



**MARTINREA INTERNATIONAL INC.**

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**SECOND QUARTER REPORT**

**JUNE 30, 2015**

# **SECOND QUARTER REPORT**

for the quarter ended June 30, 2015

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## **MESSAGE TO SHAREHOLDERS**

The Company experienced a record quarter, with record net earnings and improved operating income and EBITDA margins. Our operations continue to improve. Our financial position remains strong and our future has never looked better.

We thank you for your ongoing support as we work hard to build our company and your company.

(Signed) "*Rob Wildeboer*"

Rob Wildeboer  
Executive Chairman



## MARTINREA INTERNATIONAL INC.

### Releases Second Quarter Results and Announces Dividend

August 6, 2015 – For Immediate Release

Toronto, Ontario – Martinrea International Inc. (TSX : MRE), a leader in the production and development of quality metal parts, assemblies and modules and fluid management systems and complex aluminum products focused primarily on the automotive sector, announced today the release of its financial results for the second quarter ended June 30, 2015 and a quarterly dividend.

#### **HIGHLIGHTS**

- Record revenues
- Record net earnings
- Continued improvements in operating income and EBITDA margins
- \$35 million in new business awards
- Dividend of \$0.03 per share announced

#### **OVERVIEW**

Pat D'Eramo, Martinrea's President and Chief Executive Officer stated: "Our team has performed well this quarter, with record sales and profits. Our operations are improving as we focus on making improvements on the floor, in our processes and in all areas of our business. We continue to focus on serving our customers better every day, with quality product and performance. As a result of this, in addition to the awards announced previously, we have won \$35 million in incremental new annualized business representing an aluminum diesel engine block for Volvo starting in 2018."

Fred Di Tosto, Martinrea's Chief Financial Officer, stated: "Sales in our second quarter, excluding tooling sales, were \$946 million, in line with the previously announced sales guidance. In the second quarter, our net earnings per share, on a basic and diluted basis, was \$0.39, within our quarterly guidance. Second quarter operating income and EBITDA margins improved year over year and quarter over quarter, despite continuing pre-operating costs at new plants currently preparing for upcoming launches. Strengthening of our operating income margins in North America continued in the second quarter, as our U.S. Metallic operations showed year-over-year improvement. Our operating income margins in Europe were weaker year-over-year, as anticipated, given the pre-operating and launch costs in Spain and Slovakia, as these plants ramp up, and anticipated reduction in volumes of some programs in Germany. Our adjusted EBITDA for the quarter was \$83.8 million, or 8.5% of total sales, representing a 14.4% year-over-year increase, and a quarterly record for us."

Rob Wildeboer, Martinrea's Executive Chairman, stated: "Our company continues to strengthen, operationally and financially, and 2015 is shaping up to be a very good year for us. The third quarter of the year tends to be lower in revenues and earnings than previous quarters because of the seasonality of the business with customer shutdowns in North America and Europe, but we expect to have a record third quarter, with sales for the quarter, excluding tooling sales, in the range of \$865 to \$905 million, and net earnings per share in the range of \$0.27 to \$0.31 per share. Our people are striving to build a better Martinrea, and we want to acknowledge their commitment and drive."

#### **RESULTS OF OPERATIONS**

Results of operations include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company's disclosures that it believes provides the most appropriate basis on which to evaluate the Company's results.

All amounts in this press release are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares.

Additional information about the Company, including the Company's Management Discussion and Analysis of Operating Results and Financial Position (the "MD&A") for the three and six months ended June 30, 2015 dated as of August 6, 2015, the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2015 (the "unaudited consolidated financial statements"), the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2014

together with the notes thereto and the Company's Annual Information Form for the financial year ended December 31, 2014, can be found at [www.sedar.com](http://www.sedar.com)

## **OVERALL RESULTS**

The following table sets out certain highlights of the Company's performance for the three and six months ended June 30, 2015 and 2014. Refer to the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2015 for a detailed account of the Company's performance for both periods presented in the tables below.

	Three months ended June 30, 2015		Three months ended June 30, 2014		\$ Change	% Change
Sales	\$	984,046	\$	930,915	53,131	5.7%
Gross Margin		106,379		95,863	10,516	11.0%
Operating Income		50,238		43,129	7,109	16.5%
Net Income for the period		33,607		29,626	3,981	13.4%
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308	10,103	43.3%
Earnings per Share – Basic	\$	0.39	\$	0.28	0.11	39.3%
Earnings per Share – Diluted	\$	0.39	\$	0.27	0.12	44.4%
<b><u>Non-IFRS Measures*</u></b>						
Adjusted Operating Income	\$	50,238	\$	43,537	6,701	15.4%
<i>as a % of Sales</i>		5.1%		4.7%		
Adjusted EBITDA		83,793		73,250	10,543	14.4%
<i>as a % of Sales</i>		8.5%		7.9%		
Adjusted Net Earnings Attributable to Equity Holders of the Company		33,411		23,614	9,797	41.5%
Adjusted Earnings per Share - Basic and Diluted	\$	0.39	\$	0.28	0.11	39.3%
	Six months ended June 30, 2015		Six months ended June 30, 2014		\$ Change	% Change
Sales	\$	1,901,577	\$	1,795,408	106,169	5.9%
Gross Margin		202,018		183,342	18,676	10.2%
Operating Income		93,948		80,688	13,260	16.4%
Net Income for the period		64,115		56,285	7,830	13.9%
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999	23,831	59.6%
Earnings per Share – Basic	\$	0.75	\$	0.47	0.28	59.6%
Earnings per Share – Diluted	\$	0.74	\$	0.47	0.27	57.4%
<b><u>Non-IFRS Measures*</u></b>						
Adjusted Operating Income	\$	93,948	\$	82,249	11,699	14.2%
<i>as a % of Sales</i>		4.9%		4.6%		
Adjusted EBITDA		158,716		140,144	18,572	13.3%
<i>as a % of Sales</i>		8.3%		7.8%		
Adjusted Net Earnings Attributable to Equity Holders of the Company		63,830		41,170	22,660	55.0%
Adjusted Earnings per Share - Basic	\$	0.75	\$	0.49	0.26	53.1%
Adjusted Earnings per Share - Diluted	\$	0.74	\$	0.48	0.26	54.2%

### **\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards ("IFRS"). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company's performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include "Adjusted Net Income", "Adjusted Net Income per Share (on a basic and diluted basis)", "Adjusted Operating Income" and "Adjusted EBITDA". Unusual and other items are explained in the "Adjustments to Net Income" section of this press release.

The following tables provide a reconciliation of IFRS “Net Income Attributable to Equity Holders of the Company” to Non-IFRS “Adjusted Net Income Attributable to Equity Holders of the Company”, “Adjusted Operating Income” and “Adjusted EBITDA”:

	<b>Three months ended June 30, 2015</b>		<b>Three months ended June 30, 2014</b>	
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308
Unusual and Other Items (after-tax)*		-		306
Adjusted Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,614

	<b>Six months ended June 30, 2015</b>		<b>Six months ended June 30, 2014</b>	
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999
Unusual and Other Items (after-tax)*		-		1,171
Adjusted Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	41,170

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release.

	<b>Three months ended June 30, 2015</b>		<b>Three months ended June 30, 2014</b>	
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308
Non-controlling interest		196		6,318
Income tax expense		10,732		8,404
Other finance income		(650)		(231)
Finance costs		6,549		5,330
Unusual and Other Items (before-tax)*		-		408
Adjusted Operating Income	\$	50,238	\$	43,537
Depreciation of property, plant and equipment		30,135		27,000
Amortization of intangible assets		3,595		2,730
Loss/(gain) on disposal of property, plant and equipment		(175)		(17)
Adjusted EBITDA	\$	83,793	\$	73,250

	<b>Six months ended June 30, 2015</b>		<b>Six months ended June 30, 2014</b>	
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999
Non-controlling interest		285		16,286
Income tax expense		19,981		13,903
Other finance income		(3,252)		(9)
Finance costs		13,104		10,509
Unusual and Other Items (before-tax)*		-		1,561
Adjusted Operating Income	\$	93,948	\$	82,249
Depreciation of property, plant and equipment		58,717		52,595
Amortization of intangible assets		6,796		5,177
Loss/(gain) on disposal of property, plant and equipment		(745)		123
Adjusted EBITDA	\$	158,716	\$	140,144

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this Press Release.

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

## **SALES**

### ***Three months ended June 30, 2015 to three months ended June 30, 2014 comparison***

	<b>Three months ended June 30, 2015</b>		<b>Three months ended June 30, 2014</b>		<b>\$ Change</b>	<b>% Change</b>
North America	\$	798,705	\$	745,304	53,401	7.2%
Europe		165,962		173,037	(7,075)	(4.1%)
Rest of the World		19,379		12,574	6,805	54.1%
<b>Total Sales</b>	<b>\$</b>	<b>984,046</b>	<b>\$</b>	<b>930,915</b>	<b>53,131</b>	<b>5.7%</b>

The Company's consolidated sales for the second quarter of 2015 increased by \$53.1 million or 5.7 % to \$984.0 million as compared to \$930.9 million for the second quarter of 2014. The total overall increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the second quarter of 2015 in the Company's North America operating segment increased by \$53.4 million or 7.2% to \$798.7 million from \$745.3 million for the second quarter of 2014. The increase was due to the launch of new programs during or subsequent to the second quarter of 2014, including the new Chrysler 200 and Ford Edge, and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2015 of approximately \$73.1 million as compared to the second quarter of 2014. These positive factors were partially offset by a \$19.1 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer, and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler Minivan platform, which was down for thirteen weeks during the first half of 2015 for re-tooling and other light-vehicle platforms late in their product life cycle such as the current GM Equinox and Cruze.

Sales for the second quarter of 2015 in the Company's Europe operating segment decreased by \$7.1 million or 4.1% to \$166.0 million from \$173.0 million for the second quarter of 2014. The decrease can be attributed to a \$5.2 million decrease in tooling sales, the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2015 of approximately \$19.2 million as compared to the second quarter of 2014, and lower overall production volumes in the Company's Martinrea Honsel German operations; partially offset by new incremental aluminum business with Jaguar Land Rover and increased production sales in the Company's operating facility in Slovakia, which continues to ramp up and launch its backlog of business.

Sales for the second quarter of 2015 in the Company's Rest of the World operating segment increased by \$6.8 million or 54.1% to \$19.4 million from \$12.6 million in the second quarter of 2014. The increase was mainly due to a year-over-year increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, and a \$0.6 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of foreign denominated production sales, which had a negative impact on overall sales for the second quarter of 2015 of approximately \$0.6 million as compared to the second quarter of 2014. OEM production volumes in Brazil continue to trend at low levels, although production sales for the second quarter of 2015 in the Company's operating facility in Brazil did increase slightly year-over-year generally due to sales mix.

Overall tooling sales decreased by \$23.7 million to \$37.5 million for the second quarter of 2015 from \$61.2 million for the second quarter of 2014.

### ***Six months ended June 30, 2015 to six months ended June 30, 2014 comparison***

	<b>Six months ended June 30, 2015</b>		<b>Six months ended June 30, 2014</b>		<b>\$ Change</b>	<b>% Change</b>
North America	\$	1,511,821	\$	1,408,968	102,853	7.3%
Europe		353,364		356,690	(3,326)	(0.9%)
Rest of the World		36,392		29,750	6,642	22.3%
<b>Total Sales</b>	<b>\$</b>	<b>1,901,577</b>	<b>\$</b>	<b>1,795,408</b>	<b>106,169</b>	<b>5.9%</b>

The Company's consolidated sales for the six months ended June 30, 2015 increased by \$106.2 million or 5.9% to \$1,901.6 million as compared to \$1,795.4 million for the six months ended June 30, 2014. The total overall increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the six months ended June 30, 2015 in the Company's North America operating segment increased by \$102.9 million or 7.3% to \$1,511.8 million from \$1,409.0 million for the six months ended June 30, 2014. The increase was due to the launch of new programs

during or subsequent to the six months ended June 30, 2014, including the new Chrysler 200 and Ford Edge, and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2015 of approximately \$130.8 million as compared to the comparative period of 2014. These positive variances were partially offset by a year-over-year decrease in tooling sales of \$17.4 million and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler Minivan platform, which was down for thirteen weeks during the first half of 2015 for re-tooling and other light-vehicle platforms late in their product life cycle.

Sales for the six months ended June 30, 2015 in the Company's Europe operating segment decreased by \$3.3 million or 0.9% to \$353.4 million from \$356.7 million for the six months June 30, 2014. The decrease can be attributed to a \$4.0 million decrease in tooling sales, the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2015 of approximately \$27.9 million as compared to the comparable period of 2014, and lower overall production volumes in the Company's Martinrea Honsel German operations; partially offset by new incremental aluminum business with Jaguar Land Rover and increased production sales in the Company's operating facility in Slovakia, which continues to ramp up and launch its backlog of business.

Sales for the six months ended June 30, 2015 in the Company's Rest of the World operating segment increased by \$6.6 million or 22.3% to \$36.4 million from \$29.8 million for the six months ended June 30, 2014. The increase can be attributed to an increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, and a \$1.3 million increase in tooling sales; partially offset by a year-over-year decrease in OEM light and medium heavy vehicle production in Brazil and the translation of foreign denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2015 of \$0.5 million as compared to the comparative period of 2014.

Overall tooling sales decreased by \$20.1 million from \$88.1 million for the six months ended June 30, 2014 to \$68.0 million for the six months ended June 30, 2015.

## **GROSS MARGIN**

### ***Three months ended June 30, 2015 to three months ended June 30, 2014 comparison***

	<b>Three months ended June 30, 2015</b>	<b>Three months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 106,379	\$ 95,863	10,516	11.0%
% of sales	10.8%	10.3%		

The gross margin percentage for the second quarter of 2015 of 10.8% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the second quarter of 2014 of 10.3%. The increase in gross margin as a percentage of sales was generally due to productivity and efficiency improvements at certain operating facilities, in particular in the Company's U.S. Metallic operations, and a decrease in tooling sales which typically earn low or no margins for the Company; partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel; and
- lower production volumes in the Company's Martinrea Honsel German operations.

### ***Six months ended June 30, 2015 to six months ended June 30, 2014 comparison***

	<b>Six months ended June 30, 2015</b>	<b>Six months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$ 202,018	\$ 183,342	18,676	10.2%
% of sales	10.6%	10.2%		

The gross margin percentage for the six months ended June 30, 2015 of 10.6% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the six months ended June 30, 2014 of 10.2%. The increase in gross margin as a percentage of sales was generally due to productivity and efficiency improvements at certain operating facilities, in particular in the Company's U.S. Metallic operations, and a decrease in tooling sales which typically earn low or no margins for the Company; partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China and Riverside, Missouri as these new plants prepare for upcoming new program launches;

- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations; and
- the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015.

**ADJUSTMENTS TO NET INCOME  
(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

Adjusted net income excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses adjusted net income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

**TABLE A**

	Three months ended June 30, 2015 (a)	Three months ended June 30, 2014 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$33,411</b>	<b>\$23,308</b>	<b>\$10,103</b>
<b>Add back - Unusual and Other Items:</b>			
External legal and forensic accounting costs related to litigation (1)	-	408	(408)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>-</b>	<b>\$408</b>	<b>(\$408)</b>
Tax impact of above item	-	(102)	102
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>-</b>	<b>\$306</b>	<b>(\$306)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$33,411</b>	<b>\$23,614</b>	<b>\$9,797</b>
Number of Shares Outstanding – Basic ('000)	85,800	84,498	
Adjusted Basic Net Income Per Share	\$0.39	\$0.28	
Number of Shares Outstanding – Diluted ('000)	86,608	85,609	
Adjusted Diluted Net Income Per Share	\$0.39	\$0.28	

**TABLE B**

	Six months ended June 30, 2015 (a)	Six months ended June 30, 2014 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$63,830</b>	<b>\$39,999</b>	<b>\$23,831</b>
<b>Add back - Unusual and Other Items:</b>			
External legal and forensic accounting costs related to litigation (1)	-	1,561	(1,561)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>-</b>	<b>\$1,561</b>	<b>(\$1,561)</b>
Tax impact of above item	-	(390)	390
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>-</b>	<b>\$1,171</b>	<b>(\$1,171)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$63,830</b>	<b>\$41,170</b>	<b>\$22,660</b>
Number of Shares Outstanding – Basic ('000)	85,444	84,489	
Adjusted Basic Net Income Per Share	\$0.75	\$0.49	
Number of Shares Outstanding – Diluted ('000)	86,099	85,317	
Adjusted Diluted Net Income Per Share	\$0.74	\$0.48	

(1) External Legal and Forensic Accounting Costs Related to Litigation



The costs added back for adjusted net income purposes for the three and six months ended June 30, 2014 reflects the legal and forensic accounting costs not covered by insurance (recorded as SG&A expense) incurred by the Company in relation to specific litigation matters outside the ordinary course of business as outlined in the Company's Annual Information Form for the year ended December 31, 2014.

**NET INCOME**  
**(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

*Three months ended June 30, 2015 to three months ended June 30, 2014 comparison*

	Three months ended June 30, 2015	Three months ended June 30, 2014	\$ Change	% Change
Net Income	\$ 33,411	\$ 23,308	10,103	43.3%
Adjusted Net Income	\$ 33,411	\$ 23,614	9,797	41.5%
Net Income per Share				
Basic	\$ 0.39	\$ 0.28		
Diluted	\$ 0.39	\$ 0.27		
Adjusted Net Income per Share				
Basic	\$ 0.39	\$ 0.28		
Diluted	\$ 0.39	\$ 0.28		

Net income, before adjustments, for the second quarter of 2015 increased by \$10.1 million to \$33.4 million from \$23.3 million for the second quarter of 2014. Excluding the unusual and other items incurred during the second quarter of 2014 as explained in Table A under "Adjustments to Net Income", net income for the second quarter of 2015 increased to \$33.4 million or \$0.39 per share, on a basic and diluted basis, from \$23.6 million or \$0.28 per share, on a basic and diluted basis, for the second quarter of 2014.

Net income for the second quarter of 2015, as compared to the second quarter of 2014, after adjustments, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations; and
- the inclusion of 100% of the net earnings from the Martinrea Honsel group after the Company purchased the 45% non-controlling interest on August 7, 2014 (see "Acquisitions" section of the MD&A for further details on the transaction).

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations;
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.2% for the second quarter of 2015 compared to 22.1% for the second quarter of 2014); and
- year-over-year increases in SG&A expense as previously discussed, research and development expenses, due in large part to increased amortization of development costs, and finance expense related to increased levels of debt primarily used to sustain the increased level of capital expenditures related to new program launches and fund the purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see "Acquisitions" section of the MD&A for further details on the transaction).

**Three months ended June 30, 2015 actual to guidance comparison:**

On May 5, 2015, the Company provided the following guidance for the second quarter of 2015:

	Guidance	Actual
Production sales (in millions)	\$ 920 - 960	\$ 946
Net Income per Share		
Basic & Diluted	\$ 0.37 - 0.41	\$ 0.39

For the second quarter of 2015, production sales of \$946 million and net income per share of \$0.39 were within the range of published guidance.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

	Six months ended June 30, 2015		Six months ended June 30, 2014		\$ Change	% Change
Net Income	\$	63,830	\$	39,999	23,831	59.6%
Adjusted Net Income	\$	63,830	\$	41,170	22,660	55.0%
Net Income per Share						
Basic	\$	0.75	\$	0.47		
Diluted	\$	0.74	\$	0.47		
Adjusted Net Income per Share						
Basic	\$	0.75	\$	0.49		
Diluted	\$	0.74	\$	0.48		

Net income, before adjustments, for the six months ended June 30, 2015 increased by \$23.8 million to \$63.8 million from \$40.0 million for the six months ended June 30, 2014. Excluding the unusual and other item incurred during the six months ended June 30, 2014 as explained in Table B under "Adjustments to Net Income", net income for the six months ended June 30, 2015 increased to \$63.8 million or \$0.75 per share, on a basic basis, and \$0.74 per share on diluted basis, from \$41.2 million or \$0.49 per share, on a basic basis, and \$0.48 on a diluted basis, for the six months ended June 30, 2014.

Net income for the six months ended June 30, 2015, as compared to the six months ended June 30, 2014, after adjustments, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations;
- the inclusion of 100% of the net earnings from the Martinrea Honsel group after the Company purchased the 45% non-controlling interest on August 7, 2014 (see "Acquisitions" section of the MD&A for further details on the transaction); and
- a net foreign exchange gain of \$3.2 million for the six months ended June 30, 2015 compared to a net foreign exchange loss of \$0.1 million for the comparative period of 2014.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations;
- the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015;
- a higher effective tax rate on adjusted income due generally to the mix of earnings (23.8% for the six months ended June 30, 2015 compared to 19.8% for the comparative period of 2014); and
- year-over-year increases in SG&A expense as previously discussed, research and development expenses, due predominantly to increased amortization of development costs, and finance expense related to increased levels of debt primarily used to sustain the increased level of capital expenditures related to new program launches and to fund the purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see "Acquisitions" section of the MD&A for further details on the transaction).

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

**Three months ended June 30, 2015 to three months ended June 30, 2014 comparison**

	Three months ended June 30, 2015		Three months ended June 30, 2014		\$ Change	% Change
Additions to PP&E	\$	37,398	\$	47,311	(9,913)	(21.0%)

Additions to PP&E decreased by \$9.9 million to \$37.4 million in the second quarter of 2015 from \$47.3 million in the second quarter of 2014 due generally to the timing of expenditures. Additions as a percentage of sales decreased year-over-year to 3.8% for the second quarter of 2015 from 5.1% for the second quarter of 2014. While capital expenditures are made to refurbish or replace assets consumed

in the normal course of business and for productivity improvements, a large portion of the investment in the second quarter of 2015 continued to be for manufacturing equipment and multiple expansions for programs that recently launched or will be launching over the next 24 months.

***Six months ended June 30, 2015 to six months ended June 30, 2014 comparison***

	<b>Six months ended June 30, 2015</b>	<b>Six months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Additions to PP&E	\$ 84,735	\$ 84,362	373	0.4%

Additions to PP&E remained relatively consistent year-over-year at \$84.7 million for the six months ended June 30, 2015 compared to \$84.4 million for the six months ended June 30, 2014. Additions as a percentage of sales decreased year-over-year to 4.5% for the six months ended June 30, 2015 from 4.7% for the comparative period of 2014. Despite the slight decrease as a percentage of sales, the Company continues to make significant investments in the business in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches.

**DIVIDEND**

A cash dividend of \$0.03 per share has been declared by the Board of Directors payable to shareholders of record on September 30, 2015 on or about October 15, 2015.

**ABOUT MARTINREA**

Martinrea currently employs over 14,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea’s vision for the future is to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. The Company’s mission is to deliver: outstanding quality products and services to our customers; meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth; superior long term investment returns to our stakeholders; and positive contributions to our communities as good corporate citizens.

**CONFERENCE CALL DETAILS**

A conference call to discuss the financial results will be held on Friday, August 7, 2015 at 9:30 a.m. (Toronto time) which can be accessed by dialing 416-340-8410 or toll free 866-225-2055. Please call 10 minutes prior to the start of the conference call.

If you have any teleconferencing questions, please call Andre La Rosa at (416) 749-0314.

There will also be a rebroadcast of the call available by dialing (905) 694-9451 or toll free (800) 408-3053 (conference id – 3030132#). The rebroadcast will be available until August 21, 2015.

**FORWARD-LOOKING INFORMATION**

**Special Note Regarding Forward-Looking Statements**

This press release contains forward-looking statements within the meaning of applicable Canadian securities laws including statements related to the expectations of, improvements in, expansion of and/or guidance as to revenue, gross margin and earnings per share, the growth and strengthening of the Company, opening of facilities and pursuit of its strategies, the launching of new programs and the financial impact of launches, the progress and expectations of operational and productivity improvements and efficiencies, the reduction of costs and expenses, the opportunity to increase sales and ability to capitalize on opportunities in the automotive industry, the sale of the Soest assets, the payment of dividends and as well as other forward-looking statements. The words “continue”, “expect”, “anticipate”, “estimate”, “may”, “will”, “should”, “views”, “intend”, “believe”, “plan” and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company’s actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company’s Annual Information Form and other public filings which can be found at [www.sedar.com](http://www.sedar.com):

- North American and global economic and political conditions;

- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;
- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and insourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposure;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans; and
- the cost of post-employment benefits.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

The common shares of Martinrea trade on The Toronto Stock Exchange under the symbol "MRE".

For further information, please contact:

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**MANAGEMENT DISCUSSION AND ANALYSIS**  
**OF OPERATING RESULTS AND FINANCIAL POSITION**

**For the three and six months ended June 30, 2015**

The following management discussion and analysis ("MD&A") was prepared as of August 6, 2015 and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements for the three and six months ended June 30, 2015 ("interim consolidated financial statements"), as well as the Company's audited consolidated financial statements and MD&A for the year ended December 31, 2014 together with the notes thereto. All amounts in this MD&A are in Canadian dollars, unless otherwise stated; and all tabular amounts are in thousands of Canadian dollars, except earnings per share and number of shares. Additional information about the Company, including the Company's Annual Information Form for the year ended December 31, 2014, can be found at [www.sedar.com](http://www.sedar.com).

**OVERVIEW**

Martinrea International Inc. (TSX:MRE) ("Martinrea" or the "Company") is a leader in the development and production of quality metal parts, assemblies and modules, fluid management systems and complex aluminum products focused primarily on the automotive sector. Martinrea currently employs over 14,000 skilled and motivated people in 44 operating divisions in Canada, the United States, Mexico, Brazil, Germany, Slovakia, Spain and China.

Martinrea's vision for the future is to be the best, preferred and most valued automotive parts supplier in the world in the products and services we provide our customers. The Company's mission is to deliver: outstanding quality products and services to our customers; meaningful opportunity, job satisfaction and job security to our people through competitiveness and prudent growth; superior long term investment returns to our stakeholders; and positive contributions to our communities as good corporate citizens.

Results of operations include certain unusual and other items which have been separately disclosed, where appropriate, in order to provide a clear assessment of the underlying Company results. In addition to IFRS measures, management uses non-IFRS measures in the Company's disclosures that it believes provides the most appropriate basis on which to evaluate the Company's results.

**OVERALL RESULTS**

The following table sets out certain highlights of the Company's performance for the three and six months ended June 30, 2015 and 2014. Refer to the Company's interim condensed consolidated financial statements for the three and six months ended June 30, 2015 for a detailed account of the Company's performance for both periods presented in the tables below.

	<b>Three months ended</b>		<b>Three months ended</b>		<b>\$ Change</b>	<b>% Change</b>
	<b>June 30, 2015</b>		<b>June 30, 2014</b>			
Sales	\$	984,046	\$	930,915	53,131	5.7%
Gross Margin		106,379		95,863	10,516	11.0%
Operating Income		50,238		43,129	7,109	16.5%
Net Income for the period		33,607		29,626	3,981	13.4%
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308	10,103	43.3%
Earnings per Share – Basic	\$	0.39	\$	0.28	0.11	39.3%
Earnings per Share – Diluted	\$	0.39	\$	0.27	0.12	44.4%
<b><u>Non-IFRS Measures*</u></b>						
Adjusted Operating Income	\$	50,238	\$	43,537	6,701	15.4%
<i>as a % of Sales</i>		5.1%		4.7%		
Adjusted EBITDA		83,793		73,250	10,543	14.4%
<i>as a % of Sales</i>		8.5%		7.9%		
Adjusted Net Earnings Attributable to Equity Holders of the Company		33,411		23,614	9,797	41.5%
Adjusted Earnings per Share - Basic and Diluted	\$	0.39	\$	0.28	0.11	39.3%

	Six months ended June 30, 2015		Six months ended June 30, 2014		\$ Change	% Change
Sales	\$	1,901,577	\$	1,795,408	106,169	5.9%
Gross Margin		202,018		183,342	18,676	10.2%
Operating Income		93,948		80,688	13,260	16.4%
Net Income for the period		64,115		56,285	7,830	13.9%
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999	23,831	59.6%
Earnings per Share – Basic	\$	0.75	\$	0.47	0.28	59.6%
Earnings per Share – Diluted	\$	0.74	\$	0.47	0.27	57.4%
<b>Non-IFRS Measures*</b>						
Adjusted Operating Income	\$	93,948	\$	82,249	11,699	14.2%
as a % of Sales		4.9%		4.6%		
Adjusted EBITDA		158,716		140,144	18,572	13.3%
as a % of Sales		8.3%		7.8%		
Adjusted Net Earnings Attributable to Equity Holders of the Company		63,830		41,170	22,660	55.0%
Adjusted Earnings per Share - Basic	\$	0.75	\$	0.49	0.26	53.1%
Adjusted Earnings per Share - Diluted	\$	0.74	\$	0.48	0.26	54.2%

#### **\*Non-IFRS Measures**

The Company prepares its financial statements in accordance with International Financial Reporting Standards (“IFRS”). However, the Company considers certain non-IFRS financial measures as useful additional information in measuring the financial performance and condition of the Company. These measures, which the Company believes are widely used by investors, securities analysts and other interested parties in evaluating the Company’s performance, do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures presented by other publicly traded companies, nor should they be construed as an alternative to financial measures determined in accordance with IFRS. Non-IFRS measures include “Adjusted Net Income”, “Adjusted Net Income per Share (on a basic and diluted basis)”, “Adjusted Operating Income” and “Adjusted EBITDA”. Unusual and other items are explained in the “Adjustments to Net Income” section of this MD&A.

The following tables provide a reconciliation of IFRS “Net Income Attributable to Equity Holders of the Company” to Non-IFRS “Adjusted Net Income Attributable to Equity Holders of the Company”, “Adjusted Operating Income” and “Adjusted EBITDA”:

	Three months ended June 30, 2015		Three months ended June 30, 2014	
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308
Unusual and Other Items (after-tax)*		-		306
Adjusted Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,614

	Six months ended June 30, 2015		Six months ended June 30, 2014	
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999
Unusual and Other Items (after-tax)*		-		1,171
Adjusted Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	41,170

\*Unusual and other items are explained in the “Adjustments to Net Income” section of this MD&A

	Three months ended June 30, 2015		Three months ended June 30, 2014	
Net Income Attributable to Equity Holders of the Company	\$	33,411	\$	23,308
Non-controlling interest		196		6,318
Income tax expense		10,732		8,404
Other finance income		(650)		(231)
Finance costs		6,549		5,330
Unusual and Other Items (before-tax)*		-		408
Adjusted Operating Income	\$	50,238	\$	43,537
Depreciation of property, plant and equipment		30,135		27,000
Amortization of intangible assets		3,595		2,730
Loss/(gain) on disposal of property, plant and equipment		(175)		(17)
Adjusted EBITDA	\$	83,793	\$	73,250

	Six months ended June 30, 2015		Six months ended June 30, 2014	
Net Income Attributable to Equity Holders of the Company	\$	63,830	\$	39,999
Non-controlling interest		285		16,286
Income tax expense		19,981		13,903
Other finance income		(3,252)		(9)
Finance costs		13,104		10,509
Unusual and Other Items (before-tax)*		-		1,561
Adjusted Operating Income	\$	93,948	\$	82,249
Depreciation of property, plant and equipment		58,717		52,595
Amortization of intangible assets		6,796		5,177
Loss/(gain) on disposal of property, plant and equipment		(745)		123
Adjusted EBITDA	\$	158,716	\$	140,144

\*Unusual and other items are explained in the "Adjustments to Net Income" section of this MD&A

The year-over-year changes in significant accounts and financial highlights are discussed in detail in the sections below.

## **SALES**

### **Three months ended June 30, 2015 to three months ended June 30, 2014 comparison**

	Three months ended June 30, 2015		Three months ended June 30, 2014		\$ Change	% Change
North America	\$	798,705	\$	745,304	53,401	7.2%
Europe		165,962		173,037	(7,075)	(4.1%)
Rest of the World		19,379		12,574	6,805	54.1%
Total Sales	\$	984,046	\$	930,915	53,131	5.7%

The Company's consolidated sales for the second quarter of 2015 increased by \$53.1 million or 5.7 % to \$984.0 million as compared to \$930.9 million for the second quarter of 2014. The total overall increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the second quarter of 2015 in the Company's North America operating segment increased by \$53.4 million or 7.2% to \$798.7 million from \$745.3 million for the second quarter of 2014. The increase was due to the launch of new programs during or subsequent to the second quarter of 2014, including the new Chrysler 200 and Ford Edge, and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the second quarter of 2015 of approximately \$73.1 million as compared to the second quarter of 2014. These positive factors were partially offset by a \$19.1 million decrease in tooling sales, which are typically dependent on the timing of tooling construction and final acceptance by the customer, and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler Minivan platform, which was down for thirteen weeks during the first half of 2015 for re-tooling and other light-vehicle platforms late in their product life cycle such as the current GM Equinox and Cruze.

Sales for the second quarter of 2015 in the Company's Europe operating segment decreased by \$7.1 million or 4.1% to \$166.0 million from \$173.0 million for the second quarter of 2014. The decrease can be attributed to a \$5.2 million decrease in tooling sales, the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the second quarter of 2015 of approximately \$19.2 million as compared to the second quarter of 2014, and lower overall production volumes in the Company's Martinrea Honsel German operations; partially offset by new incremental aluminum business with Jaguar Land Rover and increased production sales in the Company's operating facility in Slovakia, which continues to ramp up and launch its backlog of business.

Sales for the second quarter of 2015 in the Company's Rest of the World operating segment increased by \$6.8 million or 54.1% to \$19.4 million from \$12.6 million in the second quarter of 2014. The increase was mainly due to a year-over-year increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, and a \$0.6 million increase in tooling sales; partially offset by the impact of foreign exchange on the translation of foreign denominated production sales, which had a negative impact on overall sales for the second quarter of 2015 of approximately \$0.6 million as compared to the second quarter of 2014. OEM production volumes in Brazil continue to trend at low levels, although production sales for the second quarter of 2015 in the Company's operating facility in Brazil did increase slightly year-over-year generally due to sales mix.

Overall tooling sales decreased by \$23.7 million to \$37.5 million for the second quarter of 2015 from \$61.2 million for the second quarter of 2014.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

		<b>Six months ended June 30, 2015</b>		<b>Six months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
North America	\$	1,511,821	\$	1,408,968	102,853	7.3%
Europe		353,364		356,690	(3,326)	(0.9%)
Rest of the World		36,392		29,750	6,642	22.3%
<b>Total Sales</b>	<b>\$</b>	<b>1,901,577</b>	<b>\$</b>	<b>1,795,408</b>	<b>106,169</b>	<b>5.9%</b>

The Company's consolidated sales for the six months ended June 30, 2015 increased by \$106.2 million or 5.9% to \$1,901.6 million as compared to \$1,795.4 million for the six months ended June 30, 2014. The total overall increase in sales was driven by increases in the Company's North America and Rest of the World operating segments, partially offset by a year-over-year decrease in sales in Europe.

Sales for the six months ended June 30, 2015 in the Company's North America operating segment increased by \$102.9 million or 7.3% to \$1,511.8 million from \$1,409.0 million for the six months ended June 30, 2014. The increase was due to the launch of new programs during or subsequent to the six months ended June 30, 2014, including the new Chrysler 200 and Ford Edge, and the impact of foreign exchange on the translation of U.S. denominated production sales, which had a positive impact on overall sales for the six months ended June 30, 2015 of approximately \$130.8 million as compared to the comparative period of 2014. These positive variances were partially offset by a year-over-year decrease in tooling sales of \$17.4 million and lower year-over-year OEM production volumes on certain light-vehicle platforms including the Chrysler Minivan platform, which was down for thirteen weeks during the first half of 2015 for re-tooling and other light-vehicle platforms late in their product life cycle.

Sales for the six months ended June 30, 2015 in the Company's Europe operating segment decreased by \$3.3 million or 0.9% to \$353.4 million from \$356.7 million for the six months June 30, 2014. The decrease can be attributed to a \$4.0 million decrease in tooling sales, the impact of foreign exchange on the translation of Euro denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2015 of approximately \$27.9 million as compared to the comparable period of 2014, and lower overall production volumes in the Company's Martinrea Honsel German operations; partially offset by new incremental aluminum business with Jaguar Land Rover and increased production sales in the Company's operating facility in Slovakia, which continues to ramp up and launch its backlog of business.

Sales for the six months ended June 30, 2015 in the Company's Rest of the World operating segment increased by \$6.6 million or 22.3% to \$36.4 million from \$29.8 million for the six months ended June 30, 2014. The increase can be attributed to an increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, and a \$1.3 million increase in tooling sales; partially offset by a year-over-year decrease in OEM light and medium heavy vehicle production in Brazil and the translation of foreign denominated production sales, which had a negative impact on overall sales for the six months ended June 30, 2015 of \$0.5 million as compared to the comparative period of 2014.

Overall tooling sales decreased by \$20.1 million from \$88.1 million for the six months ended June 30, 2014 to \$68.0 million for the six months ended June 30, 2015.



## **GROSS MARGIN**

### ***Three months ended June 30, 2015 to three months ended June 30, 2014 comparison***

		<b>Three months ended June 30, 2015</b>		<b>Three months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$	106,379	\$	95,863	10,516	11.0%
% of sales		10.8%		10.3%		

The gross margin percentage for the second quarter of 2015 of 10.8% increased as a percentage of sales by 0.5% as compared to the gross margin percentage for the second quarter of 2014 of 10.3%. The increase in gross margin as a percentage of sales was generally due to productivity and efficiency improvements at certain operating facilities, in particular in the Company's U.S. Metallic operations, and a decrease in tooling sales which typically earn low or no margins for the Company; partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel; and
- lower production volumes in the Company's Martinrea Honsel German operations.

### ***Six months ended June 30, 2015 to six months ended June 30, 2014 comparison***

		<b>Six months ended June 30, 2015</b>		<b>Six months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Gross margin	\$	202,018	\$	183,342	18,676	10.2%
% of sales		10.6%		10.2%		

The gross margin percentage for the six months ended June 30, 2015 of 10.6% increased as a percentage of sales by 0.4% as compared to the gross margin percentage for the six months ended June 30, 2014 of 10.2%. The increase in gross margin as a percentage of sales was generally due to productivity and efficiency improvements at certain operating facilities, in particular in the Company's U.S. Metallic operations, and a decrease in tooling sales which typically earn low or no margins for the Company; partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations; and
- the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015.

## **SELLING, GENERAL & ADMINISTRATIVE ("SG&A")**

### ***Three months ended June 30, 2015 to three months ended June 30, 2014 comparison***

		<b>Three months ended June 30, 2015</b>		<b>Three months ended June 30, 2014</b>	<b>\$ Change</b>	<b>% Change</b>
Selling, general & administrative	\$	48,606	\$	45,594	3,012	6.6%
% of sales		4.9%		4.9%		

SG&A expense, before adjustments, for the second quarter of 2015 increased by \$3.0 million to \$48.6 million as compared to \$45.6 million for the second quarter of 2014. Excluding the unusual and other items recorded in SG&A expense incurred in the second quarter of 2014 explained in Table A under "Adjustments to Net Income", SG&A expense for the second quarter of 2015 increased by \$3.4 million to \$48.6 million from \$45.2 million for the comparative period of 2014. The increase is predominantly due to costs incurred at new and/or expanded facilities, including incremental employment levels to support the growth in the business. SG&A expenses are being monitored and managed on a continuous basis in order to optimize costs.

Excluding the unusual and other item recorded in SG&A expense incurred in the second quarter of 2014 as explained in Table A under "Adjustments to Net Income", SG&A expense as a percentage of sales remained consistent year-over-year at 4.9% for both the second quarters of 2015 and 2014.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

		Six months ended June 30, 2015		Six months ended June 30, 2014	\$ Change	% Change
Selling, general & administrative	\$	93,283	\$	88,925	4,358	4.9%
% of sales		4.9%		5.0%		

SG&A expense, before adjustments, for the six months ended June 30, 2015 increased by \$4.4 million to \$93.3 million as compared to \$88.9 million for the six months ended June 30, 2014. Excluding the unusual and other items recorded in SG&A expense incurred during the six months ended June, 30, 2014 explained in Table B under "Adjustments to Net Income", SG&A expense for the six months ended June 30, 2015 increased by \$5.9 million to \$93.3 million from \$87.4 million for the comparative period of 2014. The increase is predominantly due to costs incurred at new and/or expanded facilities, including incremental employment levels to support the growth in the business.

Excluding the unusual and other items recorded in SG&A expense incurred during the six months ended June 30, 2014 as explained in Table B under "Adjustments to Net Income", SG&A expense as a percentage of sales remained consistent year-over-year at 4.9%.

**DEPRECIATION OF PROPERTY, PLANT AND EQUIPMENT ("PP&E") AND AMORTIZATION OF INTANGIBLE ASSETS**

**Three months ended June 30, 2015 to three months ended June 30, 2014 comparison**

		Three months ended June 30, 2015		Three months ended June 30, 2014	\$ Change	% Change
Depreciation of PP&E (production)	\$	28,280	\$	25,286	2,994	11.8%
Depreciation of PP&E (non-production)		1,855		1,714	141	8.2%
Amortization of customer contracts and relationships		577		568	9	1.6%
Amortization of development costs		3,018		2,162	856	39.6%
Total depreciation and amortization	\$	33,730	\$	29,730	4,000	13.5%

Total depreciation and amortization expense for the second quarter of 2015 increased by \$4.0 million to \$33.7 million as compared to \$29.7 million for the second quarter of 2014. The increase in total depreciation and amortization expense was primarily due to increases in depreciation expense on a larger PP&E base resulting from the growth in the Company's book of business and amortization of development costs as new and replacement programs, for which development costs were incurred, start production and reach peak volumes. A significant portion of the Company's recent investments relates to various new program launches put to use during or subsequent to the second quarter of 2014 as the Company has continued to work through its launch backlog. The Company continues to make significant investments in the business in light of a large backlog of business and a growing global footprint.

Depreciation of PP&E (production) expense as a percentage of sales increased slightly year-over-year to 2.9% for the second quarter of 2015 from 2.7% for the second quarter of 2014.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

		Six months ended June 30, 2015		Six months ended June 30, 2014	\$ Change	% Change
Depreciation of PP&E (production)	\$	55,175	\$	49,417	5,758	11.7%
Depreciation of PP&E (non-production)		3,542		3,178	364	11.5%
Amortization of customer contracts and relationships		1,116		911	205	22.5%
Amortization of development costs		5,680		4,266	1,414	33.1%
Total depreciation and amortization	\$	65,513	\$	57,772	7,741	13.4%

Total depreciation and amortization expense for the six months ended June 30, 2015 increased by \$7.7 million to \$65.5 million as compared to \$57.8 million for the six months ended June 30, 2014. Similar to the year-over-year quarterly trend noted above, the increase in total depreciation and amortization expense was primarily due to increases in depreciation expense on a larger PP&E base resulting from growth in the Company's book of business and amortization of development costs as new and replacement programs, for which development costs were incurred, start production and reach peak volumes.

Depreciation of PP&E (production) expense as a percentage of sales remained relatively consistent year-over-over at 2.9% for the six months ended June 30, 2015 compared to 2.8% for the six months ended June 30, 2014.

**ADJUSTMENTS TO NET INCOME**  
**(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

Adjusted net income excludes certain unusual and other items, as set out in the following tables and described in the notes thereto. Management uses adjusted net income as a measurement of operating performance of the Company and believes that, in conjunction with IFRS measures, it provides useful information about the financial performance and condition of the Company.

**TABLE A**

	Three months ended June 30, 2015 (a)	Three months ended June 30, 2014 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$33,411</b>	<b>\$23,308</b>	<b>\$10,103</b>
<b>Add back - Unusual and Other Items:</b>			
External legal and forensic accounting costs related to litigation (1)	-	408	(408)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>-</b>	<b>\$408</b>	<b>(\$408)</b>
Tax impact of above item	-	(102)	102
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>-</b>	<b>\$306</b>	<b>(\$306)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$33,411</b>	<b>\$23,614</b>	<b>\$9,797</b>
Number of Shares Outstanding – Basic ('000)	85,800	84,498	
Adjusted Basic Net Income Per Share	\$0.39	\$0.28	
Number of Shares Outstanding – Diluted ('000)	86,608	85,609	
Adjusted Diluted Net Income Per Share	\$0.39	\$0.28	

**TABLE B**

	Six months ended June 30, 2015 (a)	Six months ended June 30, 2014 (b)	(a)-(b) Change
<b>NET INCOME (A)</b>	<b>\$63,830</b>	<b>\$39,999</b>	<b>\$23,831</b>
<b>Add back - Unusual and Other Items:</b>			
External legal and forensic accounting costs related to litigation (1)	-	1,561	(1,561)
<b>TOTAL UNUSUAL AND OTHER ITEMS BEFORE TAX</b>	<b>-</b>	<b>\$1,561</b>	<b>(\$1,561)</b>
Tax impact of above item	-	(390)	390
<b>TOTAL UNUSUAL AND OTHER ITEMS AFTER TAX (B)</b>	<b>-</b>	<b>\$1,171</b>	<b>(\$1,171)</b>
<b>ADJUSTED NET INCOME (A + B)</b>	<b>\$63,830</b>	<b>\$41,170</b>	<b>\$22,660</b>
Number of Shares Outstanding – Basic ('000)	85,444	84,489	
Adjusted Basic Net Income Per Share	\$0.75	\$0.49	
Number of Shares Outstanding – Diluted ('000)	86,099	85,317	
Adjusted Diluted Net Income Per Share	\$0.74	\$0.48	

## (1) External Legal and Forensic Accounting Costs Related to Litigation

The costs added back for adjusted net income purposes for the three and six months ended June 30, 2014 reflects the legal and forensic accounting costs not covered by insurance (recorded as SG&A expense) incurred by the Company in relation to specific litigation matters outside the ordinary course of business as outlined in the Company's Annual Information Form for the year ended December 31, 2014.

### **NET INCOME** **(ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY)**

#### *Three months ended June 30, 2015 to three months ended June 30, 2014 comparison*

	Three months ended June 30, 2015		Three months ended June 30, 2014		\$ Change	% Change
Net Income	\$	33,411	\$	23,308	10,103	43.3%
Adjusted Net Income	\$	33,411	\$	23,614	9,797	41.5%
Net Income per Share						
Basic	\$	0.39	\$	0.28		
Diluted	\$	0.39	\$	0.27		
Adjusted Net Income per Share						
Basic	\$	0.39	\$	0.28		
Diluted	\$	0.39	\$	0.28		

Net income, before adjustments, for the second quarter of 2015 increased by \$10.1 million to \$33.4 million from \$23.3 million for the second quarter of 2014. Excluding the unusual and other items incurred during the second quarter of 2014 as explained in Table A under "Adjustments to Net Income", net income for the second quarter of 2015 increased to \$33.4 million or \$0.39 per share, on a basic and diluted basis, from \$23.6 million or \$0.28 per share, on a basic and diluted basis, for the second quarter of 2014.

Net income for the second quarter of 2015, as compared to the second quarter of 2014, after adjustments, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations; and
- the inclusion of 100% of the net earnings from the Martinrea Honsel group after the Company purchased the 45% non-controlling interest on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction).

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations;
- a higher effective tax rate on adjusted income due generally to the mix of earnings (24.2% for the second quarter of 2015 compared to 22.1% for the second quarter of 2014); and
- year-over-year increases in SG&A expense as previously discussed, research and development expenses, due in large part to increased amortization of development costs, and finance expense related to increased levels of debt primarily used to sustain the increased level of capital expenditures related to new program launches and fund the purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction).

#### **Three months ended June 30, 2015 actual to guidance comparison:**

On May 5, 2015, the Company provided the following guidance for the second quarter of 2015:

	Guidance		Actual	
Production sales (in millions)	\$	920 - 960	\$	946
Net Income per Share				
Basic & Diluted	\$	0.37 - 0.41	\$	0.39

For the second quarter of 2015, production sales of \$946 million and net income per share of \$0.39 were within the range of published guidance.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

		Six months ended June 30, 2015		Six months ended June 30, 2014	\$ Change	% Change
Net Income	\$	63,830	\$	39,999	23,831	59.6%
Adjusted Net Income	\$	63,830	\$	41,170	22,660	55.0%
Net Income per Share						
Basic	\$	0.75	\$	0.47		
Diluted	\$	0.74	\$	0.47		
Adjusted Net Income per Share						
Basic	\$	0.75	\$	0.49		
Diluted	\$	0.74	\$	0.48		

Net income, before adjustments, for the six months ended June 30, 2015 increased by \$23.8 million to \$63.8 million from \$40.0 million for the six months ended June 30, 2014. Excluding the unusual and other item incurred during the six months ended June 30, 2014 as explained in Table B under "Adjustments to Net Income", net income for the six months ended June 30, 2015 increased to \$63.8 million or \$0.75 per share, on a basic basis, and \$0.74 per share on diluted basis, from \$41.2 million or \$0.49 per share, on a basic basis, and \$0.48 on a diluted basis, for the six months ended June 30, 2014.

Net income for the six months ended June 30, 2015, as compared to the six months ended June 30, 2014, after adjustments, was positively impacted by the following:

- higher gross profit from an overall increase in year-over-year production sales as previously explained;
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations;
- the inclusion of 100% of the net earnings from the Martinrea Honsel group after the Company purchased the 45% non-controlling interest on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction); and
- a net foreign exchange gain of \$3.2 million for the six months ended June 30, 2015 compared to a net foreign exchange loss of \$0.1 million for the comparative period of 2014.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities;
- lower recoveries from scrap steel;
- lower production volumes in the Company's Martinrea Honsel German operations;
- the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015;
- a higher effective tax rate on adjusted income due generally to the mix of earnings (23.8% for the six months ended June 30, 2015 compared to 19.8% for the comparative period of 2014); and
- year-over-year increases in SG&A expense as previously discussed, research and development expenses, due predominantly to increased amortization of development costs, and finance expense related to increased levels of debt primarily used to sustain the increased level of capital expenditures related to new program launches and to fund the purchase of the 45% non-controlling interest of the Martinrea Honsel group on August 7, 2014 (see "Acquisitions" section of this MD&A for further details on the transaction).

**ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

**Three months ended June 30, 2015 to three months ended June 30, 2014 comparison**

		Three months ended June 30, 2015		Three months ended June 30, 2014	\$ Change	% Change
Additions to PP&E	\$	37,398	\$	47,311	(9,913)	(21.0%)

Additions to PP&E decreased by \$9.9 million to \$37.4 million in the second quarter of 2015 from \$47.3 million in the second quarter of 2014 due generally to the timing of expenditures. Additions as a percentage of sales decreased year-over-year to 3.8% for the second quarter of 2015 from 5.1% for the second quarter of 2014. While capital expenditures are made to refurbish or replace assets consumed in the normal course of business and for productivity improvements, a large portion of the investment in the second quarter

of 2015 continued to be for manufacturing equipment and multiple expansions for programs that recently launched or will be launching over the next 24 months.

**Six months ended June 30, 2015 to six months ended June 30, 2014 comparison**

	Six months ended June 30, 2015		Six months ended June 30, 2014		\$ Change	% Change
Additions to PP&E	\$	84,735	\$	84,362	373	0.4%

Additions to PP&E remained relatively consistent year-over-year at \$84.7 million for the six months ended June 30, 2015 compared to \$84.4 million for the six months ended June 30, 2014. Additions as a percentage of sales decreased year-over-year to 4.5% for the six months ended June 30, 2015 from 4.7% for the comparative period of 2014. Despite the slight decrease as a percentage of sales, the Company continues to make significant investments in the business in particular at new operating facilities in Spain, Mexico, China, and Riverside, Missouri as these new plants prepare for upcoming new program launches.

**SEGMENT ANALYSIS**

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by the Company's chief operating decision maker which is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented and aggregated on a geographic basis between North America, Europe and Rest of the World. The Company measures segment operating performance based on operating income.

**Three months ended June 30, 2015 to three months ended June 30, 2014 comparison**

	SALES		OPERATING INCOME (LOSS)*	
	Three months ended June 30, 2015	Three months ended June 30, 2014	Three months ended June 30, 2015	Three months ended June 30, 2014
North America	\$ 798,705	\$ 745,304	\$ 44,757	\$ 34,062
Europe	165,962	173,037	7,681	12,398
Rest of World	19,379	12,574	(2,200)	(2,923)
Adjusted Operating Income	-	-	\$ 50,238	\$ 43,537
Unusual and Other Items*	-	-	-	(408)
Total	\$ 984,046	\$ 930,915	\$ 50,238	\$ 43,129

\*Operating income for the operating segments has been adjusted for unusual and other items. The unusual and other items noted above were incurred within the North America operating segment and are fully explained under "Adjustments to Net Income" in this MD&A.

**North America**

Adjusted operating income in North America increased by \$10.7 million to \$44.8 million for the second quarter of 2015 from \$34.1 million for the second quarter of 2014. Adjusted operating income in North America was positively impacted by:

- higher gross profit from an overall increase in year-over-year production sales as previously explained; and
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at two new operating facilities in Mexico and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities; and
- lower recoveries from scrap steel.

**Europe**

Operating income in Europe decreased by \$4.7 million to \$7.7 million for the second quarter of 2015 from \$12.4 million for the second quarter of 2014. The operating results in Europe were negatively impacted by program specific launch costs and pre-operating costs at a new operating facility in Spain, as the plant prepares for a significant upcoming new program launch, and in Slovakia, as the plant continues to ramp up its book of business; and lower production volumes in the Company's Martinrea Honsel German operations.

## Rest of the World

The operating results for the Rest of the World operating segment improved year-over-year. The improvement in operating results was primarily due to an increase in production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, partially offset by pre-operating costs at a new aluminum operating facility in China as the plant prepares for its inaugural new program launch in 2016.

### *Six months ended June 30, 2015 to six months ended June 30, 2014 comparison*

	SALES		OPERATING INCOME (LOSS)*	
	Six months ended June 30, 2015	Six months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
North America	\$ 1,511,821	\$ 1,408,968	\$ 82,334	\$ 56,583
Europe	353,364	356,690	15,999	30,072
Rest of World	36,392	29,750	(4,385)	(4,406)
Adjusted Operating Income	-	-	\$ 93,948	\$ 82,249
Unusual and Other Items*	-	-	-	(1,561)
Total	\$ 1,901,577	\$ 1,795,408	\$ 93,948	\$ 80,688

\*Operating income for the operating segments has been adjusted for unusual and other items. The unusual and other items noted above were incurred within the North America operating segment and are fully explained under "Adjustments to Net Income" in this MD&A.

## North America

Adjusted operating income in North America increased by \$25.8 million to \$82.3 million for the six months ended June 30, 2015 from \$56.6 million for the six months ended June 30, 2014. Adjusted operating income in North America was positively impacted by:

- higher gross profit from an overall increase in year-over-year production sales as previously explained; and
- productivity and efficiency improvements at certain operating facilities in particular in the Company's U.S. Metallic operations.

These factors were partially offset by the following:

- increased pre-operating and launch costs, in particular at two new operating facilities in Mexico and Riverside, Missouri as these new plants prepare for upcoming new program launches;
- operational inefficiencies and other costs at certain other facilities; and
- lower recoveries from scrap steel.

## Europe

Operating income in Europe decreased by \$14.1 million to \$16.0 million for the six months ended June 30, 2015 from \$30.1 million for the six months ended June 30, 2014. Operating income in Europe was negatively impacted by program specific launch costs and pre-operating costs at a new operating facility in Spain, as the plant prepares for a significant upcoming new program launch, and in Slovakia, as the plant continues to ramp up its book of business; lower production volumes in the Company's Martinrea Honsel German operations; and the resolution of certain commercial disputes in the Company's European operations which positively impacted the first quarter of 2014 as compared to the first quarter of 2015.

## Rest of the World

The operating results for the Rest of the World operating segment remained essentially consistent year-over-year. The benefit of increased production sales in the Company's new fluids systems plant in China, which began operations in 2013 and continues to ramp up its backlog of business, was essentially offset by negative impacts from lower year-over-year production volumes in Brazil and pre-operating costs at a new aluminum operating facility in China, as the plant prepares for its inaugural new program launch in 2016.

## **SUMMARY OF QUARTERLY RESULTS**

	2015		2014				2013	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	984,046	917,531	943,781	859,456	930,915	864,493	858,624	767,861
Gross margin	106,379	95,639	86,474	78,076	95,863	87,479	73,475	83,663
Net income for the period	33,607	30,508	11,926	21,205	29,626	26,659	(44,074)	26,387
Net income attributable to equity holders of the Company	33,411	30,419	11,921	19,384	23,308	16,691	(51,425)	20,973
Basic Earnings (loss) per Share	0.39	0.36	0.14	0.23	0.28	0.20	(0.61)	0.25
Diluted Earnings (loss) per Share	0.39	0.36	0.14	0.23	0.27	0.20	(0.60)	0.25
Adjusted Basic Earnings per Share	0.39	0.36	0.27	0.23	0.28	0.21	0.17	0.25
Adjusted Diluted Earnings per Share	0.39	0.36	0.27	0.23	0.28	0.21	0.17	0.25

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's financial condition remains solid, which can be attributed to the Company's low cost structure, reasonable level of debt and prospects for growth. As at June 30, 2015, the Company had total equity attributable to equity holders of the Company of \$672.4 million. As at June 30, 2015, the Company's ratio of current assets to current liabilities was 1.25:1, down slightly from the previous quarter (1.27:1). The Company's current working capital level of \$193.0 million and existing financing facilities (discussed below) are sufficient to cover the anticipated working capital needs of the Company. Management expects that all future capital expenditures will be financed by cash flow from operations, utilization of existing financing facilities or asset backed financing.

## **CASH FLOWS**

	Three months ended June 30, 2015		Three months ended June 30, 2014		\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$	85,998	\$	72,785	13,213	18.2%
Changes in non-cash working capital items		31,425		41,724	(10,299)	(24.7%)
		117,423		114,509	2,914	2.5%
Interest paid		(5,926)		(4,873)	(1,053)	(21.6%)
Income taxes paid		(22,129)		(2,787)	(19,342)	(694.0%)
Cash provided by operating activities		89,368		106,849	(17,481)	(16.4%)
Cash used in financing activities		(41,830)		(50,877)	9,047	17.8%
Cash used in investing activities		(48,216)		(57,189)	8,973	15.7%
Effect of foreign exchange rate changes on cash and cash equivalents		1,032		(3,508)	4,540	129.4%
Increase(decrease) in cash and cash equivalents	\$	354	\$	(4,725)	5,079	107.5%

Cash provided by operating activities during the second quarter of 2015 was \$89.4 million, compared to cash provided by operating activities of \$106.8 million in the corresponding period of 2014. The components for the second quarter of 2015 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$86.0 million;
- working capital items source of cash of \$31.4 million comprised of a decrease in trade and other receivables of \$34.5 million and a decrease in inventory of \$4.0 million, partially offset by a decrease in trade, other payables and provisions of \$4.6 million and an increase in prepaid expenses and deposits of \$2.4 million;
- interest paid (excluding capitalized interest) of \$5.9 million; and
- income taxes paid of \$22.1 million due to cash instalments for 2015.



Cash used in financing activities during the second quarter of 2015 was \$41.8 million, compared to \$50.9 million in the corresponding period in 2014, as a result of \$41.8 million in long term debt repayments on the Company's revolving banking facility and asset backed financing arrangements and \$2.5 million in dividends paid, partially offset by \$2.6 million in proceeds from the exercise of employee stock options during the period.

Cash used in investing activities during the second quarter of 2015 was \$48.2 million, compared to \$57.2 million in the corresponding period in 2014. The components for the second quarter of 2015 primarily include the following:

- cash additions to PP&E of \$45.2 million;
- capitalized development costs relating to upcoming new program launches of \$3.5 million; partially offset by
- proceeds from the disposal of PP&E of \$0.5 million.

Taking into account the opening cash balance of \$20.7 million at the beginning of the second quarter of 2015, and the activities described above, the cash and cash equivalents balance at June 30, 2015 was \$21.0 million.

	Six months ended June 30, 2015	Six months ended June 30, 2014	\$ Change	% Change
Cash provided by operations before changes in non-cash working capital items	\$ 164,351	\$ 141,088	23,263	16.5%
Changes in non-cash working capital items	(15,239)	(1,870)	(13,369)	(714.9%)
	149,112	139,218	9,894	7.1%
Interest paid	(11,114)	(9,585)	(1,529)	(16.0%)
Income taxes paid	(44,557)	(15,029)	(29,528)	(196.5%)
Cash provided by operating activities	93,441	114,604	(21,163)	(18.5%)
Cash used in financing activities	(28,719)	(26,650)	(2,069)	(7.8%)
Cash used in investing activities	(96,894)	(102,830)	5,936	5.8%
Effect of foreign exchange rate changes on cash and cash equivalents	799	(2,888)	3,687	127.7%
Decrease in cash and cash equivalents	\$ (31,373)	\$ (17,764)	(13,609)	(76.6%)

Cash provided by operating activities during the first six months of 2015 was \$93.4 million, compared to cash provided by operating activities of \$114.6 million in the corresponding period of 2014. The components for the first six months of 2015 primarily include the following:

- cash provided by operations before changes in non-cash working capital items of \$164.4 million;
- working capital items use of cash of \$15.2 million comprised of increases in trade and other receivables of \$40.9 million and prepaid expenses and deposits of \$5.4 million; partially offset by an increase in trade, other payables and provisions of \$26.7 million and decrease in inventories of \$4.4 million;
- interest paid (excluding capitalized interest) of \$11.1 million; and
- income taxes paid of \$44.6 million due to the timing of final income tax payments for 2014 and cash instalments for 2015.

Cash used in financing activities during the first six months of 2015 was \$28.7 million, compared to \$26.7 million in the corresponding period in 2014, as a result of \$51.4 million in long term debt repayments on the Company's revolving credit facility and asset based financing arrangements and \$5.1 million in dividends paid; partially offset by \$8.8 million in proceeds from the exercise of employee stock options during the period and \$19.0 million drawn on the Company's revolving banking facility during the first quarter of the year.

Cash used in investing activities during the first six months of 2015 was \$96.9 million, compared to \$102.8 million in the corresponding period in 2014. The components for the first six months of 2015 primarily include the following:

- cash additions to PP&E of \$91.7 million;
- capitalized development costs relating to upcoming new program launches of \$7.6 million; partially offset by
- proceeds from the disposal of PP&E of \$2.4 million.

Taking into account the opening cash balance of \$52.4 million at the beginning of 2015, and the activities described above, the cash and cash equivalents balance at June 30, 2015 was \$21.0 million.

## **Financing**

On August 6, 2014, the Company's banking facility was amended to increase the total available revolving credit lines under the facility and add two new banks to the lending syndicate. The increase in credit lines facilitated the purchase of the 45% non-controlling interest in Martinrea Honsel as further described below. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

- available revolving credit lines of \$300 million and US \$350 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$100 million;
- pricing terms at market rates; and
- a maturity date of August 2018.

As at June 30, 2015, the Company had drawn \$273.0 million on the Canadian revolving credit line and US\$230.0 million on the U.S. revolving credit line.

During the second quarter, net debt (i.e. long term debt less cash on hand) decreased by \$45.2 million from \$712.8 million at March 31, 2015 to \$667.6 million at June 30, 2015, due primarily to repayments on the Company's revolving banking facility as a result of positive cash flow from operations.

The Company was in compliance with its debt covenants as at June 30, 2015.

## **Dividends**

In the second quarter of 2013, Martinrea's Board of Directors approved, for the first time, a dividend to be paid to all holders of Martinrea common shares. Annual dividends are to be \$0.12 per share, to be paid in four quarterly payments of \$0.03 per share. The first quarterly dividend payment of \$0.03 per share was paid on July 11, 2013; with successive quarterly dividends paid thereafter, the most recent quarterly dividend being paid on July 15, 2015. The declaration and payment of future dividends will be subject to the Company's cash requirements as well as satisfaction of statutory tests. In addition, the Board will assess future dividend payment levels from time to time, in light of the Company's financial performance and then current and anticipated needs at that time.

## **Guarantees**

The Company is a guarantor under certain tooling finance programs negotiated originally in 2004 and amended in 2013 that provide direct financing for the tooling on specific programs. The tooling finance program involves a third party that provides tooling suppliers with financing subject to a Company guarantee for a period of six to eighteen months depending upon the duration of the tooling program and the subsequent customer tooling payment. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2015 the amount of off-balance sheet program financing was \$26.3 million (December 31, 2014 - \$17.2 million). As is customary in the automotive industry, tooling costs are ultimately paid for by customers of the Company generally upon acceptance of the final prototypes and commencement of commercial production.

## **ACQUISITIONS**

On July 29, 2011, the Company closed an agreement to purchase a controlling interest in the assets of Honsel, a German-based leading supplier of aluminum components for the automotive and industrial sectors forming the Martinrea Honsel group. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction, acquiring 55%, with Anchorage owning the remaining 45%.

Martinrea Honsel develops and manufactures complex aluminum products using state-of-the-art production technologies including high pressure die-casting, permanent mold and sand casting as well as extruding and rolling. Martinrea Honsel produces four major product lines: engine products such as engine blocks, cylinder heads and oil pans; transmission products, such as housings and control parts; suspension products, such as engine cradles; and body parts, such as front boards and extrusion profiles.

The Martinrea Honsel Group provides the Company with a significant presence in the aluminum automotive parts market, and broadens the Company's metal forming capabilities and offerings. It also creates a more significant geographic presence outside North America, which the Company intends to grow over time. The Company's customer base was further expanded with the acquisition, with many of the larger European based OEMs being significant customers of Martinrea Honsel.

Initially, the 2011 purchase transaction envisaged the purchase of all of Honsel's operations, which included plants in Germany located in Meschede, Nuremberg, Soest, and Nuttlar, as well as Madrid, Spain, Queretaro, Mexico, and Monte Mor, Brazil. The Nuremberg facility was subsequently sold to ZF Friedrichshafen AG ("ZF"), the primary customer of the facility, immediately after the closing of the purchase transaction. After factoring in the sale of the Nuremberg facility to ZF, the net cash consideration for the acquisition was €62,125 (\$85,272), of which Martinrea's 55% portion was €34,169 (\$46,900).

As part of the transaction, the Company granted Anchorage a put option which, if exercised, would have required the Company to purchase Anchorage's 45% interest in Martinrea Honsel Holdings B.V. The put option would have become effective on April 1, 2015 with an expiry date of October 1, 2017. The put option provided a formula for determining the purchase price of the shares, designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provided an arbitration mechanism in the event that the two parties were unable to agree on the ultimate price.

On August 7, 2014, prior to the put option becoming exercisable, Martinrea acquired from Anchorage the remaining 45% equity interest in the Martinrea Honsel Group for a negotiated purchase price of €160,000 (\$235,667 Canadian). Effective August 7, 2014, the Martinrea Honsel Group is wholly owned by Martinrea. The transaction resulted in the carrying value of the put option liability on the date of the transaction being reversed out of other equity and the carrying amount of Anchorage's share of equity in Martinrea Honsel being reversed from non-controlling interest. The \$127,198 difference of the consideration paid and the carrying amount of the non-controlling interest at the date of the transaction was recognized in accumulated deficit.

The acquisition while bringing many benefits to Martinrea also provides some risks for the Company. Both the initial 2011 purchase of the 55% controlling interest and subsequent purchase of the remaining 45% equity interest in Martinrea Honsel were financed by the Company using available credit lines, which has increased the Company's debt levels. See also "Risks and Uncertainties".

## **RISKS AND UNCERTAINTIES**

The reader is referred to the detailed discussion on Industry Highlights and Trends and Risks and Uncertainties as outlined in the Company's Annual Information Form dated March 19, 2015 and available through SEDAR at [www.sedar.com](http://www.sedar.com) which are incorporated herein by reference. These risk factors could materially and adversely affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to the Company.

## **DISCLOSURE OF OUTSTANDING SHARE DATA**

As at August 6, 2015, the Company had 86,090,333 common shares outstanding. The Company's common shares constitute its only class of voting securities. As at August 6, 2015, options to acquire 4,629,952 common shares were outstanding.

## **CONTRACTUAL OBLIGATIONS AND OFF BALANCE SHEET FINANCING**

During the three months ended June 30, 2015, there has been no material change in the table of contractual obligations specified in the Company's MD&A for the fiscal year ended December 31, 2014.

The Company has negotiated tool financing facilities that provide direct financing for specific programs. The tool financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to tooling suppliers through this financing arrangement do not appear on the Company's balance sheet. At June 30, 2015, the amount of the off balance sheet program financing was \$26.3 million representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee. The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligation to the third party. Since the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of a tooling supplier default as remote. Moreover, if such an instance were to occur, the Company would obtain the tool inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges between 6-18 months.

## Financial Instruments

The Company periodically utilizes certain financial instruments, principally forward currency exchange contracts, to manage the risk associated with fluctuations in currency exchange rates. It is the Company's policy to not utilize financial instruments for trading or speculative purposes. Forward currency exchange contracts are used to reduce the impact of fluctuating exchange rates on the Company's foreign denominated sales and the Company's purchases of materials and equipment. Gains and losses on forward foreign exchange contracts are reflected in the consolidated financial statements in the same period as the hedged item. In the event that a hedged item is sold or cancelled prior to the termination of the related hedging item, any unrealized gain or loss on the hedging item is immediately recognized in income.

At June 30, 2015, the Company had committed to trade U.S. dollars in exchange for the following:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 10,000	\$ 1.1696	6
Buy Euro	7,557	0.8972	1
Buy Mexican Peso	1,595	15.6739	1

The aggregate value of these forward contracts as at June 30, 2015 was a loss of \$817 and was recorded in trade and other payables (December 31, 2014 - loss of \$9 recorded in trade and other payables).

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

There have been no changes in the Company's disclosure controls and procedures and internal controls over financial reporting during the most recent interim period that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

## CRITICAL ACCOUNTING ESTIMATES

### *Assets Held for Sale*

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company has determined is not core to the strategy of the overall business going forward. An agreement to sell the Soest facility has been signed, subject to standard closing conditions and is expected to close in the third quarter of 2015. In accordance with IFRS, assets held for sale are measured at the lower of their book value and their fair value less costs to sell. As at June 30, 2015, the net asset value of the Soest facility held for sale represents its book value.

A brief description of the assets and liabilities of the Soest facility held for sale is as follows:

	June 30, 2015	December 31, 2014
<b>Assets</b>		
Trade and other receivables	\$ 7,049	\$ -
Inventories	12,012	-
Property, plant and equipment	5,412	-
	24,473	-
<b>Liabilities</b>		
Trade and other payables	3,025	-
Pension and other post-retirement benefits	882	-
	3,907	-
<b>Net assets</b>	\$ 20,566	\$ -

Included in the Company's 2014 annual consolidated financial statements, as well as in the Company's 2014 annual MD&A, are the accounting policies under IFRS and estimates that are critical to the understanding of the business and to the results of operations. For the three months ended June 30, 2015 there were no changes to the critical accounting policies and estimates of the Company from those found in the 2014 annual MD&A, except for the following new accounting standards recently adopted.

## *IFRS 38, Intangible Assets and IAS 16, Property, Plant and Equipment*

Effective January 1, 2015, the Company adopted amendments made to IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment. The amendments to these standards introduced a rebuttable presumption that the use of revenue-based amortization methods is inappropriate.

The adoption of these amended standards did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

## **OUTLOOK**

The automotive industry is traditionally an extremely challenging business, characterized at the OEM level by intense competition for market share, rebates to consumers and drives for quality and profits and characterized at the supplier level by price reductions, increasing quality standards, higher input prices and a declining number of qualified suppliers in the normal course or as a result of insolvencies and consolidation. The challenges of the industry were exacerbated by the 2008-2009 economic recession and the financial distress in the industry involving both OEMs and suppliers particularly evidenced by the bankruptcy filings of Chrysler and General Motors in the United States in 2009. The Company believes that the long term outlook of the automotive industry overall, while always challenging, is much improved from 2008 - 2010. In 2010, the North American automotive industry experienced a recovery in volume and revenues, as sales and production volumes increased from 2009 levels, although not to pre-recession levels. Production in 2011 through 2015 to date improved substantially. This has resulted in increasing revenues for most automotive OEMs and for suppliers who survived the automotive crisis of 2008 and 2009, including Martinrea.

There are many challenges, but opportunities will exist for innovative and cost effective suppliers who build great products in the short, medium and longer term. It is expected that growth in business for individual suppliers will occur as OEMs reduce the number of Tier 1 suppliers, continue to outsource product, and provide opportunities for new work and takeover business. The Company believes that its capabilities provide it with the ability to capitalize on a broad range of opportunities. The Company has built its footprint and continues to pursue its strategies, including the recent acquisition of the assets of Martinrea Honsel to broaden its product offerings and customer base, and will continue to do so in the future with a view to increasing revenue and profits over the longer term.

## **FORWARD-LOOKING INFORMATION**

### **Special Note Regarding Forward-Looking Statements**

This MD&A and the documents incorporated by reference therein contains forward-looking statements within the meaning of applicable Canadian securities laws including related to the Company's expectations as to revenue and gross margin percentage (and earnings per share), statements to the growth of the Company and pursuit of its strategies, the ramping up and launching of new programs, investments in its business, continued consolidation of automotive suppliers, the opportunity to increase sales. The Company's expectations regarding the future amount and type of restructuring expenses to be expensed, the financing of future capital expenditures, the Company's views of the likelihood of tooling and component part supplier default, the Company's ability to capitalize on opportunities in the automotive industry, the Company's views on its liquidity and ability to deal with present economic conditions, the sale of the Soest assets, and the payment of dividends as well as other forward-looking statements. The words "continue", "expect", "anticipate", "estimate", "may", "will", "should", "views", "intend", "believe", "plan" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are based on estimates and assumptions made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors that the Company believes are appropriate in the circumstances. Many factors could cause the Company's actual results, performance or achievements to differ materially from those expressed or implied by the forward-looking statements, including, without limitation, the following factors, some of which are discussed in detail in the Company's Annual Information Form for the year ended December 31, 2014 and other public filings which can be found at [www.sedar.com](http://www.sedar.com):

- North American and global economic and political conditions;
- the highly cyclical nature of the automotive industry and the industry's dependence on consumer spending and general economic conditions;
- the Company's dependence on a limited number of significant customers;
- financial viability of suppliers;
- the Company's reliance on critical suppliers and on suppliers for components and the risk that suppliers will not be able to supply components on a timely basis or in sufficient quantities;
- competition;

- the increasing pressure on the Company to absorb costs related to product design and development, engineering, program management, prototypes, validation and tooling;
- increased pricing of raw materials;
- outsourcing and in-sourcing trends;
- the risk of increased costs associated with product warranty and recalls together with the associated liability;
- the Company's ability to enhance operations and manufacturing techniques;
- dependence on key personnel;
- limited financial resources;
- risks associated with the integration of acquisitions;
- costs associated with rationalization of production facilities;
- launch costs;
- the potential volatility of the Company's share price;
- changes in governmental regulations or laws including any changes to the North American Free Trade Agreement;
- labour disputes;
- litigation;
- currency risk;
- fluctuations in operating results;
- internal controls over financial reporting and disclosure controls and procedures;
- environmental regulation;
- a shift away from technologies in which the Company is investing;
- competition with low cost countries;
- the Company's ability to shift its manufacturing footprint to take advantage of opportunities in emerging markets;
- risks of conducting business in foreign countries, including China, Brazil and other growing markets;
- potential tax exposures;
- a change in the Company's mix of earnings between jurisdictions with lower tax rates and those with higher tax rates, as well as the Company's ability to fully benefit from tax losses;
- under-funding of pension plans; and
- the cost of post-employment benefits.

These factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. The Company has no intention and undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.



**MARTINREA INTERNATIONAL INC.  
INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2015**

# Martinrea International Inc.

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# Martinrea International Inc.

## Interim Condensed Consolidated Balance Sheets

(in thousands of Canadian dollars) (unaudited)

	Note	June 30, 2015	December 31, 2014
<b>ASSETS</b>			
Cash and cash equivalents		\$ 21,028	\$ 52,401
Trade and other receivables	3	577,020	520,844
Inventories	4	309,985	313,436
Prepaid expenses and deposits		15,858	10,039
Income taxes recoverable		10,388	8,321
Assets held for sale	5	24,473	-
<b>TOTAL CURRENT ASSETS</b>		<b>958,752</b>	<b>905,041</b>
Property, plant and equipment	6	1,051,482	984,681
Deferred income tax assets		168,455	153,367
Intangible assets	7	76,247	71,806
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,296,184</b>	<b>1,209,854</b>
<b>TOTAL ASSETS</b>		<b>\$ 2,254,936</b>	<b>\$ 2,114,895</b>
<b>LIABILITIES</b>			
Trade and other payables	8	\$ 696,803	\$ 645,862
Provisions	9	4,060	5,504
Income taxes payable		21,108	31,140
Liabilities associated with assets held for sale	5	3,907	-
Current portion of long-term debt	10	39,882	37,526
<b>TOTAL CURRENT LIABILITIES</b>		<b>765,760</b>	<b>720,032</b>
Long-term debt	10	648,775	654,916
Pension and other post-retirement benefits		63,581	62,557
Deferred income tax liabilities		104,367	101,644
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>816,723</b>	<b>819,117</b>
<b>TOTAL LIABILITIES</b>		<b>\$ 1,582,483</b>	<b>\$ 1,539,149</b>
<b>EQUITY</b>			
Capital stock	12	706,130	694,198
Contributed surplus		43,182	45,347
Accumulated other comprehensive income		82,667	55,927
Accumulated deficit		(159,565)	(219,480)
<b>TOTAL EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		<b>672,414</b>	<b>575,992</b>
Non-controlling interest		39	(246)
<b>TOTAL EQUITY</b>		<b>672,453</b>	<b>575,746</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>\$ 2,254,936</b>	<b>\$ 2,114,895</b>

### Contingencies (note 17)

See accompanying notes to the interim condensed consolidated financial statements.

On behalf of the Board:

"Robert Wildeboer" Director

"Scott Balfour" Director

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Operations

(in thousands of Canadian dollars, except per share amounts) (unaudited)

	Note	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
<b>SALES</b>		\$ 984,046	\$ 930,915	\$ 1,901,577	\$ 1,795,408
Cost of sales (excluding depreciation of property, plant and equipment)		(849,387)	(809,766)	(1,644,384)	(1,562,649)
Depreciation of property, plant and equipment (production)		(28,280)	(25,286)	(55,175)	(49,417)
Total cost of sales		(877,667)	(835,052)	(1,699,559)	(1,612,066)
<b>GROSS MARGIN</b>		106,379	95,863	202,018	183,342
Research and development costs		(5,278)	(4,875)	(10,874)	(9,517)
Selling, general and administrative		(48,606)	(45,594)	(93,283)	(88,925)
Depreciation of property, plant and equipment (non-production)		(1,855)	(1,714)	(3,542)	(3,178)
Amortization of customer contracts and relationships		(577)	(568)	(1,116)	(911)
Gain/(loss) on disposal of property, plant and equipment		175	17	745	(123)
<b>OPERATING INCOME</b>		50,238	43,129	93,948	80,688
Finance costs		(6,549)	(5,330)	(13,104)	(10,509)
Other finance income	14	650	231	3,252	9
<b>INCOME BEFORE INCOME TAXES</b>		44,339	38,030	84,096	70,188
Income tax expense	11	(10,732)	(8,404)	(19,981)	(13,903)
<b>NET INCOME FOR THE PERIOD</b>		\$ 33,607	\$ 29,626	\$ 64,115	\$ 56,285
Non-controlling interest		(196)	(6,318)	(285)	(16,286)
<b>NET INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY</b>		\$ 33,411	\$ 23,308	\$ 63,830	\$ 39,999
Basic earnings per share	13	\$ 0.39	\$ 0.28	\$ 0.75	\$ 0.47
Diluted earnings per share	13	\$ 0.39	\$ 0.27	\$ 0.74	\$ 0.47

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Comprehensive Income

(in thousands of Canadian dollars) (unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
<b>NET INCOME FOR THE PERIOD</b>	\$ 33,607	\$ 29,626	\$ 64,115	\$ 56,285
<b>Other comprehensive income (loss), net of tax:</b>				
<b>Items that may be reclassified to net income</b>				
Foreign currency translation differences for foreign operations	(324)	(34,741)	26,740	(3,888)
<b>Items that will not be reclassified to net income</b>				
Actuarial gains (losses) from the remeasurement of defined benefit plans	4,430	(735)	1,240	(3,930)
<b>Other comprehensive income (loss), net of tax</b>	4,106	(35,476)	27,980	(7,818)
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	\$ 37,713	\$ (5,850)	\$ 92,095	\$ 48,467
<b>Attributable to:</b>				
Equity holders of the Company	37,517	(6,648)	91,810	33,215
Non-controlling interest	196	798	285	15,252
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>	\$ 37,713	\$ (5,850)	\$ 92,095	\$ 48,467

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Changes in Equity

(in thousands of Canadian dollars) (unaudited)

### Equity attributable to equity holders of the Company

	Capital stock	Contributed surplus	Other equity	Cumulative translation account	Accumulated deficit	Total	Non- controlling interest	Total equity
Balance at December 31, 2013	\$ 689,975	\$ 44,853	\$ (154,239)	\$ 26,085	\$ (142,376)	\$ 464,298	\$ 89,713	\$ 554,011
Net income for the period	-	-	-	-	39,999	39,999	16,286	56,285
Compensation expense related to stock options	-	665	-	-	-	665	-	665
Change in fair value of put option granted to non-controlling interest	-	-	(78,561)	-	-	(78,561)	-	(78,561)
Dividends (\$0.06 per share)	-	-	-	-	(5,071)	(5,071)	-	(5,071)
Exercise of employee stock options	493	(134)	-	-	-	359	-	359
<u>Other comprehensive income (loss), net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(3,930)	(3,930)	-	(3,930)
Foreign currency translation differences	-	-	-	(2,854)	-	(2,854)	(1,034)	(3,888)
Balance at June 30, 2014	690,468	45,384	(232,800)	23,231	(111,378)	414,905	104,965	519,870
Net income for the period	-	-	-	-	31,305	31,305	1,826	33,131
Compensation expense related to stock options	-	1,034	-	-	-	1,034	-	1,034
Change in fair value of put option granted to non-controlling interest	-	-	(2,867)	-	-	(2,867)	-	(2,867)
Purchase of non-controlling interest (note 2)	-	-	235,667	-	(127,198)	108,469	(108,469)	-
Dividends (\$0.06 per share)	-	-	-	-	(5,088)	(5,088)	-	(5,088)
Exercise of employee stock options	3,730	(1,071)	-	-	-	2,659	-	2,659
<u>Other comprehensive income (loss), net of tax</u>								
Actuarial losses from the remeasurement of defined benefit plans	-	-	-	-	(7,121)	(7,121)	-	(7,121)
Foreign currency translation differences	-	-	-	32,696	-	32,696	1,432	34,128
Balance at December 31, 2014	694,198	45,347	-	55,927	(219,480)	575,992	(246)	575,746
Net income for the period	-	-	-	-	63,830	63,830	285	64,115
Compensation expense related to stock options	-	978	-	-	-	978	-	978
Dividends (\$0.06 per share)	-	-	-	-	(5,155)	(5,155)	-	(5,155)
Exercise of employee stock options	11,932	(3,143)	-	-	-	8,789	-	8,789
<u>Other comprehensive income (loss), net of tax</u>								
Actuarial gains from the remeasurement of defined benefit plans	-	-	-	-	1,240	1,240	-	1,240
Foreign currency translation differences	-	-	-	26,740	-	26,740	-	26,740
Balance at June 30, 2015	\$ 706,130	\$ 43,182	\$ -	\$ 82,667	\$ (159,565)	\$ 672,414	\$ 39	\$ 672,453

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Interim Condensed Consolidated Statements of Cash Flows

(in thousands of Canadian dollars) (unaudited)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
<b>CASH PROVIDED BY (USED IN):</b>				
<b>OPERATING ACTIVITIES:</b>				
Net Income for the period	\$ 33,607	\$ 29,626	\$ 64,115	\$ 56,285
Adjustments for:				
Depreciation of property, plant and equipment	30,135	27,000	58,717	52,595
Amortization of customer contracts and relationships	577	568	1,116	911
Amortization of development costs	3,018	2,162	5,680	4,266
Unrealized losses/(gains) on foreign exchange forward contracts	(183)	(1,344)	817	1,191
Finance costs	6,549	5,330	13,104	10,509
Income tax expense	10,732	8,404	19,981	13,903
(Gain)/loss on disposal of property, plant and equipment	(175)	(17)	(745)	123
Stock-based compensation	779	555	978	665
Pension and other post-retirement benefits expense	1,119	1,265	2,216	2,432
Contributions made to pension and other post-retirement benefits	(160)	(764)	(1,628)	(1,792)
	85,998	72,785	164,351	141,088
Changes in non-cash working capital items:				
Trade and other receivables	34,523	32,837	(40,897)	(62,654)
Inventories	3,955	(6,043)	4,380	(22,466)
Prepaid expenses and deposits	(2,437)	(6,068)	(5,382)	(7,179)
Trade, other payables and provisions	(4,616)	20,998	26,660	90,429
	117,423	114,509	149,112	139,218
Interest paid (excluding capitalized interest)	(5,926)	(4,873)	(11,114)	(9,585)
Income taxes paid	(22,129)	(2,787)	(44,557)	(15,029)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 89,368	\$ 106,849	\$ 93,441	\$ 114,604
<b>FINANCING ACTIVITIES:</b>				
Increase in long-term debt	-	-	19,029	36,953
Repayment of long-term debt	(41,819)	(48,700)	(51,416)	(58,891)
Dividends paid	(2,573)	(2,536)	(5,121)	(5,071)
Exercise of employee stock options	2,562	359	8,789	359
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	\$ (41,830)	\$ (50,877)	\$ (28,719)	\$ (26,650)
<b>INVESTING ACTIVITIES:</b>				
Purchase of property, plant and equipment*	(45,204)	(51,475)	(91,705)	(94,298)
Capitalized development costs	(3,549)	(5,965)	(7,571)	(9,376)
Proceeds on disposal of property, plant and equipment	537	251	2,382	844
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	\$ (48,216)	\$ (57,189)	\$ (96,894)	\$ (102,830)
Effect of foreign exchange rate changes on cash and cash equivalents	1,032	(3,508)	799	(2,888)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	354	(4,725)	(31,373)	(17,764)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	20,674	43,185	52,401	56,224
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	\$ 21,028	\$ 38,460	\$ 21,028	\$ 38,460

\*As at June 30, 2015, \$6,402 (December 31, 2014 - \$13,372) of purchases of property, plant and equipment remain unpaid.

See accompanying notes to the interim condensed consolidated financial statements.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(in thousands of Canadian dollars, except per share amounts) (unaudited)

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Martinrea International Inc. (the "Company") was formed by the amalgamation under the Ontario Business Corporations Act of several predecessor Corporations by articles of amalgamation dated May 1, 1998. It designs, engineers, manufactures and sells quality metal parts, assemblies and fluid management systems and is focused on the automotive sector.

### 1. BASIS OF PREPARATION

#### (a) Statement of compliance

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS" 34) as issued by the International Accounting Standards Board ("IASB"), and on a basis consistent with the accounting policies disclosed in the Company's annual audited consolidated financial statements for the year ended December 31, 2014, except as outlined in note 1(d).

#### (b) Basis of presentation

These interim condensed consolidated financial statements include the accounts of Martinrea International Inc. and its subsidiaries. The notes presented in these interim condensed consolidated financial statements include in general only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Company's annual audited consolidated financial statements, including the notes thereto, for the year ended December 31, 2014.

#### (c) Functional and presentation currency

These interim condensed consolidated financial statements are presented in Canadian dollars, which is the Company's presentation currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except per share amounts and where otherwise indicated.

#### (d) Recently adopted accounting standards

The Company has adopted the new and amended IFRS pronouncements listed below as at January 1, 2015, in accordance with the transitional provisions outlined in the respective standards.

*IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment*

Effective January 1, 2015, the Company adopted amendments made to IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment. The amendments to these standards introduce a rebuttable presumption that the use of revenue-based amortization methods is inappropriate.

The adoption of these amended standards did not have a significant impact on the interim condensed consolidated financial statements in the current or comparative periods.

### 2. CHANGES IN OWNERSHIP INTEREST

On July 29, 2011, the Company purchased a controlling interest in the assets of Honsel AG, a German-based leading supplier of aluminum components for the automotive and industrial sectors, forming the Martinrea Honsel Group. The Company partnered with Anchorage Capital Group L.L.C. ("Anchorage") in the transaction, acquiring 55%, with Anchorage acquiring the remaining 45%.

As part of the transaction the Company granted Anchorage a put option which, if exercised, would have required the Company to purchase Anchorage's 45% interest in Martinrea Honsel. The put option would have become effective on April 1, 2015 with an expiry date of October 1, 2017. The put option provided a formula for determining the purchase price of the shares, designed to estimate the fair value of the non-controlling interest at the time the option is exercised. The put option provided an arbitration mechanism in the event that the two parties were unable to agree on the ultimate price.

On August 7, 2014, prior to the put option becoming exercisable, Martinrea acquired from Anchorage the remaining 45% equity interest in the Martinrea Honsel Group for a negotiated purchase price of €160,000 (\$235,667 Canadian). Effective August 7, 2014, the Martinrea Honsel Group became wholly owned by Martinrea. The transaction resulted in the carrying value of the put option liability on the date of the transaction being reversed out of other equity and the carrying amount of Anchorage's share of equity in Martinrea Honsel being reversed from non-controlling interest. The \$127,198

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

(in thousands of Canadian dollars, except per share amounts) (unaudited)

difference of the consideration paid and the carrying amount of the non-controlling interest at the date of the transaction was recognized in accumulated deficit.

### 3. TRADE AND OTHER RECEIVABLES

	June 30, 2015	December 31, 2014
Trade receivables	\$ 559,547	\$ 501,962
VAT and other receivables	17,473	18,882
	<b>\$ 577,020</b>	<b>\$ 520,844</b>

The Company's exposures to credit and currency risks, and impairment losses related to trade and other receivables, are disclosed in note 16.

### 4. INVENTORIES

	June 30, 2015	December 31, 2014
Raw materials	\$ 151,236	\$ 145,817
Work in progress	45,088	43,895
Finished goods	42,403	55,173
Tooling work in progress and other inventory	71,258	68,551
	<b>\$ 309,985</b>	<b>\$ 313,436</b>

### 5. ASSETS HELD FOR SALE

During the second quarter ended June 30, 2015, certain assets and liabilities of the Company's operating facility in Soest, Germany were transferred to assets held for sale. The Soest facility specializes in aluminum extrusions which the Company has determined is not core to the strategy of the overall business going forward. An agreement to sell the Soest facility has been signed, subject to standard closing conditions and the transaction is expected to close in the third quarter of 2015. In accordance with IFRS, assets held for sale are measured at the lower of their book value and their fair value less costs to sell. As at June 30, 2015, the net assets value of the Soest facility held for sale represents its book value.

A brief description of the assets and liabilities of the Soest facility held for sale is as follows:

	June 30, 2015	December 31, 2014
<b>Assets</b>		
Trade and other receivables	\$ 7,049	-
Inventories	12,012	-
Property, plant and equipment	5,412	-
	<b>24,473</b>	<b>-</b>
<b>Liabilities</b>		
Trade and other payables	3,025	-
Pension and other post-retirement benefits	882	-
	<b>3,907</b>	<b>-</b>
<b>Net assets</b>	<b>\$ 20,566</b>	<b>\$ -</b>

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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### 6. PROPERTY, PLANT AND EQUIPMENT

	June 30, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Land and buildings	\$ 141,227	\$ (33,704)	\$ 107,523	\$ 135,782	\$ (30,365)	\$ 105,417
Leasehold improvements	49,275	(26,855)	22,420	44,756	(24,198)	20,558
Manufacturing equipment	1,376,254	(658,575)	717,679	1,252,106	(588,639)	663,467
Tooling and fixtures	36,063	(29,996)	6,067	35,977	(29,664)	6,313
Other assets	31,380	(16,438)	14,942	28,349	(14,525)	13,824
Construction in progress and spare parts	182,851	-	182,851	175,102	-	175,102
	\$ 1,817,050	\$ (765,568)	\$ 1,051,482	\$ 1,672,072	\$ (687,391)	\$ 984,681

Movement in property, plant and equipment is summarized as follows:

	Land and buildings	Leasehold improvements	Manufacturing equipment	Tooling and fixtures	Other assets	Construction in progress and spare parts	Total
Net as of December 31, 2013	\$ 99,865	\$ 20,134	\$ 593,480	\$ 5,333	\$ 13,650	\$ 115,086	\$ 847,548
Additions	1,436	156	3,957	-	321	197,931	203,801
Disposals	(828)	-	(697)	(284)	(84)	(75)	(1,968)
Depreciation	(4,142)	(3,290)	(96,511)	(3,343)	(3,497)	-	(110,783)
Transfers from construction in progress and spare parts	3,814	2,505	128,252	4,314	3,022	(141,907)	-
Foreign currency translation adjustment	5,272	1,053	34,986	293	412	4,067	46,083
Net as of December 31, 2014	\$ 105,417	\$ 20,558	\$ 663,467	\$ 6,313	\$ 13,824	\$ 175,102	\$ 984,681
Additions	-	330	4,828	-	770	78,807	84,735
Assets held for sale (note 5)	(1,113)	-	(2,972)	(507)	(177)	(643)	(5,412)
Disposals	-	-	(1,481)	(154)	(2)	-	(1,637)
Depreciation	(1,841)	(1,868)	(52,014)	(1,314)	(1,680)	-	(58,717)
Transfers from construction in progress and spare parts	191	2,551	73,083	1,420	1,750	(78,995)	-
Foreign currency translation adjustment	4,869	849	32,768	309	457	8,580	47,832
Net as of June 30, 2015	\$ 107,523	\$ 22,420	\$ 717,679	\$ 6,067	\$ 14,942	\$ 182,851	\$ 1,051,482

The Company has entered into certain asset-backed financing arrangements that were structured as sales-and-leaseback transactions. At June 30, 2015, the carrying value of property, plant and equipment under such arrangements was \$32,417 (December 31, 2014 – \$35,736). The corresponding amounts owing are reflected within long-term debt (note 10).

### 7. INTANGIBLE ASSETS

	June 30, 2015			December 31, 2014		
	Cost	Accumulated amortization and impairment losses	Net book value	Cost	Accumulated amortization and impairment losses	Net book value
Customer contracts and relationships	\$ 61,041	\$ (50,018)	\$ 11,023	\$ 60,644	\$ (48,848)	\$ 11,796
Development costs	110,867	(45,643)	65,224	97,261	(37,251)	60,010
	\$ 171,908	\$ (95,661)	\$ 76,247	\$ 157,905	\$ (86,099)	\$ 71,806



# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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Movement in intangible assets is summarized as follows:

	Customer contracts and relationships		Development costs		Total
Net balance at December 31, 2013	\$	13,988	\$	45,652	\$ 59,640
Additions		-		20,476	20,476
Amortization		(2,485)		(9,033)	(11,518)
Foreign currency translation adjustment		293		2,915	3,208
Net balance at December 31, 2014	\$	11,796	\$	60,010	\$ 71,806
Additions		-		7,571	7,571
Amortization		(1,116)		(5,680)	(6,796)
Foreign currency translation adjustment		343		3,323	3,666
Net balance at June 30, 2015	\$	11,023	\$	65,224	\$ 76,247

### 8. TRADE AND OTHER PAYABLES

	June 30, 2015		December 31, 2014	
Trade accounts payable and accrued liabilities	\$	695,986	\$	645,853
Foreign exchange forward contracts (note 16(d))		817		9
	\$	696,803	\$	645,862

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 16.

### 9. PROVISIONS

	Restructuring (a)		Claims and Litigations (b)		Onerous Contracts (c)		Total
Net as of December 31, 2013	\$	3,348	\$	1,707	\$	1,307	\$ 6,362
Net additions		3,542		546		-	4,088
Amounts used during the period		(3,102)		(450)		(1,291)	(4,843)
Foreign currency translation adjustment		(36)		(51)		(16)	(103)
Net as of December 31, 2014	\$	3,752	\$	1,752	\$	-	\$ 5,504
Net additions		-		707		-	707
Amounts used during the period		(1,209)		(818)		-	(2,027)
Foreign currency translation adjustment		(15)		(109)		-	(124)
Net as of June 30, 2015	\$	2,528	\$	1,532	\$	-	\$ 4,060

Based on estimated cash outflows, all provisions as at June 30, 2015 and December 31, 2014 are presented on the condensed consolidated balance sheet as current.

#### (a) Restructuring

As part of the acquisition of Honsel in 2011 as described in note 2, a certain level of restructuring was contemplated, in particular, at the Company's German facilities in Meschede and Soest. The restructuring accrual as at December 31, 2013 and \$1,054 of the accrual as at December 31, 2014 relates to restructuring activities undertaken in Honsel primarily for employee related severance.

Additions to the restructuring accrual in 2014 of \$3,542 represent employee related severance relating to the rightsizing of two manufacturing facilities in Ontario.

#### (b) Claims and litigation

In the normal course of business, the Company may be involved in disputes with its suppliers, former employees or other third parties. Where the Company has determined that there is a probable loss that is expected from claims or litigation related to past events, a provision is recorded to cover the related risks associated with these disputes. To the best of the Company's knowledge, there are no claims or litigation in progress or pending that are likely to have a material impact on the Company's consolidated financial position.

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### (c) Onerous contracts

An onerous contract is a contract in which the unavoidable costs to meet the obligation exceed the future economic benefits expected to be earned under it. As part of the valuation of the assets and liabilities assumed in the acquisition of Honsel, certain sales contracts were determined to be onerous. As such, the present value of the future net obligation of these contracts was recorded as a provision and has been recognized over time as the contracts were fulfilled or when the contracts were no longer considered onerous.

### 10. LONG TERM DEBT

The Company's interest-bearing loans and borrowings are measured at amortized cost. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 16.

	June 30, 2015	December 31, 2014
Banking facility	\$ 557,115	\$ 547,090
Equipment loans	131,542	145,109
Other bank loans	-	243
	688,657	692,442
Current portion	(39,882)	(37,526)
	\$ 648,775	\$ 654,916

Terms and conditions of outstanding loans as at June 30, 2015, in Canadian dollar equivalents, are as follows:

	Currency	Nominal interest rate	Year of maturity	June 30, 2015 Carrying amount	December 31, 2014 Carrying amount
Banking facility	CAD	BA+1.5%	2018	\$ 269,845	\$ 274,466
	USD	LIBOR+1.5%	2018	287,270	272,624
Equipment loans	USD	4.25%	2018	44,652	46,742
	USD	4.25%	2017	16,547	18,846
	EUR	3.06%	2024	15,074	15,195
	EUR	4.93%	2023	14,495	14,735
	USD	7.36%	2017	13,650	14,948
	EUR	3.37%	2017	10,576	13,806
	EUR	3.35%	2019	5,570	5,615
	USD	3.89%	2016	4,883	6,405
	USD	3.99%	2017	3,449	4,176
	USD	3.65%	2016	1,538	1,982
	USD	4.69%	2017	827	1,013
	BRL	5.00%	2020	281	336
BRL	11.88%	2015	-	1,310	
Other bank loans	BRL	14.00%	2015	-	243
				\$ 688,657	\$ 692,442

On August 6, 2014, the Company's banking facility was amended to increase the total available revolving credit lines under the facility and add two new banks to the lending syndicate. The increase in credit lines facilitated the purchase of the 45% minority interest in Martinrea Honsel as described in note 2. The primary terms of the amended banking facility, with a syndicate of nine banks, are as follows:

- available revolving credit lines of \$300 million and US \$350 million;
- available asset based financing capacity of \$205 million;
- no mandatory principal repayment provisions;
- an accordion feature which provides the Company with the ability to increase the revolving credit facility by up to \$100 million;
- pricing terms at market rates; and
- a maturity date of August 2018.

As at June 30, 2015, the Company has drawn US\$230,000 (December 31, 2014 - US\$235,000) on the U.S. revolving credit line and drawn \$273,000 (December 31, 2014 - \$278,000) on the Canadian revolving credit line. At June 30, 2015, the weighted average effective rate of the banking facility

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credit lines was 3.0% (December 31, 2014 - 3.3%). The facility requires the maintenance of certain financial ratios with which the Company was in compliance as at June 30, 2015.

Deferred financing fees of \$3,578 (December 31, 2014 - \$4,155) have been netted against the carrying amount of the long term debt.

Future annual minimum principal repayments are as follows:

Within one year	\$	39,882
One to two years		34,443
Two to three years		19,441
Three to four years		572,506
Thereafter		22,385
	\$	688,657

### 11. INCOME TAXES

The components of income tax expense are as follows:

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Current income tax expense	\$ 16,745	\$ 11,031	\$ 31,370	\$ 20,707
Deferred income tax recovery	(6,013)	(2,627)	(11,389)	(6,804)
Total income tax expense	\$ 10,732	\$ 8,404	\$ 19,981	\$ 13,903

### 12. CAPITAL STOCK

Common shares outstanding:	Number	Amount
Balance, December 31, 2013	84,479,704	\$ 689,975
Exercise of stock options	54,600	493
Balance, June 30, 2014	84,534,304	\$ 690,468
Exercise of stock options	390,779	3,730
Balance, December 31, 2014	84,925,083	\$ 694,198
Exercise of stock options	1,155,250	11,932
Balance, June 30, 2015	86,080,333	\$ 706,130

The Company is authorized to issue an unlimited number of common shares. The Company's shares have no par value.

#### Stock options:

The Company has one stock option plan for key employees. Under the plan the Company may grant options to its key employees for up to 9,000,000 shares of common stock with option room available calculated in accordance with the terms of the stock option plan. Under the plan, the exercise price of each option equals the market price of the Company's stock on the date of grant or such other date as determined in accordance with stock option plan and the policies of the Company, and the options have a maximum term of 10 years. Options are granted throughout the year and vest between zero and four years.

The following is a summary of the activity of the outstanding share purchase options:

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## Notes to the Interim Condensed Consolidated Financial Statements

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	Six months ended June 30, 2015		Six months ended June 30, 2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of period	5,645,202	\$ 11.13	5,521,915	\$ 10.68
Granted during the period	150,000	13.87	192,000	11.92
Exercised during the period	(1,155,250)	7.61	(54,600)	6.58
Cancelled during the period	-	-	(118,334)	11.29
Balance, end of period	4,639,952	\$ 12.09	5,540,981	\$ 10.75
Options exercisable, end of period	4,239,952	\$ 12.13	5,075,981	\$ 10.99

The following is a summary of the issued and outstanding common share purchase options as at June 30, 2015:

Range of exercise price per share	Number outstanding	Date of grant	Expiry
\$3.00 - 5.99	5,000	2005	2015
\$6.00 - 8.99	1,389,202	2008-2012	2018 - 2022
\$9.00 - 9.99	100,000	2008	2018
\$10.00 - 15.99	1,355,750	2006 - 2015	2016 - 2025
\$16.00 - 17.75	1,790,000	2007	2017
Total share purchase options	4,639,952		

The table below summarizes the assumptions on a weighted average basis used in determining stock-based compensation expense under the Black-Scholes option pricing model. The Black-Scholes option valuation model used by the Company to determine fair values was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's stock options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's black-out policy which would tend to reduce the fair value of the Company's stock options. Changes to subjective input assumptions used in the model can cause a significant variation in the estimate of the fair value of the options.

	Six months ended June 30, 2015	Six months ended June 30, 2014
Expected volatility	36.87%	39.41%
Risk free interest rate	0.87%	1.47%
Expected life (years)	4	4
Dividend yield	0.87%	1.11%
Weighted average fair value of options granted	\$ 3.80	\$ 3.55

For the three and six months ended June 30, 2015, the Company expensed \$779 (three months ended June 30, 2014 - \$555) and \$978 (six months ended June 30, 2014 - \$665), respectively, to reflect stock-based compensation expense, as derived using the Black-Scholes option valuation model.

# Martinrea International Inc.

## Notes to the Interim Condensed Consolidated Financial Statements

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### 13. EARNINGS PER SHARE

Details of the calculations of earnings per share are set out below:

	Three months ended June 30, 2015		Three months ended June 30, 2014	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	85,800,196	\$ 0.39	84,497,594	\$ 0.28
Effect of dilutive securities:				
Stock options	807,880	-	1,111,127	(0.01)
Diluted	86,608,076	\$ 0.39	85,608,721	\$ 0.27

  

	Six months ended June 30, 2015		Six months ended June 30, 2014	
	Weighted average number of shares	Per common share amount	Weighted average number of shares	Per common share amount
Basic	85,443,877	\$ 0.75	84,488,649	\$ 0.47
Effect of dilutive securities:				
Stock options	655,463	(0.01)	827,856	-
Diluted	86,099,340	\$ 0.74	85,316,505	\$ 0.47

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

For the three months ended June 30, 2015, 1,940,000 options (three months ended June 30, 2014, – 1,907,000) and for the six months ended June 30, 2015, 2,057,000 options (six months ended June 30, 2014, – 2,602,000) were excluded from the diluted weighted average per share calculation as they were anti dilutive.

### 14. OTHER FINANCE INCOME (EXPENSE)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Net foreign exchange gain (loss)	\$ 632	\$ 176	\$ 3,223	\$ (105)
Other income, net	18	55	29	114
Other finance income	\$ 650	\$ 231	\$ 3,252	\$ 9

### 15. OPERATING SEGMENTS

The Company designs, engineers, manufactures, and sells quality metal parts, assemblies, and fluid management systems primarily serving the global automotive industry. It conducts its operations through divisions, which function as autonomous business units, following a corporate policy of functional and operational decentralization. The Company's products include a wide array of products, assemblies and systems for small and large cars, crossovers, pickups and sport utility vehicles.

The Company defines its operating segments as components of its business where separate financial information is available and routinely evaluated by management. The Company's chief operating decision maker ("CODM") is the Chief Executive Officer. Given the differences between the regions in which the Company operates, Martinrea's operations are segmented on a geographic basis between North America, Europe and Rest of World.

The accounting policies of the segments are the same as those described in the Company's annual audited consolidated financial statements for the year ended December 31, 2014. The Company uses segment operating income as the basis for the CODM to evaluate the performance of each of the Company's reportable segments.

# Martinrea International Inc.

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The following is a summary of selected data for each of the Company's segments:

	Three months ended June 30, 2015		Three months ended June 30, 2014	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 211,649		\$ 207,697	\$
USA	382,859		359,420	
Mexico	204,197		178,187	
	\$ 798,705	\$ 44,757	\$ 745,304	\$ 33,654
Europe				
Germany	123,811		144,148	
Spain	30,249		22,368	
Slovakia	11,902		6,521	
	\$ 165,962	\$ 7,681	\$ 173,037	12,398
Rest of World	\$ 19,379	\$ (2,200)	\$ 12,574	(2,923)
	\$ 984,046	\$ 50,238	\$ 930,915	\$ 43,129

  

	Six months ended June 30, 2015		Six months ended June 30, 2014	
	Sales	Operating Income	Sales	Operating Income
North America				
Canada	\$ 411,491		\$ 403,214	\$
USA	718,707		672,089	
Mexico	381,623		333,665	
	\$ 1,511,821	\$ 82,334	\$ 1,408,968	\$ 55,022
Europe				
Germany	266,617		297,662	
Spain	63,467		46,995	
Slovakia	23,280		12,033	
	\$ 353,364	\$ 15,999	\$ 356,690	30,072
Rest of World	\$ 36,392	\$ (4,385)	\$ 29,750	(4,406)
	\$ 1,901,577	\$ 93,948	\$ 1,795,408	\$ 80,688

Inter-segment sales are not significant for any period presented.

### 16. FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash and cash equivalents, trade and other receivables, trade and other payables, long-term debt, and foreign exchange forward contracts.

#### Fair Value

IFRS 13 "Fair Value Measurement" provides guidance about fair value measurements. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value are required to maximize the use of observable inputs and minimize the use of unobservable inputs. The fair value hierarchy is based on three levels of inputs. The first two levels are considered observable and the last unobservable. These levels are used to measure fair values as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities, either directly or indirectly.
- Level 2 – Inputs, other than Level 1 inputs that are observable for assets and liabilities, either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table summarizes the fair value hierarchy under which the Company's applicable financial instruments are valued:

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## Notes to the Interim Condensed Consolidated Financial Statements

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	June 30, 2015			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 21,028	\$ 21,028	\$ -	\$ -
Foreign exchange forward contracts	\$ (817)	\$ -	\$ (817)	\$ -

  

	December 31, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 52,401	\$ 52,401	\$ -	\$ -
Foreign exchange forward contracts	\$ (9)	\$ -	\$ (9)	\$ -

### Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

June 30, 2015	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 577,020	\$ -	\$ 577,020	\$ 577,020
	-	577,020	-	577,020	577,020
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	695,986	695,986	695,986
Long-term debt	-	-	688,657	688,657	688,657
Foreign exchange forward contracts	817	-	-	817	817
	817	-	1,384,643	1,385,460	1,385,460
<b>Net financial assets (liabilities)</b>	<b>\$ (817)</b>	<b>\$ 577,020</b>	<b>\$ (1,384,643)</b>	<b>\$ (808,440)</b>	<b>\$ (808,440)</b>

  

December 31, 2014	Fair value through profit or loss	Loans and receivables	Amortized cost	Carrying amount	Fair value
<b>FINANCIAL ASSETS:</b>					
Trade and other receivables	\$ -	\$ 520,844	\$ -	\$ 520,844	\$ 520,844
	-	520,844	-	520,844	520,844
<b>FINANCIAL LIABILITIES:</b>					
Trade and other payables	-	-	645,853	645,853	645,853
Long-term debt	-	-	692,442	692,442	692,442
Foreign exchange forward contracts	9	-	-	9	9
	9	-	1,338,295	1,338,304	1,338,304
<b>Net financial assets (liabilities)</b>	<b>\$ (9)</b>	<b>\$ 520,844</b>	<b>\$ (1,338,295)</b>	<b>\$ (817,460)</b>	<b>\$ (817,460)</b>

The fair value of trade and other receivables and trade and other payables approximates their carrying amounts due to the short-term maturities of these instruments. The estimated fair value of long-term debt approximates its carrying value since debt is subject to terms and conditions similar to those available to the Company for instruments with comparable terms, and the interest rates are market-based.

### Risk Management

The main risks arising from the Company's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. These risks arise from exposures that occur in the normal course of business and are managed on a consolidated Company basis.

#### (a) Credit risk

Credit risk refers to the risks of losses due to failure of the Company's customers or other counterparties to meet their payment obligations. Financial instruments that subject the Company to credit risk consist primarily of cash and cash equivalents, trade and other receivables, and foreign exchange forward contracts.

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Credit risk associated with cash and short-term deposits is minimized by ensuring these financial assets are placed with financial institutions with high credit ratings.

The credit risk associated with foreign exchange forward contracts arises from the possibility that the counterparty to one of these contracts fails to perform according to the terms of the contract. Credit risk associated with foreign exchange forward contracts is minimized by entering into such transactions with major Canadian and U.S. financial institutions.

In the normal course of business, the Company is exposed to credit risk from its customers. Approximately 87% of the Company's production sales are derived from seven customers. A substantial portion of the Company's accounts receivables are with large customers in the automotive, truck and industrial sectors and are subject to normal industry credit risks. The level of accounts receivable that were past due as at June 30, 2015 are part of normal payment patterns within the industry and the allowance for doubtful accounts is less than 0.50% of total trade receivables for all periods and movements in the current year are minimal.

The aging of trade receivables at the reporting date was as follows:

	June 30, 2015	December 31, 2014
0-60 days	\$ 531,074	\$ 473,337
61-90 days	14,686	15,982
Greater than 90 days	13,787	12,643
	<u>\$ 559,547</u>	<u>\$ 501,962</u>

### (b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company manages liquidity risk by monitoring sales volumes and collection efforts to ensure sufficient cash flows are generated from operations to meet its liabilities when they become due. Management monitors consolidated cash flows on a weekly basis covering a rolling 12 week period, quarterly through forecasting and annually through the Company's budget process. At June 30, 2015, the Company had cash of \$21,028 and banking facilities available as discussed in note 10. All the Company's financial liabilities other than long term debt have maturities of approximately 60 days.

A summary of contractual maturities of long term debt is provided in note 10.

### (c) Interest rate risk

Interest rate risk refers to the risk the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in the market interest rates. The Company is exposed to interest rate risk as a significant portion of the Company's long-term debt bears interest at rates linked to the US prime, Canadian prime, one month LIBOR or the Bankers Acceptance rates. The interest on the bank facility fluctuates depending on the achievement of certain financial debt ratios, and may cause the interest rate to increase by a maximum of 1.75%.

The interest rate profile of the Company's long-term debt was as follows:

	Carrying amount	
	June 30, 2015	December 31, 2014
Variable rate instruments	\$ 557,115	\$ 547,090
Fixed rate instruments	131,542	145,352
	<u>\$ 688,657</u>	<u>\$ 692,442</u>

### Sensitivity analysis

An increase or decrease of 1.0% in all variable interest rate debt would, all else being equal, have an effect of \$1,443 (three months ended June 30, 2014 - \$808) on the Company's interim consolidated financial results for the three months ended June 30, 2015 and \$2,874 for the six months ended June 30, 2015 (six months ended June 30, 2014 - \$1,626)

### (d) Currency risk

Currency risk refers to the risk that the value of the financial instruments or cash flows associated with the instruments will fluctuate due to changes in the foreign exchange rates. The Company undertakes revenue and purchase transactions in foreign currencies, and therefore is subject to gains



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and losses due to fluctuations in foreign currency exchange rates. The Company's foreign exchange risk management includes the use of foreign currency forward contracts to fix the exchange rates on certain foreign currency exposures.

At June 30, 2015, the Company had committed to the following foreign exchange contracts:

Currency	Amount of U.S. dollars	Weighted average exchange rate of U.S. dollars	Maximum period in months
Buy Canadian Dollars	\$ 10,000	\$ 1.1696	6
Buy Euro	7,557	0.8972	1
Buy Mexican Peso	1,595	15.6739	1

The aggregate value of these forward contracts as at June 30, 2015 was a loss of \$817 and was recorded in trade and other payables (December 31, 2014 - loss of \$9 and was recorded in trade and other payables).

The Company's exposure to foreign currency risk reported in the foreign currency was as follows:

June 30, 2015	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 316,278	€ 66,198	\$ 28,156	R\$ 16,592	¥ 60,395
Trade and other payables	(348,354)	(92,280)	(109,765)	(24,997)	(41,373)
Long-term debt	(298,834)	(32,826)	-	(701)	-
	\$ (330,910)	€ (58,908)	\$ (81,609)	R\$ (9,106)	¥ 19,022

  

December 31, 2014	USD	EURO	PESO	BRL	CNY
Trade and other receivables	\$ 295,319	€ 65,084	\$ 17,654	R\$ 15,171	¥ 47,449
Trade and other payables	(357,294)	(88,788)	(60,722)	(16,376)	(24,372)
Long-term debt	(316,658)	(35,156)	-	(4,325)	-
	\$ (378,633)	€ (58,860)	\$ (43,068)	R\$ (5,530)	¥ 23,077

The following summary illustrates the fluctuations in the exchange rates applied during the three and six months ended June 30, 2015 and 2014:

	Average rate		Average rate		Closing rate	
	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014	June 30, 2015	December 31, 2014
USD	1.2374	1.0994	1.2213	1.0938	1.2490	1.1601
EURO	1.3520	1.5161	1.3839	1.5012	1.3926	1.4038
PESO	0.0812	0.0842	0.0815	0.0833	0.0795	0.0787
BRL	0.4023	0.4866	0.4245	0.4728	0.4008	0.4365
CNY	0.1991	0.1770	0.1964	0.1781	0.2012	0.1869

### Sensitivity analysis

The Company does not have significant foreign currency exposure based on each subsidiary's functional currency. However a 10 percent strengthening of the Canadian dollar against the following currencies at June 30, would give rise to a translation risk on net income and would have increased (decreased) equity, profit or loss and comprehensive income for the three and six months ended June 30, 2015 by the amounts shown below, assuming all other variables remain constant:

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
USD	\$ (1,931)	\$ (1,516)	\$ (3,706)	\$ (2,010)
EURO	(872)	(1,257)	(1,569)	(2,888)
BRL	88	278	193	395
CNY	205	40	335	128
	\$ (2,510)	\$ (2,455)	\$ (4,747)	\$ (4,375)

A weakening of the Canadian dollar against the above currencies at June 30 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

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### (e) Capital risk management

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth combined with complementary acquisitions and to provide returns to its shareholders. The Company defines capital that it manages as the aggregate of its equity, which is comprised of issued capital, contributed surplus, accumulated other comprehensive income and accumulated deficit, and debt.

The Company manages its capital structure and makes adjustments in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. In order to maintain or adjust its capital structure, the Company, upon approval from its Board of Directors, may issue or repay long-term debt, issue shares, repurchase shares, or undertake other activities as deemed appropriate under the specific circumstances. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as annual capital and operating budgets.

In addition to debt and equity the Company may use operating leases as additional sources of financing. The Company monitors debt leverage ratios as part of the management of liquidity and shareholders' return and to sustain future development of the business. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital risk management remains unchanged from the prior year.

## 17. CONTINGENCIES

### Contingencies

The Company has contingent liabilities relating to legal and tax proceedings arising in the normal course of its business. Known claims and litigation involving the Company or its subsidiaries were reviewed at the end of the reporting period. Based on the advice of legal counsel, all necessary provisions have been made to cover the related risks. Although the outcome of the proceedings in progress cannot be predicted, the Company does not believe they will have a material impact on the Company's consolidated financial position. However, new proceedings may be initiated against the Company as a result of facts or circumstances unknown at the date of this report or for which the risk cannot yet be determined or quantified. Such proceedings could have a significant adverse impact on the Company's financial results.

### Tax contingency

The Company's subsidiary in Brazil, Martinrea Honsel Brazil Fundicao e comercio de Pecas em Alumino Ltda., is currently being assessed by the State of Sao Paulo's tax authorities for certain historical value added tax ("VAT") credits claimed on aluminum purchases from certain local suppliers that occurred prior to the acquisition of the Brazil subsidiary in 2011. The taxation system and regulatory environment in Brazil is characterized by numerous indirect taxes and frequently changing legislation subject to various interpretations by the various Brazilian regulatory authorities who are empowered to impose significant fines, penalties and interest charges. The basis for the assessments stems from the classification of aluminum purchases, the registration status of the aluminum suppliers in question and the differing treatments between manufactured and unmanufactured aluminum for VAT purposes. The potential exposure under these assessments, based on the notices issued by the tax authorities, is approximately \$66,824 (BRL \$166,728) including interest and penalties to June 30, 2015 (December 31, 2014 - \$69,067 or BRL \$158,230). The Company has sought external legal advice and believes that it has complied, in all material respects, with the relevant legislation and will vigorously defend against the assessments. The Company may be required to present guarantees totaling \$43,715 at some point in 2015 through a pledge of assets, bank letter of credits or cash deposit. No provision has been recorded by the Company in connection with this contingency as at this stage the Company has concluded that it is not probable that a liability will result from the matter.

## 18. GUARANTEES

The Company is a guarantor under a tooling financing program. The tooling financing program involves a third party that provides tooling suppliers with financing subject to a Company guarantee. Payments from the third party to the tooling supplier are approved by the Company prior to the funds being advanced. The amounts loaned to the tooling suppliers through this financing arrangement do not appear on the Company's consolidated balance sheet. At June 30, 2015, the amount of the program financing was \$26,300 (December 31, 2014 - \$17,229) representing the maximum amount of undiscounted future payments the Company could be required to make under the guarantee.

The Company would be required to perform under the guarantee in cases where a tooling supplier could not meet its obligations to the third party. Since

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the amount advanced to the tooling supplier is required to be repaid generally when the Company receives reimbursement from the final customer, and at this point the Company will in turn repay the tooling supplier, the Company views the likelihood of the tooling supplier default as remote. No such defaults occurred during 2015 to date or 2014. Moreover, if such an instance were to occur, the Company would obtain the tooling inventory as collateral. The term of the guarantee will vary from program to program, but typically ranges from six to eighteen months.



## **MARTINREA INTERNATIONAL INC.**

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