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PRESENTATION

Operator

Good morning, everyone, and welcome to Nemak's First Quarter 2018 Earnings Call. Armando Tamez, Nemak CEO; Alberto Sada, CFO; and Adrian Althoff, Investor Relations Officer, are here this morning to discuss the company's performance and answer any questions that you may have.

As a reminder, today's conference is being recorded and will be available on the company's Investor Relations website. I would now like to turn the conference over to Adrian Althoff.

Adrian Althoff

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

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

I will now turn over the call to Armando Tamez.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Thank you, Adrian. Hello, everyone, and welcome to Nemak's First Quarter 2018 Conference Call. We saw another result this quarter driven mainly by efficiencies as well as increased production of higher value-added products. Consolidated volumes were slightly lower marked by 2 contrasting trends: on the one hand, higher volumes associated with V6 engine applications in North America; and on the other hand, lower volumes for diesel applications in Europe. Nonetheless, EBITDA and revenues increased 3.7% and 10%, respectively, with the former driven by improved operational performance and the latter by high aluminum prices and currency effects.

I would like to highlight our operations in North America, where we successfully concluded

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of cost-reduction initiatives dating back to last year. Thanks, in large part, to these efforts, we overcame raw material headwinds and achieved a positive result in the region.

Notwithstanding the recent headwind I just mentioned, we also had a positive quarter in Europe, aided by the introduction of new programs for high-performance applications. We're already starting to capture incremental gasoline volumes to compensate for diesel productions, and we expect to make further progress in diesel to gas in the coming months. At the same time, we've returned our focus on structural and electric vehicle components as our main medium- to long-term growth drivers in the region.

We are seeing demand accelerating among OEM, our lightweighting and electrification replaced diesel as preferred levers for meeting stringent fuel economy and emissions regulations. Moreover, given our technological capabilities and experience we have gained in recent years previously this past, we are uniquely positioned to profitably capture a significant share of the market. Going forward, we expect that this segment will make a progressively greater contribution to our results, not only in Europe but also in other regions as we continue to improve operating the scale and develop our dedicated engineering, both development and sales teams.

In terms of the product, I am pleased to share that we took major steps toward this goal on the customer relations' side, winning new contracts with North America and European OEMs spanning gasoline, hybrid and few electric applications. These contracts added up to a value of $50 million in annual revenues, bringing our total order book in the structure and electric vehicle component to approximately $370 million in annual revenues.

We also marked several important firsts for our company, including our first contract to produce battery houses for a leading Asian battery manufacturer, expanding our customer base region operational automotive OEMs; our first contract to produce battery housing for mass-market vehicles for a German OEM, operating increase exposure to a fast-growing hybrid segment; and our first contract to supply pure battery electric vehicles in North America, allowing us to strengthen our position in new EV components.

On top of the [won new] business I just mentioned, we also entered into a collaboration agreement with a new Chinese OEM to develop structural components for pure battery electric vehicles, which could potentially become an important future growth avenue for us in Asia. In relation to complex castings, several of the above-mentioned projects will allow us to provide advanced secondary processes, including machining and assembly solutions, representing an additional path for value creation in the segment.

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

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Thank you, Armando, and good morning, everyone. I will start my section by providing an overview of the auto industry performance in the main regions in the first quarter of '18, so you have a context for our results in the quarter.

Regarding North America, U.S. vehicle sales SAAR remain unchanged year-on-year, hitting industry analysts' expectations. The positive situation of the U.S. economy was a key driver for the market. Regarding the vehicle production, OEMs continued with their destocking strategy showing 2.6% lower production year-on-year.

Meanwhile, in Europe, first quarter '18 vehicle sales SAAR increased 3.6% year-over-year, also supported by more favorable economic conditions, particularly in Eastern Europe. Vehicle production figures saw little change. We continue to see a shift in vehicle mix as customer preference for gasoline vehicles over diesel accelerated in the period. Diesel share was 39% in the region, a 3 percentage point drop versus fourth quarter of '17.

Nemak volumes for the quarter were 13.1 million equivalent units, a slight decrease compared to the same period last year as higher sales in North America almost compensated for lower sales in Europe. In turn, revenues were $1.2 billion, a year-on-year increase of 10% due to the appreciation of the euro against the U.S. dollar and higher aluminum prices.

We reported consolidated operating income of $108 million, 4.4% lower than the year ago figure. We observed several contracting factors during the quarter. On the one hand, the adverse effect of metal price lag was more than offset by operational efficiencies, increased sales of higher value-added products and currency effects. But on the other hand, the noncash effect of higher depreciation and amortization associated with fixed assets, investments of prior years, combined with slight increase in launching expenses, more than offset the above-mentioned gains.

Turning to EBITDA. We finished the quarter 3.7% higher year-on-year, reflecting improved operational performance. EBITDA for equivalent unit was $15, up from $14.40 last year. This gain was mainly driven by the positive effects I just described.

Net income amounted to $69 million, a 3% increase over the first quarter of '17. Lower deferred taxes more than compensated for extraordinary financial expenses in court in the early retirement of the 2013 bond, which we refinanced this past January. These financial expenses accounted for a little over half of the financial expense recorded this quarter.

Capital expenditures totaled $106 million during the quarter. As explained in our report, we invested to support new program launches and to drive efficiency across the company's regions.

Before explaining regional performance, let me devote some time to cover recent aluminum issues more in depth. Aluminum prices have shown volatility in recent months, driven by U.S. imposed import tariff from primary aluminum and the designation of Rusal, a major producer of aluminum in Russia by the U.S. Office of Foreign Assets Control, reducing primary aluminum supply in the market.

Regarding tariffs. The U.S. administration proposed 10% tariff on aluminum imports, has no direct impact -- the U.S. administration proposed 10% tariff on aluminum import, has no direct impact on Nemak export, as a measure of light raw material to draw aluminum but not to our part, nor do we see any impact on U.S. operations as all our U.S. plants are domestically sourced aluminum.

In terms of supply. The Rusal situation does not have an effect on Nemak as purchases from this supplier amount to approximately 5% of our total aluminum purchases, and we are in the process of redirecting purchases toward alternative suppliers. Rusal supplies primary aluminum, and our main raw material is secondary aluminum. The above 2 circumstances have contributed to external high volatility and price increases in the primary aluminum market. Our contracts allow us to pass through price changes to customers, with a corresponding temporary metal price lag effect, which we have described in the past.

Lastly, as explained in the previous call, we are currently in negotiations with customers aimed at reducing the divergence between primary and secondary indicators that we're experiencing in North America.

We are making progress, and we'll keep you posted on any relevant new developments in future quarters. Now let me cover our regional results.

As mentioned before, the North American auto industry maintained a historically high level of vehicle sales while reducing production to lower inventory. Nonetheless, our volumes for the region grew on the back of the continued ramp-up of new program, in particular, V6 applications. Our revenues in North America region were supported by aluminum prices as well as volumes, showing a 7.5% year-on-year increase. EBITDA for the quarter was $121 million, 4.3% higher than last year on the back of increased sales of higher value-added products, operational efficiencies and the impact of -- from metal price lag.

Turning to Europe. We reported a 4.4% decrease in volumes during the first quarter of '18 due to lower diesel vehicle sales, which more than offset higher sales of gasoline vehicles. Nonetheless, first quarter '18 EBITDA increased 9.4% year-on-year as foreign exchange gains and operational efficiencies more than offset lower volumes.

Our volume in Rest of the World was stable in first quarter of '18. We saw lower production in China whereas Brazil recorded higher volumes on the back of new program launches. On a year-over-year basis, Rest of the World revenues increased 10% due to higher aluminum prices. However, EBITDA decreased by $4 million due to additional launching expenses in South America as we're getting ready for growth in the region with higher value-added components.

With that, we will open the call for Q&A. Operator, please instruct the participants on how to place their questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from the line of Juan Tavarez with Citi.

Juan Tavarez - *Citigroup Inc, Research Division - Director and Analyst*

So my first question is on your total volumes and revenues for the quarter. I'm curious if you can maybe help us digest of how much of that came from structural and EV component. And second, just on your margin that you reported of $15 per unit. I'm curious if there is still a gap in this margin due to the metal price lag. Or maybe another way to ask the question is what would be your margin if you had your cost per aluminum past due to the price today?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes. Yes, thank you, Juan. The first part of your question related to what is the current volume that we are running on structural and EVs, we are running today at the rate of approximately $150 million per year annual revenues. Could you repeat the second part, Juan?

Juan Tavarez - *Citigroup Inc, Research Division - Director and Analyst*

Sure, yes. But just to clarify there, so $150 million this year you're expecting in revenues from structural components. But is that more back-end loaded? Or are we seeing a big portion of that kind of streamlined or evenly this quarter as well? Just to get some clarity there. And my second question was more about the margin, whether your aluminum costs are already past due to your price, and this $15 per unit margin is kind of a run rate for the current business.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

No, we are running at approximately this level today at $150 million, and we're expecting that by the end of the year, maybe we will be increasing that, but since we are ramping up some additional volumes, especially in our plants in Europe. Related to the aluminum, we are, Juan, currently in negotiations with some customers. We are making some progress. We have not finished yet with all customers. However, we are giving this first priority. I think this is a very important element for us. We have had tremendous dialogues and communications with them, and we will continue pursuing that to solve the situation as quickly as possible.

Juan Tavarez - *Citigroup Inc, Research Division - Director and Analyst*

Okay. So there is still a gap in your current margin. That substantial? Or is it minor?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, we do -- we still have a gap related first to the metal lag; and second, to the divergence. And we are trying to fix this as quickly as possible.

Operator

Our next question comes from the line of Mauricio Serna with UBS.

Mauricio Serna Vega - *UBS Investment Bank, Research Division - Analyst*

First, I would like to ask on the report, you talked about operational efficiencies. Maybe you can elaborate a little bit more on what is driving this better -- this improvement on the operations. And should we expect more of this on the quarter and on upcoming quarters? And specifically, given that you provided a guidance, which entails a 2% decline in full year EBITDA, but this quarter, it was a 4% increase. Does that mean that probably the next 9 months be a little bit tougher? Finally, just more on the long-term side of the business. When you talk about the backlog, you mentioned now you're seeing a $370 million of sales of the new business lines. And that would entail, if I understand correctly, that's the amount of sales we will be seeing probably by the year 2020. So how would that reflect, if you could share with us, maybe in terms of volumes and market share? And where would that put you in terms of reaching the $1 billion target sales that you just -- you previously were discussing?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Thank you. Thank you, Mauricio. Related to efficiencies, this is part of the Nemak DNA. We always are working to improve our cost, and we are making a significant more effort than ever to try to

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we will continue with that. We had some efficiencies this quarter, approximately in the range of about $8 million to $10 million, and we will continue putting our operations to become leaner and more efficient in every single region. Related to the guideline, we don't have at this time any news to change our guidance. We will continue with the same guidance, and certainly, we will make best efforts to improve our results as we always do. Related to volumes for electrical and structural components, as we have already indicated, we are making good progress in that regard. We think that we are becoming the #1 just behind some of our customers in this area. We are still very optimistic about reaching the $1 billion by 2022. We are seeing, as we speak, significantly more requests for quote on electric and structural components. One important element, Mauricio, that we are seeing today is the following. Based on the fact that in Europe, after the VW diesel scandal, that is affecting the entire industry. And remember that diesel applications are significantly more efficient than gasoline. So to compensate for that decrease in diesel, what we have seen is that our customers or OEMs, especially in Europe, are making significant efforts to increase electrification as well as reduce weight on the vehicle. So we are seeing more opportunities than before. We think we have significant more, let's say, requests for quote from almost everybody in Europe, and we are seeing a similar situation in Asia as well. So we are confident again that we will reach these levels by 2022.

Mauricio Serna Vega - *UBS Investment Bank, Research Division - Analyst*

And sorry about -- I don't know, I think your line got cut off in the middle of the first answer. You mentioned $8 million to $10 million of operational efficiencies in the quarter. I just wanted to -- maybe if you could -- and maybe you did and you got cut off. If you could provide maybe some examples of that. And also just very quickly if I may ask, too, regarding the Rest of the World division, it seems pretty concerning first these last 2 quarters, flattish volumes and a 40% decline in the profitability per head. Just if you could talk to us a little bit about that, now down to $5 per head of EBITDA. Just if there could be an inflection there. Or how come like there's not really like an operating leverage translating into the margin into that particular division?

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Coming back -- I'm sorry, probably we don't have, let's say, a good connection. We apologize for that. But trying to come back to some of the explanation. As I indicated, we saw some improvements in our efficiencies. Certainly, we are targeting to improve our plans in every single element, labor costs, manufacturing costs as well as increase productivity as well as quality. In that, we have a focused effort to that we have, and we are seeing some efficiencies, and we will continue. As I indicated, putting of all our plans and business units to improve our efficiencies. This is, as I indicated, part of the Nemak DNA, always looking to get the best and most competitive cost out of our products. We are also -- I don't know if we were cut off, but I wanted to repeat that we are making good progress on the structural and EV components. We are gaining market share. We are having a great success in terms of the process in which we are participating. And as a proof, we have already won this quarter interesting contracts. One that I was very proud is the fact that we won for a German OEM for the vehicle that it is -- or vehicle line that it is one of the most selling vehicles in Europe. And as I indicated, we are seeing a significant shift in Europe, mainly due to the fact that they need to compensate for the loss of diesel applications and meet the very stringent regulations that they have in Europe. So they need to move fast for more electrification and lower weight on the vehicle. So we see opportunities to capture additional volumes in that through there. Related, Mauricio, to some of the results that you saw in Rest of the World, mainly that is affected by 2 main factors. The first one is one of our main customers in China is changing 2 models for 2 vehicles in this at this time, and we are seeing some impact because of that customer is losing some sales. We are, let's say, confident that once they launch the new -- 2 new products, that volume for the second part of the year will recover. And in South America, one of the things that we are seeing as we speak is that most of our customers are preparing for growth in the region, and they are asking us to increase capacity as we speak, and we are working 7 days a week just to keep up with demand. That has, to some extent, been very costly for us. Besides, we are launching, as we speak, 10 new products in South America. We expect that once we launch these products, we will recover, especially because these products come with higher value-added prices and as well as more complexity. So we are confident that we will see better results as we move this year.

Operator

(Operator Instructions) Our next question comes from the line of Valentín Mendoza with Banorte.

Valentín III Mendoza Balderas - *Casa de Bolsa Banorte Ixe, S.A. de C.V., Research Division - Research Analyst*

It is also related to the operating efficiencies the target that you just mentioned for the second quarter, around $8 million to $10 million. I was wondering if you see any further room to increase those efficiencies, especially given the recent -- let's say, concerning rally in the aluminum prices has to be able to sort of offset that impact in your profitability in the second quarter.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Valentín, just -- let me just clarify. Maybe I didn't communicate this correctly. The efficiencies that I was referring was part of the first quarter. Certainly, we will make efforts. I am not already indicating that we will achieve these results on the second or third quarter. We will continue pushing our operations to get the best efficiencies that we can achieve, but I just wanted to clarify that the efficiencies that I was referring were part of the first quarter.

Valentín III Mendoza Balderas - *Casa de Bolsa Banorte Ixe, S.A. de C.V., Research Division - Research Analyst*

Okay, Armando. Just a second -- a follow-up question, if I may. And it has to do with the ramp-up that you were expecting for the coming quarters in higher value-added products to be able to improve the EBITDA per unit in the coming quarters. I was wondering if you could share with us like the time frame or where you're expecting this ramp up to actually show in your results.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, Valentín, this is Alberto. And yes, we have on our -- as you know, on our pipeline has been more value-added products on our mix. We have a little bit more machining as well as more complexity on the castings. So those are gradually coming in, and I mean, there are, let's say, different times depending on the customers. But we are seeing, since already a few years, this gradual improvement in the content of our parts. So this year is no different than any other one, so we'll gradually be ramping up these products consistently, and that only -- not only stops this year but continues also next year.

Operator

Our next question comes from the line of Juan Tavarez with Citi.

Juan Tavarez - *Citigroup Inc, Research Division - Director and Analyst*

Just another 2 questions on my side. First, just to kind of understand this quarter versus your full year guidance. You mentioned, right, that this margin is still not fully reflecting the pass-through of your aluminum costs, and you're actively looking at operational efficiency to continue. So should we expect some type of revision to your guidance at some point? Or do you expect some headwinds that you're trying to factor into your full year guidance that may come up in the coming quarters? And secondly, if you can just give us a sense as well. You mentioned in your press release about some extraordinary expenses related to the new debt issuances. Could you quantify how much was nonrecurring there just so we're able to model your interest expenses in the coming quarters? And maybe if I may, just one additional question. It's just on that comment you made about Europe, right, where you're seeing some pressure to products sold to diesel cars. How much of your sales in Europe still go to diesel today?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, Juan. This is Alberto. Related to your first question on our margin, I think, yes, you're seeing better margins this quarter as what we had last year, and this is pretty much incorporated in what we have calculated for our guidance. So as Armando indicated, no need to review guidance. We're not anticipating reviewing the guidance for this year. Related to your second question around the financial expenses, as we share also in the last conference call, early this year in January, we refinanced our 2013 bond, and part of that refinancing included certain fees to call an anticipated basis this bond. If you recall, this bond still had 5 years maturity. So to pay that bond, there were certain prepayment fees that we had to cover, and those were reflected on both -- on this quarter for that reason. Almost half of the -- a little bit more than half of the financial expenses recorded in the quarter was associated with this extraordinary expense. We should be seeing in the neighborhood of close to $18 million to $19 million of financial expenses recurring on a quarter-over-quarter basis.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Just complementing, Juan, your question related to diesel, diesel applications on a global basis represent between 10% to 12% of total Nemak revenues. And to be more precise, for Europe, they represent approximately 30% of total revenues. Where we are seeing is a decline, as I indicated, based on the fact that some of the customers are switching from diesel to gasoline. As we speak, we have lost already approximately 150,000 equivalent units this year. That was part already of our volume assumptions, and we anticipate that diesel will be going down, and certainly, those impacts during in our, let's say, guidance for this year. As we speak also, we have been asked by several customers to try to switch our diesel capacity to gasoline. That is taking a little bit of time as we have already indicated in previous conference calls. It takes some time to switch. We cannot just turn diesel to gasoline overnight. It takes some time. We need to make certain adjustments in the equipment as well as tooling evaluation. It takes between 12 to 18 months to fully transfer. Another positive thing that I like to comment is that there is no capacity open in Europe by any of our competitors or our customers. So they are asking us to

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from diesel to gasoline, and we are doing that as we speak, and we will continue. You will see later on that we would increase our share of gasoline applications. In addition to that, and let me just comment that this change in -- from diesel to gasoline present to Nemak opportunities for growth, not only by getting, let's say, the replacement business that is switching from diesel to gasoline, but also they are forcing the OEM to add more aluminum content to meet the stringent regulations that they have in Europe. And we will see more electrification -- [organization] of electrification in Europe as well as the increase in the structural component vehicles to meet these regulations. This is something that our customers are in conversations with us, indicating that they need our support, and we are moving in that direction.

Juan Tavarez - *Citigroup Inc, Research Division - Director and Analyst*

That's very interesting. If I can just follow-up there. So as you look at some of these transitions from diesel to gasoline, and the gasoline, I guess, platforms also require a little bit more of your structural components, do you have a sense of what's the change in kind of your penetration factor there, whether you stop selling a diesel engine block and cylinder head and then you move over to gasoline plus structural component. Is that an extra 12% -- 20% more content that you sell on that transitioning? Or is it double the amount of content? Just to get a sense of what that factor could be as you get ready to supply those models.

Armando Tamez Martínez - *Nemak, S. A. B. de C. V. - CEO*

Yes, to be totally honest with you, Juan, we have not estimated what would be the additional content. We see better opportunities, and -- but I think that we can answer that call probably on the next conference call -- or that question on the next conference call, we can give you an estimate of what will be the potential additional content. But absolutely, just to -- by making some quick calculation, diesel is 30% more efficient than gasoline. So every vehicle that it is reduced from the fleet, they need some type of, let's say, compensation to meet. We have -- let me just go back. All the OEMs in Europe are forced to deliver 95 grams of CO_2 by 2021. 2021 is just around the corner. And based on this change, since they were, let's say, using on the product portfolio, approximately just 2 years ago before the diesel scandal, the Volkswagen diesel scandal, the percentage of diesel applications in Europe was about 50%: 50% diesel, 50% gasoline. Now it's approaching 40%, and it is moving rapidly down. So they will need to find ways how they can compensate, and they can meet these very tough requirements related to CO_2 emissions as well as fuel efficiency. But to be more precise, we will try to understand what is -- what will be the potential additional volume, and we will come back to you next conference call.

Operator

Our next question comes from the line of Manuela Echavarría with Credicorp Capital.

Manuela Echavarría Cuartas

My questions have been answered.

Operator

Our next question comes from the line of Alejandro Azar with GBM.

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Most of my questions had already been answered. Just one quick one, if you could mention the amount of expenses for the launching expenses during the quarter and the metal lag. Could you please quantify those?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Sure, Alejandro. This is Alberto. As Armando highlighted, most of those launching expenses took place in South America as we're getting ready for the launches of new programs there. We're gaining share, and we're anticipating important growth. So that amounted for about $4 million of expenses, let's say, additional expenses versus anticipated -- or versus last year in 2017. And related to the metal lag, that amounted to about $6 million of effect of metal lag, both the divergence as well as lag, the additional -- commercial lag.

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

And a follow-up regarding your remarks on the aluminum price increases during April, Alberto. Do you see any impacts in the short term for at least the second quarter?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Well, it's hard to anticipate at this point. The market has been, as I indicated, very volatile. We need where it's going -- to see where it's going to settle. Right now, I think it's moving erratically based on use. It has to do, most of it, with this issue around Rusal that I just explained. So we need to see how it works. And again, our exposure to that is fairly small from the supply side. We will see how -- we need to see how the -- at the end, the primary aluminum prices sell and how that move on average. I mean, one single point or 2 or 3 days per week doesn't make the whole cost for us on a month, so we need to see how the averages move from here on to see what that impact may be. And the (inaudible) -- yes, the (inaudible) is remember that we have with our customers help us move along those prices with the corresponding [one].

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Perfect. And one more regarding your free cash flow during the quarter. If my numbers are correctly, you had a free cash burn during the quarter, and most of the negative impact comes from working capital requirements. Are these reflecting the new launching programs? Or could you be more specific on regarding that account?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, sure, Alejandro, and your comments are right. The cash used in the quarter was, yes, mainly driven by this cyclicality that we have on working capital. Normally at the end of the year, it's when the engine plants and vehicle assembly plant stop. So we have, let say, a collection of working capital. But then, as the plants ramp up their production for the Christmas break, there is a strong pool of volume, and that generates an important investment in working capital. So the swings that we see during the year based on the seasonality are pretty much normal and very in line with what we have seen traditionally in the years. So...

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

But meaning...

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Aha?

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Yes, I mean, the big difference I see between first quarter in 2018 and '17 is it's maybe twice as much your working capital requirements piece for this year?

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Sorry, Alejandro, the line broke down. Can you repeat the last question, please?

Alejandro Azar Wabi - *GBM Grupo Bursátil Mexicano, S.A. de C.V. Casa de Bolsa, Research Division - Research Analyst*

Yes. It's regarding why it's larger, your working capital requirements than in the first quarter of 2017.

Alberto Sada Medina - *Nemak, S. A. B. de C. V. - CFO*

Yes, good point. 2017 was abnormally a little bit better in terms of working capital. But again, that's more of a seasonality. If you go back in years '16 and '15, those cycles of working capital are relatively the same. So again, this quarter was no different than what we had expected on corporate and our plants and everything. The working capital should normalize as we move along the year. And at the end of the year, it should come back down again to similar levels as what you saw end of '17.

Operator

This concludes our question-and-answer session. I'd like to turn the floor back to management for any closing comments.

Adrian Althoff

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

Operator

Thank you. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.
