations of the law, opinions and evaluations concerning the amount of loss.

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

### D. LONG-LIVED ASSETS

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

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

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



## E. ESTIMATION OF DEFAULT PROBABILITIES AND RECOVERY RATE TO APPLY THE MODEL OF EXPECTED LOSSES IN THE CALCULATION OF IMPAIRMENT OF FINANCIAL ASSETS.

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

## F. ESTIMATION OF THE DISCOUNT RATE TO CALCULATE THE PRESENT VALUE OF FUTURE MINIMUM INCOME PAYMENTS

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

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

## G. ESTIMATE OF THE LEASE TERM

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

## 6. CASH AND CASH EQUIVALENTS

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

	December 31		
	2021	2020	2019
Cash on hand and in banks	\$ 1,939	\$ 2,943	\$ 2,150
Short-term bank deposits	3,860	5,777	3,733
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>\$ 5,799</b>	<b>\$ 8,720</b>	<b>\$ 5,883</b>

## 7. RESTRICTED CASH

The value of restricted cash is composed as follows:

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

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

## 8. TRADE AND OTHER ACCOUNTS RECEIVABLES, NET

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

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

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

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

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

As of December 31, 2021		
CLIENTS OR GROUP OF CLIENTS	PROBABILITY OF DEFAULT RANGE	SEVERITY OF LOSS
Automotive	0.00% - 5.43% <sup>(1)</sup>	99.47%
Related parties	0.00% - 0.23%	99.85%

As of December 31, 2020		
CLIENTS OR GROUP OF CLIENTS	PROBABILITY OF DEFAULT RANGE	SEVERITY OF LOSS
Automotive	0.00% - 3.75% <sup>(1)</sup>	99.31%
Related parties	0.00% - 0.61%	99.09%

As of December 31, 2019		
CLIENTS OR GROUP OF CLIENTS	PROBABILITY OF DEFAULT RANGE	SEVERITY OF LOSS
Automotive	0.00% - 0.54%	99.54%
Related parties	0.00% - 0.20%	99.82%

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

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

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

## 9. INVENTORIES

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

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

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





## 10. PROPERTY, PLANT AND EQUIPMENT, NET

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



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

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

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

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

## 11. RIGHT-OF-USE ASSETS, NET

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

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

	BUILDINGS	MACHINERY AND EQUIPMENT	VEHICLES	OTHER FIXED ASSETS	TOTAL
<b>COST:</b>					
Adoption effect	\$ 584	\$ 170	\$ 114	\$ 34	\$ 902
Property, plant and equipment reclassification	534	-	7	22	563
<b>Initial balances as of January 1, 2019</b>	\$ 1,118	\$ 170	\$ 121	\$ 56	\$ 1,465
<b>FINAL BALANCES AS OF DECEMBER 31, 2019</b>	\$ 1,084	\$ 122	\$ 497	\$ 60	\$ 1,763
<b>FINAL BALANCES AS OF DECEMBER 31, 2020</b>	\$ 1,264	\$ 135	\$ 343	\$ 55	\$ 1,797
<b>FINAL BALANCES AS OF DECEMBER 31, 2021</b>	\$ 1,464	\$ 101	\$ 263	\$ 39	\$ 1,867

	BUILDINGS	MACHINERY AND EQUIPMENT	VEHICLES	OTHER FIXED ASSETS	TOTAL
<b>DEPRECIATION EXPENSE 2019</b>	\$ (139)	\$ (93)	\$ (191)	\$ (19)	\$ (442)
<b>DEPRECIATION EXPENSE 2020</b>	\$ (217)	\$ (92)	\$ (209)	\$ (30)	\$ (548)
<b>DEPRECIATION EXPENSE 2021</b>	\$ (227)	\$ (40)	\$ (206)	\$ (32)	\$ (505)

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

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

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

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

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



## 12. GOODWILL AND INTANGIBLE ASSETS

	DEVELOPMENT COSTS	RELATIONSHIPS WITH CUSTOMERS	SOFTWARE AND LICENSES	INTELLECTUAL PROPERTY RIGHTS	GOODWILL	OTHERS	TOTAL
<b>COST</b>							
As of January 1, 2019	\$ 8,652	\$ 1,971	\$ 333	\$ 112	\$ 5,850	\$ 690	\$ 17,608
Translation effects	(933)	231	(9)	(10)	(315)	(57)	(1,093)
Additions	1,564	35	16	-	-	3	1,618
Disposals	(12)	(53)	(2)	-	-	(1)	(68)
<b>As of December 31, 2019</b>	<b>\$ 9,271</b>	<b>\$ 2,184</b>	<b>\$ 338</b>	<b>\$ 102</b>	<b>\$ 5,535</b>	<b>\$ 635</b>	<b>\$ 18,065</b>
Translation effects	693	307	16	6	659	(11)	1,670
Additions	965	221	13	-	-	17	1,216
Disposals	-	-	(14)	-	-	(6)	(20)
<b>As of December 31, 2020</b>	<b>\$ 10,929</b>	<b>\$ 2,712</b>	<b>\$ 353</b>	<b>\$ 108</b>	<b>\$ 6,194</b>	<b>\$ 635</b>	<b>\$ 20,931</b>
Translation effects	239	(48)	7	3	(98)	(8)	95
Additions	1,082	-	6	-	-	5	1,093
Disposals	(249)	(167)	(6)	-	-	(114)	(536)
<b>As of December 31, 2021</b>	<b>\$ 12,001</b>	<b>\$ 2,497</b>	<b>\$ 360</b>	<b>\$ 111</b>	<b>\$ 6,096</b>	<b>\$ 518</b>	<b>\$ 21,583</b>
<b>ACCUMULATED AMORTIZATION</b>							
January 1, 2019	\$ (4,294)	\$ (1,239)	\$ (258)	\$ (106)	\$ -	\$ (404)	\$ (6,301)
Amortizations	(750)	(218)	(27)	-	-	(47)	(1,042)
Disposals	12	13	2	-	-	-	27
Translation effects	286	76	14	4	-	53	433
<b>As of December 31, 2019</b>	<b>\$ (4,746)</b>	<b>\$ (1,368)</b>	<b>\$ (269)</b>	<b>\$ (102)</b>	<b>\$ -</b>	<b>\$ (398)</b>	<b>\$ (6,883)</b>
Amortizations	(931)	(218)	(28)	-	-	(46)	(1,223)
Disposals	-	-	14	-	-	6	20
Translation effects	(418)	(196)	(9)	(6)	-	5	(624)
<b>As of December 31, 2020</b>	<b>\$ (6,095)</b>	<b>\$ (1,782)</b>	<b>\$ (292)</b>	<b>\$ (108)</b>	<b>\$ -</b>	<b>\$ (433)</b>	<b>\$ (8,710)</b>
Amortizations	(1,022)	(174)	(24)	-	-	(9)	(1,229)
Disposals	237	159	6	-	-	7	409
Translation effects	(210)	54	7	(3)	-	(6)	(158)
<b>As of December 31, 2021</b>	<b>\$ (7,090)</b>	<b>\$ (1,743)</b>	<b>\$ (303)</b>	<b>\$ (111)</b>	<b>\$ -</b>	<b>\$ (441)</b>	<b>\$ (9,688)</b>
<b>NET CARRYING AMOUNT</b>							
Cost	\$ 9,271	\$ 2,184	\$ 338	\$ 102	\$ 5,535	\$ 635	\$ 18,065
Accumulated amortization	(4,746)	(1,368)	(269)	(102)	-	(398)	(6,883)
<b>AS OF DECEMBER 31, 2019</b>	<b>\$ 4,525</b>	<b>\$ 816</b>	<b>\$ 69</b>	<b>\$ -</b>	<b>\$ 5,535</b>	<b>\$ 237</b>	<b>\$ 11,182</b>
Cost	\$ 10,929	\$ 2,712	\$ 353	\$ 108	\$ 6,194	\$ 635	\$ 20,931
Accumulated amortization	(6,095)	(1,782)	(292)	(108)	-	(433)	(8,710)
<b>AS OF DECEMBER 31, 2020</b>	<b>\$ 4,834</b>	<b>\$ 930</b>	<b>\$ 61</b>	<b>\$ -</b>	<b>\$ 6,194</b>	<b>\$ 202</b>	<b>\$ 12,221</b>
Cost	\$ 12,001	\$ 2,497	\$ 360	\$ 111	\$ 6,096	\$ 518	\$ 21,583
Accumulated amortization	(7,090)	(1,743)	(303)	(111)	-	(441)	(9,688)
<b>AS OF DECEMBER 31, 2021</b>	<b>\$ 4,911</b>	<b>\$ 754</b>	<b>\$ 57</b>	<b>\$ -</b>	<b>\$ 6,096</b>	<b>\$ 77</b>	<b>\$ 11,895</b>



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

## IMPAIRMENT TESTING OF GOODWILL

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

	NORTH AMERICA	EUROPE	TOTAL
Balance as of January 1, 2019	\$ 2,103	\$ 3,747	<b>\$ 5,850</b>
Translation effect	(90)	(225)	<b>(315)</b>
<b>Balance as of December 31, 2019</b>	<b>2,013</b>	<b>3,522</b>	<b>5,535</b>
Translation effect	117	542	<b>659</b>
<b>Balance as of December 31, 2020</b>	<b>\$ 2,130</b>	<b>\$ 4,064</b>	<b>\$ 6,194</b>
Translation effect	69	(167)	<b>(98)</b>
<b>BALANCE AS OF DECEMBER 31, 2021</b>	<b>\$ 2,199</b>	<b>\$ 3,897</b>	<b>\$ 6,096</b>

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

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

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

	2021		
	NORTH AMERICA	EUROPE	REST OF THE WORLD
Growth rate	<b>1.50%</b>	<b>1.50%</b>	<b>2.50%</b>
Discount rate	<b>10.32%</b>	<b>9.59%</b>	<b>10.66%</b>

	2020		
	NORTH AMERICA	EUROPE	REST OF THE WORLD
Growth rate	1.50%	1.50%	2.50%
Discount rate	10.97%	10.15%	11.57%

	2019		
	NORTH AMERICA	EUROPE	REST OF THE WORLD
Growth rate	1.50%	1.50%	2.50%
Discount rate	12.90%	10.70%	9.74%

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

## 13. OTHER NON-CURRENT ASSETS

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

<sup>(1)</sup> Equity investments are investment in shares of non-publicly traded companies. No impairment loss was recognized as of December 31, 2021, 2020 and 2019.

<sup>(2)</sup> The Company received formal notices from the Brazilian tax authorities corresponding to tax credits, related to their review of its operations in Brazil. Pending the resolution of these requirements, and by virtue of a court order, Nemak segregated bank balances which will be reimbursed to the Company upon final resolution. In the first semester of 2019, the Company obtained the final court decision related to its right to utilize tax credits of \$315 the last 15 years with no possibility of appeal from the Federal government, additionally the corresponding bank balances were refunded.





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

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

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

## 14. TRADE AND OTHER ACCOUNTS PAYABLE

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

## 15. DEBT

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

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

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

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

DESCRIPTION	CONTRACTUAL CURRENCY	VALUE (MXP)	DEBT ISSUANCE AND OBTAINING COSTS	INTEREST PAID	BALANCE AS OF DECEMBER 31, 2021	BALANCE AS OF DECEMBER 31, 2020	BALANCE AS OF DECEMBER 31, 2019	INCEPTION DATE MM/DD/YYYY	MATURITY DATE MM/DD/YYYY	INTEREST RATE
Brazil	BRL	\$ 4	\$ -	\$ -	\$ 4	\$ 5	\$ 9	01/31/2016	01/20/2025	6.00%
<b>Total secured bank loans</b>		4	-	-	4	5	9			
Bancomext LP	USD	3,845	19	2	3,828	3,788	3,599	12/23/2019	12/23/2029	Libor 3M +2.70%
Scotiabank Turkey	EUR	439	-	1	440	612	530	10/28/2019	10/28/2024	1.06%
Spain	EUR	69	-	1	70	86	94	08/13/2012	02/01/2028	1.50%
USA	USD	589	86	-	503	476	442	04/06/2017	12/21/2025	1.32%
<b>Total unsecured bank loans</b>		4,942	105	4	4,841	4,962	4,665			
<b>Total bank loans</b>		4,946	105	4	4,845	4,967	4,674			
<b>Sustainability-linked bond / Senior Notes</b>	USD	10,292	67	-	10,225	10,103	9,535	06/28/2021	06/28/2031	3.63%
Sustainability-linked bond / Senior Notes	EUR	11,704	67	123	11,760	12,249	10,573	07/20/2021	07/20/2028	2.25%
<b>Total Senior Notes</b>		21,996	134	123	21,985	22,352	20,108			
<b>Total</b>		26,942	239	127	26,830	27,319	24,782			
Less: current portion of non-current debt		(237)	-	-	(237)	(250)	(22)			
<b>NON-CURRENT DEBT (INCLUDING NON-CURRENT INTEREST DEBT PAYABLE)</b>		<b>\$ 26,705</b>	<b>\$ 239</b>	<b>\$ 127</b>	<b>\$ 26,593</b>	<b>\$ 27,069</b>	<b>\$ 24,760</b>			

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

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

<sup>(1)</sup> Interest on bank loans will be paid quarterly.

<sup>(2)</sup> Interest on Sustainability-linked bonds will be paid semiannually.





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

- a. Interest coverage ratio: which is defined as EBITDA (See Note 27) for the period of the last four complete quarters (1) divided by financial expenses, net, for the last four quarters, which shall not be less than 3.0 times.
- b. Leverage ratio: which is defined as consolidated debt at that date, being the gross debt or net debt appropriate, divided by EBITDA (See Note 27) for the period of the last four complete quarters (1), which shall not be more than 3.5, 4.75 and 3.5 times for the year ended December 31, 2021, 2020 and 2019, respectively.

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

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

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

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

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

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

Both issuances incorporate a measurement for the year concluding December 31, 2026 to achieve at least a 18% reduction of CO<sub>2</sub> emissions, if the goal is not achieved, the interest coupons shall increase 25 basis points as of June 28, 2027, with respect to the Sustainability-Linked Bonds in dollars and as of July 20, 2027, with respect to the Sustainability-Linked Bond in euros. This goal is consistent with our sustainability commitment to reduce GHG emissions in 28% by 2030, which were approved by the Science-Based Targets initiative (SBTi) in 2021.

At December 31, 2021, 2020 and 2019 and the date of issuance of these consolidated financial statements, the Company is in compliance with all obligations and affirmative and negative covenants contained in its credit agreements; such obligations, among other conditions are subject to certain exceptions, and require or limit the ability of the Company to:

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



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

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

## 16. LEASE LIABILITY

	December 31		
	2021	2020	2019
<b>CURRENT PORTION:</b>			
USD	\$ 234	\$ 212	\$ 70
MXP	-	-	86
EUR	153	186	169
Other currencies	54	24	47
<b>CURRENT LEASE LIABILITY</b>	<b>\$ 441</b>	<b>\$ 422</b>	<b>\$ 372</b>
<b>NON-CURRENT PORTION:</b>			
USD	\$ 662	\$ 458	\$ 133
MXP	-	-	294
EUR	900	973	939
Other currencies	521	545	487
	<b>2,083</b>	<b>1,976</b>	<b>1,853</b>
Less; Current portion of lease liability	(441)	(422)	(372)
<b>NON-CURRENT LEASE LIABILITY</b>	<b>\$ 1,642</b>	<b>\$ 1,554</b>	<b>\$ 1,481</b>

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

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

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

	DECEMBER 31, 2021
Less than 1 year	\$ 441
Over 1 year and less than 3 years	507
Over 3 year and less than 5 years	217
Over 5 years	918
<b>TOTAL</b>	<b>\$ 2,083</b>



## 17. OTHER LIABILITIES

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

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

## 18. EMPLOYEE BENEFITS

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

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

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

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

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

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

	December 31		
	2021	2020	2019
<b>OBLIGATIONS IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION:</b>			
Pension benefits	\$ 1,312	\$ 1,426	\$ 1,253
Post-employment medical benefits	142	142	155
Liability recognized in the consolidated statement of financial position	<b>1,454</b>	<b>1,568</b>	<b>1,408</b>
<b>CHARGE IN THE CONSOLIDATED STATEMENTS OF INCOME FOR:</b>			
Pension benefits	(141)	(195)	(84)
Post-employment medical benefits	(10)	(6)	(6)
	<b>(151)</b>	<b>(201)</b>	<b>(90)</b>
<b>REMEASUREMENTS FROM EMPLOYEE BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>			
Pension benefits	204	(40)	(117)
Post-employment medical benefits	7	26	(20)
	<b>211</b>	<b>(14)</b>	<b>(137)</b>
<b>REMEASUREMENTS ACCUMULATED IN STOCKHOLDERS' EQUITY</b>	<b>\$ (141)</b>	<b>\$ (352)</b>	<b>\$ (338)</b>

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

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

	December 31		
	2021	2020	2019
Present value of the obligations	<b>\$2,187</b>	\$2,220	\$2,035
Fair value of plan assets	<b>(733)</b>	(652)	(627)
<b>NET LIABILITIES IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION</b>	<b>\$1,454</b>	<b>\$1,568</b>	<b>\$1,408</b>

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

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

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

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

The primary actuarial assumptions were as follows:

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

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

	Impact on defined benefit obligations		
	CHANGE IN ASSUMPTIONS	INCREASE IN ASSUMPTIONS	DECREASE IN ASSUMPTIONS
Discount rate	+1%	\$ (169)	\$ 200

## PENSION BENEFIT ASSETS

Plan assets are comprised of the following:

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





## 19. STOCKHOLDERS' EQUITY

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

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

Number of shares		
STOCKHOLDER	(IN MILLIONS)	AMOUNT
ALFA	2,318	\$ 4,971
Public investors	761	1,633
Repurchase of shares	(2)	(5)
<b>BALANCES AS OF DECEMBER 31, 2019</b>	<b>3,077</b>	<b>\$ 6,599</b>

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

Number of shares		
STOCKHOLDER	(IN MILLIONS)	AMOUNT
Controladora Nemark	2,316	\$ 4,966
Public investors	761	1,633
Repurchase of shares	-	-
<b>BALANCES AS OF DECEMBER 31, 2020</b>	<b>3,077</b>	<b>\$ 6,599</b>

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

Number of shares		
STOCKHOLDER	(IN MILLIONS)	AMOUNT
Public investors	3,077	\$ 6,599
Repurchase of shares	(22)	(46)
<b>BALANCES AS OF DECEMBER 31, 2021</b>	<b>3,055</b>	<b>\$ 6,553</b>

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

NUMBER OF SHARES (IN MILLIONS)	
Shares as of January 1, 2019	3,079
Repurchase of shares	(2)
Shares as of December 31, 2019	3,077
Repurchase of shares	-
Shares as of December 31, 2020	3,077
Repurchase of shares	(22)
<b>SHARES AS OF DECEMBER 31, 2021</b>	<b>3,055</b>

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

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

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

Dividends paid are not subject to income tax if paid from the CUFIN. Any dividends paid in excess of this account will cause a tax equivalent to 42.86% if they are paid in 2021. This tax is payable by the Company and may be credited against its income tax in the same year or the following two years or, if applicable, against the flat tax of the period. Dividends paid from profits, which have previously paid income tax are not subject to tax withholding or to any additional tax payment. As of December 31, 2021, the tax value of the consolidated CUFIN and value of the Capital Contribution Account (CUCA) amounted to \$22,188 and \$9,241, respectively.

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

YEAR OF DISTRIBUTION OF DIVIDEND OR PROFIT	PERCENTAGE OF APPLICATION TO THE AMOUNT OF DIVIDEND OR PROFIT DISTRIBUTED.
2020	5%
2021	5%
2022 onwards	5%

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

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

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

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

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

## 20. SHARE-BASED PAYMENTS

Nemak has a compensation plan referenced to the value of Nemak and ALFA's shares for senior executives of Nemak and its subsidiaries. From 2021, the compensation plan is only referenced to the value of Nemak's shares due to the Alfa spin-off in 2020. According to the terms of the plan, eligible executives will receive a cash payment conditional on the achievement of certain quantitative and qualitative metrics based on the following financial measures:

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

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

Short and long-term liability consists of the following:

	December 31		
	2021	2020	2019
Short-term	\$ 14	\$ 12	\$ 10
Long-term	35	31	27
<b>TOTAL CARRYING AMOUNT</b>	<b>\$ 49</b>	<b>\$ 43</b>	<b>\$ 37</b>



## 21. EXPENSES CLASSIFIED BY NATURE

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

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

## 22. OTHER (EXPENSES) INCOME, NET

	2021	2020	2019
Gain on sale of property, plant and equipment	\$ 1	\$ 6	\$ 4
Impairment of property, plant and equipment	(141)	(133)	(915)
Other income <sup>(1)</sup>	251	(908)	116
<b>TOTAL OTHER INCOME (EXPENSES), NET</b>	<b>\$ 111</b>	<b>\$ (1,035)</b>	<b>\$ (795)</b>

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

## 23. FINANCIAL RESULTS, NET

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

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

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

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

## 24. EMPLOYEE BENEFIT EXPENSES

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

## 25. INCOME TAXES

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

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

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

	2021	2020	2019
Current tax	\$ (890)	\$ (513)	\$(2,331)
Deferred tax	(1,072)	332	1,187
<b>INCOME TAX EXPENSED</b>	<b>\$(1,962)</b>	<b>\$ (181)</b>	<b>\$(1,144)</b>

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

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

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

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



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

EXPIRATION YEAR	AMOUNT
2022	\$ 42
2023	409
2024	499
2025	442
2026 and thereafter	1,879
No maturity	2,856
	<b>\$ 6,127</b>

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

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

	2021			2020			2019		
	BEFORE TAXES	TAX CHARGED/(CREDITED)	AFTER TAXES	BEFORE TAXES	TAX CHARGED/(CREDITED)	AFTER TAXES	BEFORE TAXES	TAX CHARGED/(CREDITED)	AFTER TAXES
Translation effect of foreign entities	\$ (63)	\$ -	\$ (63)	\$2,909	\$ -	\$2,909	\$(1,846)	\$ -	\$(1,846)
Remeasurements of obligations for employee benefits	211	(52)	159	(14)	1	(13)	(137)	22	(115)
Derivative financial instruments designated as cash flow hedges	(28)	8	(20)	-	-	-	-	-	-
Other comprehensive income items	\$120	\$ (44)	\$ 76	\$2,895	\$ 1	\$2,896	\$(1,983)	\$ 22	\$(1,961)

## 26. TRANSACTIONS WITH RELATED PARTIES

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

December 31, 2021							
Loans with related parties							
	ACCOUNTS RECEIVABLE	NON-CURRENT AMOUNT	CAPITAL AND INTEREST	CURRENCY	MATURITY DATE MM/DD/YYYY	INTEREST RATE	ACCOUNTS PAYABLE
ALFA	\$ -	\$ -	\$ 83	MXP	12/31/2022	6.42%	\$ 23
Associates	69	-	46	EUR	03/04/2022	4.35%	23
Affiliates	18	-	-	MXP			-
Ford	1,215	-	-				-
<b>TOTAL</b>	<b>\$ 1,302</b>	<b>\$ -</b>	<b>\$ 129</b>				<b>\$ 46</b>

December 31, 2020							
Loans with related parties							
	ACCOUNTS RECEIVABLE	NON-CURRENT AMOUNT	CAPITAL AND INTEREST	CURRENCY	MATURITY DATE MM/DD/YYYY	INTEREST RATE	ACCOUNTS PAYABLE
ALFA	\$ -	\$ -	\$ 80	MXP	08/16/2021	5.49%	\$ -
Associates	73	-	41	EUR	03/04/2021	4.35%	43
Ford	882	-	-				-
<b>TOTAL</b>	<b>\$ 955</b>	<b>\$ -</b>	<b>\$ 121</b>				<b>\$ 43</b>

December 31, 2019							
Loans with related parties							
	ACCOUNTS RECEIVABLE	NON-CURRENT AMOUNT	CAPITAL AND INTEREST	CURRENCY	MATURITY DATE MM/DD/YYYY	INTEREST RATE	ACCOUNTS PAYABLE
ALFA	\$ -	\$ -	\$ 76	MXP	08/16/2020	4.98%	\$ -
Associates	63	2	38	EUR	08/16/2020	8.50%	53
Ford	602	-	-				-
<b>TOTAL</b>	<b>\$ 665</b>	<b>\$ 2</b>	<b>\$ 114</b>				<b>\$ 53</b>



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

Year ended December 31, 2021			
	FINISHED GOODS	INTEREST	OTHERS
ALFA	\$ -	\$ 3	\$ -
Ford	(19,506)	-	-
Associates	-	2	372
Affiliates	-	-	18
<b>TOTAL</b>	<b>\$ (19,506)</b>	<b>\$ 5</b>	<b>\$ 390</b>

Year ended December 31, 2020			
	FINISHED GOODS	INTEREST	OTHERS
ALFA	\$ -	\$ 2	\$ -
Ford	13,772	-	-
Associates	-	2	266
<b>TOTAL</b>	<b>\$ 13,772</b>	<b>\$ 4</b>	<b>\$ 266</b>

Year ended December 31, 2019			
	FINISHED GOODS	INTEREST	OTHERS
ALFA	\$ -	\$ 41	\$ -
Ford	18,724	-	-
Associates	-	5	273
<b>TOTAL</b>	<b>\$ 18,724</b>	<b>\$ 46</b>	<b>\$ 273</b>

Cost of sales and other expenses with related parties:

Year ended December 31, 2021			
	ADMINISTRATIVE SERVICES	OTHER COSTS AND EXPENSES	DIVIDENDS PAID
ALFA	\$ 45	\$ -	\$ -
Affiliates	51	39	-
<b>TOTAL</b>	<b>\$ 96</b>	<b>\$ 39</b>	<b>\$ -</b>

Year ended December 31, 2020			
	ADMINISTRATIVE SERVICES	OTHER COSTS AND EXPENSES	DIVIDENDS PAID
ALFA	\$ 43	\$ -	\$ 231
Affiliates	-	97	-
<b>TOTAL</b>	<b>\$ 43</b>	<b>\$ 97</b>	<b>\$ 231</b>

Year ended December 31, 2019			
	ADMINISTRATIVE SERVICES	OTHER COSTS AND EXPENSES	DIVIDENDS PAID
ALFA	\$ -	\$ -	\$ 1,825
Affiliates	78	-	-
Associates	-	166	-
Ford	-	-	119
<b>TOTAL</b>	<b>\$ 78</b>	<b>\$ 166</b>	<b>\$ 1,944</b>

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

## 27. SEGMENT FINANCIAL INFORMATION

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

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

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



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

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

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

Below is the condensed financial information on these operating segments:

For the year ended December 31, 2021

	NORTH AMERICA	EUROPE	REST OF THE WORLD	ELIMINATIONS	TOTAL
<b>STATEMENT OF INCOME</b>					
Income by segment	\$ 39,373	\$ 30,610	\$ 9,988	\$ (2,893)	\$ 77,078
Inter-segment income	(174)	(2,099)	(620)	2,893	-
<b>Income from external customers</b>	\$ 39,199	\$ 28,511	\$ 9,368	\$ -	\$ 77,078
<b>EBITDA</b>					
Operating income	\$ 1,754	\$ 2,614	\$ 294	\$ -	\$ 4,662
Depreciation and amortization	3,756	2,347	615	-	6,718
Impairment	17	74	50	-	141
<b>Adjusted EBITDA</b>	\$ 5,527	\$ 5,035	\$ 959	\$ -	\$ 11,521
<b>CAPITAL INVESTMENTS (CAPEX AND INTANGIBLES)</b>	<b>\$ 4,215</b>	<b>\$ 2,237</b>	<b>\$ 891</b>	<b>\$ -</b>	<b>\$ 7,343</b>

For the year ended December 31, 2020

	NORTH AMERICA	EUROPE	REST OF THE WORLD	ELIMINATIONS	TOTAL
<b>STATEMENT OF INCOME</b>					
Income by segment	\$ 34,586	\$ 25,023	\$ 8,461	\$ (1,745)	\$ 66,325
Inter-segment income	(76)	(1,013)	(656)	1,745	-
<b>Income from external customers</b>	\$ 34,510	\$ 24,010	\$ 7,805	\$ -	\$ 66,325
<b>EBITDA</b>					
Operating income	\$ 1,348	\$ 825	\$ (206)	\$ -	\$ 1,967
Depreciation and amortization	3,658	2,407	761	-	6,826
Impairment	117	12	4	-	133
<b>Adjusted EBITDA</b>	\$ 5,123	\$ 3,244	\$ 559	\$ -	\$ 8,926
<b>CAPITAL INVESTMENTS (CAPEX AND INTANGIBLES)</b>	<b>\$ 3,452</b>	<b>\$ 1,875</b>	<b>\$ 328</b>	<b>\$ -</b>	<b>\$ 5,655</b>

For the year ended December 31, 2019

	NORTH AMERICA	EUROPE	REST OF THE WORLD	ELIMINATIONS	TOTAL
<b>STATEMENT OF INCOME</b>					
Income by segment	\$ 43,060	\$ 28,413	\$ 7,304	\$ (1,414)	\$ 77,363
Inter-segment income	(487)	(827)	(100)	1,414	-
<b>Income from external customers</b>	\$ 42,573	\$ 27,586	\$ 7,204	\$ -	\$ 77,363
<b>EBITDA</b>					
Operating income	\$ 3,121	\$ 2,170	\$ (327)	\$ -	\$ 4,964
Depreciation and amortization	3,246	2,045	788	-	6,079
Impairment	735	5	175	-	915
<b>Adjusted EBITDA</b>	\$ 7,102	\$ 4,220	\$ 636	\$ -	\$ 11,958
<b>CAPITAL INVESTMENTS (CAPEX AND INTANGIBLES)</b>	<b>\$ 3,475</b>	<b>\$ 2,263</b>	<b>\$ 878</b>	<b>\$ -</b>	<b>\$ 6,616</b>



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

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

For the year ended December 31, 2021

	PROPERTY, PLANT AND EQUIPMENT, NET	GOODWILL	INTANGIBLE ASSETS AND RIGHT OF USE
North America	\$ 28,027	\$ 2,199	\$ 3,798
Europe	20,051	3,897	2,972
Rest of the world	4,601	-	896
<b>Total</b>	<b>\$ 52,679</b>	<b>\$ 6,096</b>	<b>\$ 7,666</b>

For the year ended December 31, 2020

	PROPERTY, PLANT AND EQUIPMENT, NET	GOODWILL	INTANGIBLE ASSETS AND RIGHT OF USE
North America	\$ 26,582	\$ 2,130	\$ 3,622
Europe	20,754	4,064	3,224
Rest of the world	4,155	-	978
<b>Total</b>	<b>\$ 51,491</b>	<b>\$ 6,194</b>	<b>\$ 7,824</b>

For the year ended December 31, 2019

	PROPERTY, PLANT AND EQUIPMENT, NET	GOODWILL	INTANGIBLE ASSETS AND RIGHT OF USE
North America	\$ 25,313	\$ 2,013	\$ 3,540
Europe	19,894	3,522	3,210
Rest of the World	2,933	-	660
<b>Total</b>	<b>\$ 48,140</b>	<b>\$ 5,535</b>	<b>\$ 7,410</b>

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

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

## 28. COMMITMENTS AND CONTINGENCIES

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

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

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

## 29. SUBSEQUENT EVENTS

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



## 30. AUTHORIZATION TO ISSUE THE CONSOLIDATED FINANCIAL STATEMENTS

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

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



ARMANDO TAMEZ MARTÍNEZ  
Chief Executive Officer



ALBERTO SADA MEDINA  
Chief Financial Officer

## INVESTOR RELATIONS

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## INDEPENDENT AUDITOR

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## STOCK EXCHANGE AND SYMBOL

**NEMAK S.A.B. DE C.V.**

Trades on the Mexican Stock Exchange under the symbol NEMAK.





**NEMAK**


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