GROUP SIMEC SA DE CV
Form 20-F
May 15, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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FORM 20-F

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[_] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

OR

[_] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

[_] SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 1-11176

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GRUPO SIMEC, S.A.B. de C.V.

(Exact name of registrant as specified in its charter)

_____

GROUP SIMEC

(Translation of registrant’s name into English)

_____

UNITED MEXICAN STATES

(Jurisdiction of incorporation or organization)

_____

Calzada Lázaro Cárdenas 601
Colonia La Nogalera, Guadalajara,
Jalisco, México 44440

(Address of principal executive offices)

Mario Moreno Cortez, telephone number 011-52-33 3770-6700, e-mail mmoreno@gruposimec.com.mx

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
American Depositary Shares (each representing one Series B share)	NYSE Amex LLC
Series B Common Stock	NYSE Amex LLC*

* Not for trading, but only in connection with the registration of American depositary shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of common stock as of December 31, 2012 was:

Series B Common Stock — 497,709,214 shares

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [_] No [X]

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes [_] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [_]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [_] No [_] (note: not required of registrant)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer [_] Accelerated filer [X] Non-accelerated filer [_]

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

[_] U.S. GAAP [X] International Financial Reporting Standards as issued by the International Accounting Standards Board [_] Other

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 [_] Item 18 [X]

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [_] No [X]

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CERTAIN TERMS

Grupo Simec, S.A.B. de C.V. is a corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of Mexico. Unless the context requires otherwise, when used in this annual report, the terms "we," "our," "the company," "our company" and "us" refer to Grupo Simec, S.A.B. de C.V., together with its consolidated subsidiaries.

References in this annual report to "U.S. dollars" or "U.S.$" are to the lawful currency of the United States. References in this annual report to "pesos" or "Ps." are to the lawful currency of Mexico. References to "tons" in this annual report refer to tons; a metric ton equals 1,000 kilograms or 2,204 pounds. We publish our financial statements in pesos.

The terms "special bar quality steel" or "SBQ steel" refer to steel that is hot rolled or cold finished round square and hexagonal steel bars that generally contain higher proportions of alloys than lower quality grades of steel. SBQ steel is produced with precise chemical specifications and generally is made to order following client specifications.

This annual report contains translations of certain peso amounts to U.S. dollars at specified rates solely for your convenience. These translations do not mean that the peso amounts actually represent such dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated these U.S. dollar amounts from pesos at the exchange rate of Ps. 12.9880 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2012. On April 30, 2013, the interbank transactions rate for the peso was Ps.12.13 per U.S.$1.00.

FORWARD LOOKING STATEMENTS

This annual report contains certain statements regarding our business that may constitute "forward looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. When used in this annual report, the words "anticipates," "plans," "believes," "estimates," "intends," "expects," "projects" and simila expressions are intended to identify forward looking statements, although not all forward looking statements contain those words. These statements, including, but not limited to, our statements regarding our strategy for raw material acquisition, products and markets, production processes and facilities, sales and distribution and exports, growth and other trends in the steel industry and various markets, operations and liquidity and capital resources, are based on management's beliefs, as well as on assumptions made by, and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward looking statement. In light of these risks and uncertainties, we cannot assure you that forward looking statements will prove to be accurate. Factors that might cause actual results to differ materially from forward looking statements include, but are not limited to, the following:

- factors relating to the steel industry (including the cyclicality of the industry, finished product prices, worldwide production capacity, the high degree of competition from Mexican, U.S. and foreign producers and the price of ferrous scrap, iron ore and other raw materials);
- our inability to operate at high capacity levels;
- the costs of compliance with Mexican and U.S. environmental laws;
- future capital expenditures and acquisitions;
- future devaluations of the peso;
- the imposition by Mexico of foreign exchange controls and price controls;
- the influence of economic and market conditions in other countries on Mexican securities; and

- the factors discussed in Item 3.D – "Risk Factors" below.

Forward looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward looking statements after the date of this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward looking events and circumstances discussed in this annual report might not occur.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

This annual report includes our consolidated financial statements as of December 31, 2011 and 2012. Beginning January 1, 2011, we adopted International Financial Reporting Standards (IFRS), and its amendments and interpretations in effect as of December 31, 2012, issued by the International Accounting Standard Board (IASB); consequently, it applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*. We have adjusted the financial statements of our subsidiaries to conform to IFRS, and we have translated them to Mexican pesos. See Note 5(a) to our consolidated financial statements included elsewhere herein.

Transitions to IFRS – Our last annual consolidated financial statements were prepared in accordance with Mexican Financial Reporting Standards (MFRS). Certain accounting standards and valuation methods applied in the previously issued 2011 consolidated financial statements prepared in accordance with MFRS differ from the accounting standards and valuation methods of IFRS. Accordingly, the comparative 2011 amounts were reformulated to reflect these adjustments.

The reconciliations and descriptions of the effects of our transition from MFRS to IFRS are explained in Note 28 to our consolidated financial statements included elsewhere herein.

Our transition date to IFRS was January 1, 2011. In preparing its first consolidated financial statements in accordance with IFRS, we applied transitional rules to the figures previously reported in accordance with MFRS. IFRS 1 generally require the retroactive application of all IFRS and related improvements and interpretation in an entity's first IFRS financial statements. However, IFRS 1 requires certain mandatory exceptions and permits other optional exemptions from retroactive application in order to assist entities in their transition process. We have applied the following mandatory exceptions as follows:

- ***Accounting estimates*** – Accounting estimates made under MFRS in 2011 are consistent with estimates under IFRS made for the same periods and are thus, not retrospectively modified, except for the fixed asset componentization as explained in Note 28 to our consolidated financial statements included elsewhere herein.

- ***Hedging instruments -*** Certain hedging instruments that were designated as hedges under MFRS qualify for hedge accounting under IAS 39, Financial Instruments: Recognition and Measurement. No designations of hedging

relationships were made retrospectively.

- Other mandatory exceptions were not applicable to us.

Additionally, we have applied the option for first-time adoption exemptions as follows:

- We elected not to apply IFRS 3, Business Combinations (as revised in 2008) retrospectively to prior business combinations that occurred before its date of transition to IFRS.

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- We elected to value the items of property, plant and equipment at their book value under MFRS at the transition date, which represents the depreciated cost adjusted for price changes of a specific index (deemed cost).

- We elected to recognize all cumulative unrecognized actuarial gains and losses at the date of transition to IFRS.

- We elected to reset the balance of cumulative translation adjustment of foreign subsidiaries at the date of transition.

- We applied the transitional provisions set out in paragraphs 27 and 28 of IAS 23, Borrowing Costs. Therefore, we designated the transition date to IFRS as the commencement date for capitalization of borrowing costs relating all qualifying assets.

The following tables present the selected consolidated financial information for our company as of December 31, 2011 and 2012 and January 1, 2011 and for the years ended December 31, 2011 and 2012. The selected financial and operating information as of and for the years ended December 31, 2010, 2011 and 2012 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Castillo Miranda y Compañía, S.C., a member practice of BDO International Limited ("BDO"), and BDO have relied on the audited combined financial statements of Corporación Aceros DM., S.A. de C.V. ("Aceros DM") subsidiaries and affiliates, reported on by Marcelo de los Santos y Cía., S. C. a practice member of Moore Stephens International ("Moore Stephens"). The consolidated financial statements of our subsidiary SimRep for the years ended December 31, 2011 and 2012 were reported on by BDO USA, LLP. The consolidated financial statements of our subsidiary GV do Brasil Industria e Comercio LTDA Aço for the year ended December 31, 2012 were reported on by BDO RCS SS. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements included elsewhere herein.

	As of January 1,	**As of and for Year Ended December 31,**		
	2011	**2011 (1)**	**2012 (1)**	**2012(2)**
	(Millions of pesos, except per share and ADS data and operational data)			(Millions of U.S. dollars)
Income Statement Data:				
IFRS:				
Net sales	N/A	J9,270	J9,524	J,273
Cost of sales	N/A	J5,563	J5,960	I,999
Gross profit	N/A	K,707	K,564	J74
Administrative expenses	N/A	M95	O53	M8
Depreciation and amortization	N/A	L55	L75	K7
Other (expense) income, net	N/A	(113)	I81	I4
Interest income	N/A	J6	J3	J
Interest expense	N/A	J4	J3	J
Foreign exchange gain (loss)	N/A	M82	(509)	(39)
Income (loss) before taxes	N/A	K,128	J,008	I54
Income tax expense	N/A	I49	M4	L
Net income	N/A	J,979	I,954	I50
Non-controlling interest income (loss)	N/A	87	(116)	(9)

Controlling interest income (loss)	N/A	J,892	J,070	I59
Net income (loss) per share	N/A	5.81	4.16	0.32
Net income (loss) per ADS(3)	N/A	17.43	12.48	0.96
Weighted average shares outstanding (thousands)(3)	N/A	L97,709	L97,709	L97,709
Weighted average ADSs outstanding (thousands)(3)	N/A	I65,903	I65,903	I65,903
Balance Sheet Data:				
IFRS:				
Total assets	27,147	K1,119	K2,456	J,499
Total short-term liabilities	3,898	K,823	K,737	J88
Total long-term liabilities(4)	2,788	K,165	K,052	J35
Total stockholders' equity	20,461	J4,131	J5,667	I,976
Cash Flow Data:				
IFRS:				
Cash provided by operating activities	N/A	J,954	K,655	J81
Cash provided by (used in) financing activities	N/A	-	(23)	(2)
Cash (used in) provided by investing activities	N/A	(440)	(1,507)	(116)

	As of January 1, 2011	As of and for Year Ended December 31, 2011 (1)	2012 (1)	2012(2)
	(Millions of pesos, except per share and ADS data and operational data)			(Millions of U.S. dollars)
Other Data:				
IFRS:				
Capital expenditures	N/A	L32	I,304	I00
Adjusted EBITDA(5)	N/A	K,607	K,348	J57
Working capital(6)	8,288	I2,376	I3,583	I,046
Depreciation and Amortization	N/A	950	I,012	O8
Dividends declared	H	H	H	H
Operational Data:				
(capacity and production in thousands of tons):				
Annual installed capacity(7)	K,522	K,758	K,791	
Total tons shipped	J,241	J,289	J,262	
Mexico	I,225	I,275	I,357	
United States, Canada and elsewhere outside Mexico	I,016	I,014	905	
SBQ steel	I,109	I,178	I,111	
Structural and other steel products	I,132	I,111	I,151	
Per ton data				
IFRS:				
Net sales per ton	N/A	I2,787	I3,052	I,005
Cost of sales per ton	N/A	I1,168	I1,477	884
Adjusted EBITDA(5) per ton	N/A	I,576	I,480	I14
Number of employees	L,361	L,686	M,086	

(1) Consolidated income statements in accordance with IFRS for the years 2011 and 2012.

(2) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 12.9880 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2012.

(3) Our series B shares are listed on the Mexican Stock Exchange, and the ADSs are listed on the New York Stock Exchange. On May 30, 2006, we effected a 3 for 1 stock split. Following our stock split, one American depositary share, or "ADS," represents three series B shares. Previously one ADS represented one series B share.

(4) Total long-term liabilities include amounts relating to deferred taxes.

(5) Adjusted EBITDA is not a financial measure computed under Mexican or U.S. GAAP or IFRS. Adjusted EBITDA is derived from our IFRS financial information and means IFRS net income excluding: (i) depreciation, amortization and impairment loss; (ii) financial income (expense), net (which is composed of net interest expense and foreign exchange gain or loss, and monetary position gain or loss); (iii) other income (expense); and (iv) income tax expense and employee statutory profit-sharing expense.

Adjusted EBITDA does not represent, and should not be considered as, an alternative to net income, as an indicator of our operating performance, or as an alternative to cash flow as an indicator of liquidity. You should bear in mind that Adjusted EBITDA is not defined and is not a recognized financial measure under MFRS or U.S. GAAP or IFRS and that it may be calculated differently by different companies and must be read in conjunction with the explanations that accompany it. Adjusted EBITDA as presented in this table does not take into account our working capital requirements, debt service requirements and other commitments.

We believe that Adjusted EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies in our industry because it excludes the effect of: (i) depreciation, amortization and impairment loss which represents a non-cash charge to earnings; (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which can have little bearing on our operating performance; (iii) other income (expense) that are non-recurring operations; and (iv) income tax expense and employee statutory profit-sharing expense. However, Adjusted EBITDA has certain significant limitations, including that it does not include the following:

- taxes, which are a necessary and recurring part of our operations;
- depreciation, amortization and impairment loss which, because we must utilize property, equipment and other assets in order to generate revenues in our operations, is a necessary and recurring part of our costs;
- comprehensive cost of financing, which reflects our cost of capital structure and assisted us in generating revenues; and
- other income and expenses that are part of our net income.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, net cash flow from operating activities or net cash flow from investing and financing activities. Reconciliation of net income to Adjusted EBITDA is as follows:

	Year Ended December 31,		
	2011 (1)	2012 (1)	2012(2)
	(millions of pesos)		(millions of U.S. dollars)
IFRS:			
Net income	J,979	I,954	I50
Depreciation and amortization	950	I,012	O8
Other (expense) income	(113)	I81	I4
Interest income	26	J3	J
Interest Expense	J4	J3	J
Foreign exchange gain (loss)	M82	(509)	(39)
Income tax expense	149	54	4
Adjusted EBITDA	K,607	K,348	J57

(6) Working capital is defined as excess of current assets over current liabilities.

(7) Installed capacity is determined at December 31 of the relevant year.

Exchange Rates

The following table sets forth, for the periods indicated, the high, low, average and period-end free-market exchange rate expressed in Mexican pesos per U.S. dollar. The average annual rates presented in the following table were calculated by using the average of the exchange rates on the last day of each month during the relevant period. The data provided in this table is based on noon buying rates published by the U.S. Federal Reserve Board for cable transfers in Mexican pesos. We have not restated the rates in constant currency units. All amounts are stated in pesos. We make no representation that the Mexican peso amounts referred to in this annual report could have been or could be converted into U.S. dollars at any particular rate or at all.

Exchange Rates

Year Ended December 31	High	Low	Average (1)	Period End
2008	13.94	9.92	11.14	13.83
2009	15.41	12.63	13.50	13.06
2010	13.19	12.16	12.62	12.38
2011	14.25	11.51	12.44	13.95
2012	14.37	12.63	13.15	12.96

Year Ended December 31	High	Low	Average (1)	Period End
Month in 2013				
January	12.79	12.59	12.70	12.73
February	12.88	12.63	12.72	12.78
March	12.80	12.32	12.50	12.32
April	12.34	12.07	12.21	12.13

(1) Average of month-end or daily rates, as applicable.

Except for the period from September through December 1982, during a liquidity crisis, the Mexican Central Bank has consistently made foreign currency available to Mexican private-sector entities (such as us) to meet their foreign currency obligations. Nevertheless, in the event of renewed shortages of foreign currency, we cannot assure you that foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations or to import goods could be purchased in the open market without substantial additional cost or at all.

Fluctuations in the exchange rate between the peso and the U.S. dollar will affect the U.S. dollar value of securities traded on the Mexican Stock Exchange, including the series B shares and, as a result, will likely affect the market price on the New York Stock Exchange of the ADSs that represent the series B shares. Such fluctuations will also affect the U.S. dollar conversion by the depositary of any cash dividends paid in pesos on series B shares represented by ADSs.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our series B shares and the ADSs involves a high degree of risk. You should consider carefully the following risks, as well as all the other information presented in this annual report, before making an investment decision. Any of the following risks, if they were to occur, could materially and adversely affect our business, results of operations, prospects and financial condition. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also materially and adversely affect our business, results of operations, prospects and financial condition. In either event, the market price of our series B shares and ADSs could decline significantly, and you could lose all or substantially all of your investment.

Risks Related to Our Business

Our results of operations are significantly influenced by the cyclical nature of steel industry.

The steel industry is highly cyclical and sensitive to regional and global macroeconomic conditions. Global demand for steel as well as global production capacity levels significantly influence prices for our products, and changes in global demand or supply for steel in the future will likely impact our results of operations. The steel industry has suffered in the past, especially during downturn cycles, from substantial over-capacity. Currently, as a result of the recent global economic recession and the increase in steel production capacity in recent years, there are signs of excess capacity in steel markets, which is impacting the profitability of the steel industry.

Global steel prices increased significantly during 2004, fell in 2005, increased again in first three quarters of 2006, then weakened in the last quarter of 2006 and in 2007 remained similar to prices in 2006. In 2008, global steel prices increased during the first three quarters of 2008, but weakened significantly in the last quarter of 2008 and 2009 as a result of the global economic recession. In 2010, 2011 and 2012, global steel prices began to recover and then remained relatively stable. We cannot give you any assurance as to prices of steel in the future.

We may not be able to pass along price increases for raw materials to our customers to compensate for fluctuations in price and supply.

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and significant increases in raw material prices could adversely affect our gross profit. During periods when prices for scrap metal, iron ore, ferroalloys, coke and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw materials costs to customers by means of price increases. For example, prices of scrap metal increased approximately 34% and 21% in 2010 and 2011 respectively, in 2012 increased approximately 1%; and prices of ferroalloys increased approximately 22% and 10% in 2010 and 2011 respectively, in 2012 decreased approximately 10%. As with other raw materials, iron ore and coke prices fluctuated significantly; however, in 2010, 2011 and 2012 we did not purchase iron ore pellets or coke since our Lorain, Ohio blast furnace facility, which is our only facility that utilizes these materials, was idle during this period. We may not

be able to pass along these and other cost increases in the future and, therefore, our profitability may be materially and adversely affected. Even when we can successfully increase our prices, interim

reductions in profit margins frequently occur due to a time lag between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that our customers will agree to pay increased prices for our steel products that compensate us for increases in our raw material costs.

We purchase our raw material requirements either in the open market or from certain key suppliers. Both scrap metal and ferroalloy prices are negotiated on a monthly basis with our suppliers and are subject to market conditions. We cannot assure you that we will be able to continue to find suppliers of these raw materials in the open market, that the prices of these materials will not increase or that the quality will remain the same. In addition, if any of our key suppliers fails to deliver or we fail to renew our supply contracts, we could face limited access to some raw materials, or higher costs and delays resulting from the need to obtain our raw materials requirements from other suppliers.

The energy costs involved in our production processes are subject to fluctuations that are beyond our control and could significantly increase our costs of production.

Our production processes are dependent on adequate supplies of electricity and natural gas. A substantial increase in the cost of electricity or natural gas could have a material adverse effect on our gross profit. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales. Prices for electricity increased approximately 8% in 2010, 11% in 2011 and 3% in 2012; and prices for natural gas decreased approximately 18% in 2010, 14% in 2011 and 32% in 2012. Moreover, energy costs constitute a significant and increasing component of our costs of operations; energy cost as a percentage of the manufacturing conversion cost was 11% for 2012 compared to 12% for 2011.

The Mexican government is currently the only supplier of energy in Mexico and has, in some cases, increased prices above international levels. We, like all other high volume users of electricity in Mexico, pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or "CFE") for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, ("PEMEX"), the national oil company, for natural gas used at our facilities in Mexico. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States and Canada. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportation and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States, as appropriate. As of December 31, 2012, we have entered into derivative financial instruments in Mexico to cover risks of fluctuations in the price of natural gas with PEMEX. We have not always been able to pass the effect of increases in our energy costs on to our customers and we cannot assure you that we will be able to pass the effect of these increases on to our customers in the future. We also cannot assure you that we will be able to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of electricity or natural gas would materially and adversely affect our business and results of operations.

We face significant competition from other steel producers, which may adversely affect our profitability and market share.

Competition in the steel industry is significant. Competition in the steel industry exerts a downward pressure on prices, and, due to high start-up costs, the economics of operating a steel mill on a continuous basis may encourage mill operators to establish and maintain high levels of output even in times of low demand, which further decreases prices and profit margins. The recent trend of consolidation in the global steel industry may further increase

competitive pressures on independent producers of our size, particularly if large steel producers formed through consolidations, which have access to greater resources than us, adopt predatory pricing strategies that decrease prices and profit margins. If we are unable to remain competitive with these producers, our profitability and market share would likely be materially and adversely affected.

A number of our competitors in Mexico, the United States and Canada have undertaken modernization and expansion plans, including the installation of production facilities and manufacturing capacity for certain products that compete with our products. As these producers become more efficient, we will face increased competition from them and may experience a loss of market share. In each of Mexico, the United States and Canada we also face competition from international steel producers. Increased international competition, especially when combined with excess production capacity, would likely force us to lower our prices or to offer increased services at a higher cost to us, which could materially reduce our profit margins.

Competition from other materials could significantly reduce demand and market prices for steel products.

In many applications, steel competes with other materials that may be used as steel substitutes, such as aluminum (particularly in the automobile industry), cement, composites, glass, plastic and wood. Additional substitutes for steel products could significantly reduce demand and market prices for steel products and thereby affect our results of operations.

A sudden slowdown in consumption in or increase in exports from China could have a significant impact on international steel prices affecting our profitability.

As demand for steel has surged in China, steel production capacity in that market has also increased, and China is now the largest worldwide steel producing country, accounting for approximately half of the worldwide steel production. Due to the size of the Chinese steel market, a slowdown in steel consumption in that market could cause a sizable increase in the volume of steel offered in the international steel markets, exerting a downward pressure on sales and margins of steel companies operating in other markets and regions, including us.

Implementing our growth strategy, which may include additional acquisitions, may adversely affect our operations.

As part of our growth strategy, we may seek to expand our existing facilities, build additional plants, acquire steel production assets, enter into joint ventures or form strategic alliances that we expect will expand or complement our existing business. If we undertake any of these transactions, they will likely involve some or all of the following risks:

- disruption of our ongoing business;
- diversion of our resources and of management's time;
- decreased ability to maintain uniform standards, controls, procedures and policies;
- difficulty managing the operations of a larger company;
- increased likelihood of involvement in labor, commercial or regulatory disputes or litigation related to the new enterprise;
- potential liability to joint venture participants or to third parties;
- difficulty competing for acquisitions and other growth opportunities with companies having greater financial resources; and
- difficulty integrating the acquired operations and personnel into our existing business.

We will require significant capital for acquisitions and other strategic plans, as well as for the maintenance of our facilities and compliance with environmental regulations. We may not be able to fund our capital requirements from operating cash flow and we may be required to issue additional equity or debt securities or obtain additional credit facilities, which could result in additional dilution to our shareholders. We cannot assure you that

adequate equity or debt financing would be available to us on favorable terms or at all. If we are unable to fund our capital requirements, we may not be able to implement our growth strategy.

We intend to continue to pursue a growth strategy, the success of which will depend in part on our ability to acquire and integrate additional facilities. Some of these acquisitions may be outside of Mexico, the United States and Canada. Acquisitions involve a number of special risks, in addition to those described above, that could adversely affect our business, financial condition and results of operations, including the assumption of legacy liabilities and the potential loss of key employees. We cannot assure you that any acquisition we make will not materially and adversely affect us or that any such acquisition will enhance our business. We are unable to predict the likelihood of any additional acquisitions being proposed or completed in the near future or the terms of any such acquisitions.

We and our auditors have identified material weaknesses in our internal controls over financial reporting, for each of the last four years, and if we fail to remediate these material weaknesses and achieve an effective system of internal controls, we may not be able to report our financial results accurately, and current and potential shareholders could lose confidence in our reporting, which would harm our business and the trading price of our Series B shares or the ADSs.

In connection with the preparation of our financial statements as of and for each of the years ended December 31, 2009, 2010, 2011 and 2012, we and our auditors identified material weaknesses (as defined under standards established by the Public Company Accounting Oversight Board) in our internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Fiscal Year Ended December 31, 2009. In the course of the preparation of our consolidated financial statements for the years ended December 31, 2009, our management identified the following material weaknesses:

- The structure of our finance department proved to be insufficient insofar as it did not allow for adequate segregation of duties with respect to the supervision and review procedures for the assessment of deferred taxes and for the closing of our financial statements.
- The personnel of our finance department lacked the requisite level of knowledge and specialization to calculate asset impairments and conversion between MFRS and U.S. GAAP and the conversion of the financial statements of our foreign subsidiaries to MFRS.
- Our growth also had an adverse impact on our ability to maintain adequate control over our preparation of consolidated financial information which has become more complex. The preparation of consolidated financial information was carried out through the use of electronic Excel sheets and a partially integrated system which relied on the use of different software by various subsidiaries, rather than through a company-wide, integrated consolidation system. The situation described above did not allow for a proper supervision of the consolidation process during 2009.

In addition, in the course of the audit of the consolidated financial statements of our subsidiary SimRep Corporation ("SimRep") and its subsidiaries, including Republic Engineered Products, Inc. ("Republic"), for the year ended December 31, 2009 and of internal control over financial reporting as of December 31, 2009, our external auditor identified certain accounting entries that it concluded were not in compliance with U.S. GAAP. In connection with these entries, our external auditor requested that certain audit adjustments be made, and SimRep made those adjustments. Republic Engineered Products, Inc. changed its name on September 2011 to Republic Steel Inc.

On April 29, 2010, our external auditor notified our audit and corporate practices committee ("Audit Committee") and certain members of the management of Republic that it had identified, during its audit of the financial statements of SimRep and its subsidiaries for the year ended December 31, 2009, what it considered, under standards established by the Public Company Accounting Oversight Board, to be material weaknesses in internal

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control over financial reporting at the SimRep evaluation level. Specifically, our external auditor noted material weaknesses with regard to what it characterized as "management override of internal controls" and identified five specific "management overrides." In addition, our external auditor also noted material weaknesses in internal control over financial reporting with regard to SimRep's adherence to its written policies with regard to accounting for working capital and fixed asset accounts.

Fiscal Year Ended December 31, 2010. On July 12, 2011, our external auditors issued a report that concluded that we do not maintain effective internal control over financial reporting with respect to our financial statements as of December 31, 2010 and identified the following material weaknesses:

- there were significant deficiencies in our entity-level controls and control environment that could affect the effectiveness of the internal controls and which together constitute a material weakness;
- the structure of our finance department proved to be insufficient insofar as it did not allow for adequate segregation of duties with respect to the supervision and review procedures and the total accounting errors adjusted for this matter were considered material to our consolidated financial statements for 2010;
- the preparation of consolidated financial information was carried out through the use of electronic Excel sheets and a partially integrated system which relied on the use of different software by various subsidiaries, rather than through a company-wide, integrated consolidation system; and
- the structure of the finance department of SimRep was also found to be insufficient to reconcile certain balance sheet accounts at the detailed level and did not allow for adequate segregation of duties with respect to the supervision and review procedures for the reconciliation of prepaid balances and the closing of their financial statements.

Fiscal Year Ended December 31, 2011. On January 12, 2012, our Audit Committee received a formal complaint from the General Accounting and Treasury Services Manager of Republic, stating that he had identified, during his review of the financial statements of SimRep and its subsidiaries for the year ended December 31, 2011, what he considered to be material accounting errors, and potential "management override of internal controls" at SimRep. In response, our Audit Committee instructed our internal audit department to perform a review, and subsequently engaged outside counsel to conduct an internal investigation concerning the accounting matters and potential management overrides of internal controls at SimRep. As a result of our investigation, we have identified material weakness at SimRep, finding that, with respect to SimRep and its subsidiaries, management did not design and maintain effective controls relating to the year-end closing and financial reporting process, resulting in accounting errors with respect to the reconciliation of certain balance sheet accounts, and a failure to timely review and control the preparation and closing of SimRep's consolidated financial statements. In addition, SimRep also had insufficient personnel resources and technical accounting and reporting expertise to appropriately address certain accounting and financial reporting matters in accordance with generally accepted accounting principles.

In addition, our external auditors notified our management that, during their audit of our consolidated financial statements for the year ended December 31, 2011, it identified what it considered to be, under standards established by the Public Company Accounting Oversight Board, material weaknesses in internal controls over financial reporting:

- Significant deficiencies were detected regarding entity-level controls and control environment which, in the aggregate, constitute a material weakness, and which include (i) ineffective controls in the patents registry; (ii) inadequate resources and inadequate distribution of duties among personnel, resulting in too many functions centralized among too few personnel; (iii) out-of-date accounting and human resources policies and information technology procedures, and a lack of proper monitoring of the foregoing; (iv) a lack of adequate implementation of our ethical code; (v) failure to integrate all control processes into an Enterprise Resource Planning (ERP) system; (vi) a lack of an accounting manual (including instructions on accounting recordkeeping) for the entire company; (vii) failure to create and implement a training plan for management personnel preparing financial records; and (viii) failure of audit personnel to report periodically to the Audit

Committee in order to monitor the remediation procedures previously adopted with respect to previous accounting periods;

- A lack of appropriate accounting resources, which led to inadequate supervision and controls within the accounting department and therefore prejudiced the financial statement closing process, the deferred income tax process and the conversion of foreign subsidiaries process, resulting in material accounting errors;
- A lack of an appropriate consolidation system to allow management to supervise properly the preparation of consolidated financial information. Financial information of subsidiaries was presented at a level of detail that was insufficient to allow for a clear and precise understanding of operations; and
- A lack of appropriate accounting resources at SimRep, which led to material weaknesses with respect to SimRep's internal controls over financial reporting, which resulted in material corrections to its consolidated financial statements. Such material weaknesses included: (i) a lack of proper controls to reconcile certain balance sheet accounts at a detailed level, including certain accounts payable debit balances that could not be substantiated, resulting in audit adjustments; (ii) financial close control failure due to lack of timely review of monthly financial statements; (iii) a necessity to perform several reclassifications to basic financial statements and adjustments to the footnotes after the auditors' review of such financial statements; and (iv) a lack of appropriate expertise at SimRep to address technical accounting and financial reporting matters.
- Significant deficiencies were detected also on our subsidiary Corporación Aceros DM, S.A. de C.V. which, in the aggregate, constitute a material weakness, these significant deficiencies include (i) lack of physical inventory of fixed assets; (ii) lack of proper segregation of duties analysis and authorization of personnel access to main information systems (iii) lack of evidence of reconciliation of physical and accounting information of raw material inventory; (iv) lack of evidence of review of interim financial statements; and (v) failure to document and communicate adequately responsibilities and authority of key financial roles.

Fiscal Year Ended December 31, 2012. In our assessment of our internal controls over financial reporting for the year ended December 31, 2012, we and our auditors identified the following material weaknesses:

- Significant deficiencies were detected regarding entity-level controls and control environment which, in the aggregate, constitute a material weakness, and which include: (i) failure to keep all our policies and procedures, including IFRS accounting policies, updated; (ii) limited IFRS understanding within our Internal Audit department; (iii) inadequate controls in the review and approval process of the disclosures of our financial statements; (iv) poor maintenance of our whistleblower line for the Mexican subsidiaries; (v) ineffective controls in our patents registry; (vi) inadequate distribution and segregation of duties within our accounting department; (vii) deficient distribution to employees and officers of our code of ethics; (viii) failure to integrate all control processes into an Enterprise Resource Planning (ERP) system; (ix) lack of an accounting manual with accounting instructions for our most important transactions; (x) failure to create and implement a training plan for our management personnel preparing financial records; and (xi) incomplete monitoring of certain control deficiencies identified on previous years;
- Inadequate supervision and controls within our accounting department which prejudiced the financial statement closing process, conversion of foreign subsidiaries, presentation of financial statements and assets valuation, resulting in material accounting errors;
- A lack of an appropriate consolidation system to allow our management to supervise properly the preparation of consolidated financial information with the required detail;

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- Deficient and not standardized controls in SimRep related to the physical inventory counts and a very vulnerable procedure to determine costs due to manual calculations, and;
- Significant deficiencies were also detected at our subsidiary Corporación Aceros DM S.A. de C.V. which in the aggregate, constitute a material weakness, these significant deficiencies include: (i) failure to timely approve our policies and procedures to prepare financial statements in accordance with IFRS and limited knowledge of those standards, (ii) undocumented process and deficient controls in the control access to information systems, (iii) deficient controls to review and approve cost calculation of finished goods, (iv) lack of physical inventory of fixed assets; and (v) failure to document and communicate adequately responsibilities and authority of key financial roles.

See Item 15.B "Controls and Procedures—Management's Annual Report on Internal Control Over Financial Reporting – Material Weaknesses" and Item 15.C "Attestation Report of the Independent Registered Public Accounting Firms" and Item 15.D "Changes in Internal Control over Financial Reporting".

Any failure to implement and maintain the needed improvements in the controls over our financial reporting, or difficulties encountered in the implementation of these improvements in our controls, could result in a material misstatement in our annual or interim financial statements that would not be prevented or detected, or cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to improve our internal controls to address the identified weaknesses could result in our incurring substantial liability for not having met our legal obligation and could also cause investors to lose confidence in our reported financial information, which could have a material adverse impact on the trading price of our Series B shares or the ADSs.

Tariffs, anti-dumping and countervailing duty claims imposed in the future could harm our ability to export our products outside of Mexico, and changes in Mexican tariffs on steel imports could adversely affect the profitability and market share of our Mexican steel business.

A substantial part of our operations are outside the United States, and we export products from those facilities to the United States. In the past, the U.S. government has imposed anti-dumping and countervailing duties against Mexican and other foreign steel producers, but has not imposed any such penalties against us or our products. In the first quarter of 2002, the U.S. government imposed tariffs of 15% on rebar and 30% on hot rolled bar and cold finish bar against imports of steel from all countries with the exception of Mexico, Canada, Argentina, Thailand and Turkey; in the first quarter of 2003, the tariffs were reduced to 12% on rebar and 24% on hot rolled bar and cold finish bar, and these tariffs were eliminated in late 2003, prior to their originally scheduled termination date. We cannot assure you that anti-dumping or countervailing duties suits will not be initiated against us, or that the U.S. government will not impose tariffs on steel imports from Mexico, and if this were to occur it could materially and adversely affect our results of operations.

In September 2001, the Mexican government imposed tariffs of 25% against imports for all products that we produce from all countries with the exception of those which have a free trade agreement with Mexico, which includes the United States. In April 2002, the Mexican government increased these tariffs to 35%. These tariffs have subsequently been reduced over time and in a range from 3% to 5% for steel products, in 2012 these tariffs were eliminated. We cannot assure you that these tariffs will not be further reduced or eliminated or that countries seeking to export steel products to Mexico will not impose similar tariffs on Mexican exports to those countries, and in either case such developments could have a material adverse effect on our financial condition and results of operations.

The operation of our facilities depends on good labor relations with our employees.

At December 31, 2012, approximately 80% of our non-Mexican and 56% of our Mexican employees were members of unions. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. In addition, collective bargaining agreements are typically negotiated on a facility-by-facility basis for our Mexican facilities. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor

disruptions could have a material and adverse effect on our business. Labor disruptions or

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significant negotiated wage increases could reduce our sales or increase our cost, and accordingly could have a material adverse effect on our results of operations.

Operations at our Lackawanna, New York facility depend on our continuing right to use certain property and assets of an adjoining facility and the termination of any such rights would interrupt our operations and have a material adverse effect on our results of operations and financial condition.

The operations of our Lackawanna facility depend upon certain arrangements and understandings relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. These service and utility arrangements, initially entered into with the Mittal Steel Company N.V. and its affiliates ("Mittal Steel"), were effective through April 30, 2009, at which time Mittal Steel transferred its Lackawanna plant to Tecumseh Redevelopment, Inc. ("Tecumseh"). In December 2010, Tecumseh transferred a portion of the former Mittal Steel facility to Great Lakes Industrial Development, LLC ("GLID"). Upon the transfer to GLID, we entered into a written agreement with GLID regarding the provision of compressed air to our facility. This lease assures that compressed air will be provided to our facility during the lease term (initially two years with automatic one year renewals until terminated by either party) and grants us an option to purchase the equipment at various times and at stated prices, thereby providing us some flexibility while we consider the installation of our own compressed air system at our facility. The water pump that services our plant is located on property still owned by Mittal Steel and is maintained by Mittal Steel, which also continues to furnish industrial water to us on a month-to-month basis. The electric system which services the compressed air equipment, as well as the electric system which services the GLID property, has been re-routed through our electric meter located at a substation on the adjacent GLID property. We continue to pursue a written agreement with GLID covering our use of the electric substation and related equipment on the GLID property, as well as the sanitary sewer lift station on the GLID property that serves our facility, and a truck entrance and security monitoring equipment located on the GLID property. All of these rights are essential to the use and operation of our Lackawanna facility. It is our understanding that GLID has sold or is in the process of selling a portion of its property to an unrelated third party. In the event of a termination of any of our rights, either due to a failure to negotiate a satisfactory outcome with Mittal Steel, GLID or any third party to which it sells all or part of its facility, or for any other reason, we could be required to cease all or substantially all of our operations at the Lackawanna facility. Because we produce certain types of products in our Lackawanna facility that we do not produce in our other facilities, an interruption of production at our Lackawanna facility would result in a substantial loss of revenue and could damage our relationships with customers.

Our sales in the United States are concentrated and could be significantly reduced if one of our major customers reduced its purchases of our products or was unable to fulfill its financial obligations to us.

Our sales in the United States are concentrated among a relatively small number of customers. Any of our major customers can stop purchasing our products or significantly reduce their purchases at any time. During 2012, 2011 and 2010, sales to our ten largest customers in the United States accounted for approximately 42.4%, 40.4% and 38.6% of our consolidated revenues in the United States, respectively, and approximately 18.7%, 19.5 and 19% of our total consolidated revenues, respectively. A disruption in sales to one or more of our largest customers would adversely affect our cash flow and results of operations. Starting in the fourth quarter of 2008, due to the U.S. financial crisis and the ensuing worldwide economic recession, all of our top ten customers have suffered reduced demand for their products. This reduction in demand has in turn adversely affected our results of operations.

We cannot assure you that we will be able to maintain our current level of sales to our largest customers or that we will be able to sell our products to other customers on terms that are favorable to us. The loss of, or substantial decrease in the amount of purchases by, or a write-off of any significant receivables from, any of our major customers would materially and adversely affect our business, results of operations, liquidity and financial condition.

Unanticipated problems with our manufacturing equipment and facilities could have an adverse impact on our business.

Our capacity to manufacture steel products depends on the suitable operation of our manufacturing equipment, including blast furnaces, electric arc furnaces, continuous casters, reheating furnaces and rolling mills. Breakdowns requiring significant time and/or resources to repair, as well as the occurrence of unexpected adverse

events, such as fires, explosions or adverse meteorological conditions, could cause production interruptions that could adversely affect our results of operations.

We have not obtained insurance against all risks, and do not maintain insurance covering losses resulting from catastrophes or business interruptions. In the event we are not able to quickly and cost-effectively remedy problems creating any significant interruption of our manufacturing capabilities, our operations could be adversely affected. In addition, in the event any of our plants were destroyed or significantly damaged or its production capabilities otherwise significantly decreased, we would likely suffer significant losses, and capital investments necessary to repair any destroyed or damaged facilities or machinery would adversely affect our profitability, liquidity and financial condition.

If we are unable to obtain or maintain quality and environmental management certifications for our facilities, we may lose existing customers and fail to attract new customers.

Most of our automotive parts customers in Mexico and the United States require that we have ISO 9001, TS 16949 and ISO 14001 certification. All of the Mexican and U.S. facilities that sell to automotive parts customers are currently certified, as required. If the foregoing certifications are canceled, if approvals are withdrawn or if necessary additional standards are not obtained in a timely fashion, our ability to continue to serve our targeted market, retain our customers or attract new customers may be impaired. For example, our failure to maintain these certifications could cause customers to refuse shipments which could materially and adversely affect our revenues and results of operations. We cannot assure you of our future compliance.

In the SBQ market, all participants must satisfy quality audits and obtain certifications in order to obtain the status of "approved supplier." The automotive industry has put these stringent conditions in place for the production of auto parts to assure a vehicle's quality and safety. We currently are an approved supplier for our automotive parts customers. Maintaining these certifications is key to preserving our market share, because they can be a barrier to entry in the SBQ market, and we cannot assure you that we will be able to do so.

In the event of environmental violations at our facilities we may incur significant liabilities.

Our operations are subject to a broad range of environmental laws and regulations regulating our impact on air, water, soil and groundwater and exposure to hazardous substances. The costs of complying with, and the imposition of liabilities pursuant to, environmental laws and regulation can be significant. Despite our efforts to comply with environmental laws and regulations, environmental incidents or events that negatively affect the operations of our facilities may occur. In addition, we cannot assure you that we will at all times operate in compliance with environmental laws and regulations. If we fail to comply with these laws and regulations, we may be assessed fines or penalties, be required to make large expenditures to comply with such laws and regulations, or be forced to shut down non-compliant operations and face lawsuits by third parties. In addition, environmental laws and regulations are becoming increasingly stringent and it is possible that future laws and regulations may require us to undertake material environmental compliance expenditures and require modifications in our operations. Furthermore, we need to maintain existing and obtain future environmental permits in order to operate our facilities. The failure to obtain necessary permits or consents or the loss of any permits could result in significant fines or penalties or prevent us from operating our facilities. We may also be subject, from time to time, to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury that could result in significant liability. Certain of our facilities in the United States have been the subject of administrative action by federal, state and local environmental authorities. See Item 8. "Financial Information—Legal Proceedings."

Greenhouse gas policies and regulations, particularly any binding restriction on emissions of greenhouse gases such as carbon dioxide, could negatively impact our steelmaking operations.

Our integrated steel making operation at Republic's Lorain, Ohio facility involves carbon and generates significant amounts of carbon dioxide (CO2), while our other steel making operations in the United States and in Mexico use electric arc furnaces where carbon dioxide generation is primarily linked to energy use. In the United States, the Environmental Protection Agency has issued rules imposing inventory and reporting obligations to which some of our facilities are subject, and has also issued rules that will affect preconstruction permits for our facilities

where increases in greenhouse gas pollutants are contemplated. The U.S. Congress has debated various measures for regulating greenhouse gas emission (such as carbon dioxide) and may enact them in the future. Such laws and regulations may also result in higher costs for coking coal, natural gas and electricity generated by carbon-based systems (such as coal-fired electric generating facilities). Canada's federal government is also considering various approaches for reducing greenhouse gas emissions, although we do not presently believe Republic's Hamilton, Ontario facility would be significantly impacted by these efforts since it is not a steel-producing facility. Such future laws and regulations, whether in the form of cap-and-trade emissions permit system, a carbon tax or other regulatory regime may have a negative effect on our operations. Additionally, international negotiations to supplement and eventually replace the 1997 Kyoto Protocol are ongoing. The outcome of these negotiations or whether any of the countries in which we operate will sign on to any resulting agreement is unknown. More stringent greenhouse gas policies and regulations could adversely affect our business and results of operations.

If we are required to remediate contamination at our facilities we may incur significant liabilities.

Certain of our U.S. facilities are currently engaged in the investigation and/or remediation of environmental contamination. Most of these investigations relate to legacy activities by prior owners. We may in the future be subject to similar investigations or required to undertake similar remediation measures at other facilities. We recognize a liability for environmental remediation when it becomes probable that such remediation will be required and the amount can be reasonably estimated. As estimated costs to remediate change, or when new liabilities become probable, we adjust the record liabilities accordingly. However, due to the numerous variables associated with the judgments and assumptions that are part of these estimates and changes in governmental regulations and environmental technologies over time, we cannot assure you that our environmental reserves will be adequate to cover such liabilities or that our environmental expenditures will not differ significantly from our estimates or materially increase in the future. Failure to comply with any legal obligations requiring remediation of contamination could result in liabilities, imposition of cleanup liens and fines, and we could incur large expenditures to bring our facilities into compliance.

We could incur losses due to product liability claims and may be unable to maintain product liability insurance on acceptable terms, if at all.

We could experience losses from defects or alleged defects in our steel products that subject us to claims for monetary damages. For example, many of our products are used in automobiles and light trucks and it is possible that a defect in one of these vehicles would result in product liability claims against us. In accordance with normal commercial sales, some of our products include implied warranties that they are free from defects, are suitable for their intended purposes and meet certain agreed upon manufacturing specifications. We cannot assure you that future product liability claims will not be brought against us, that we will not incur liability in excess of our insurance coverage, or that we will be able to maintain product liability insurance with adequate coverage levels and on acceptable terms, if at all.

Our controlling shareholder, Industrias CH, S.A.B. DE C.V., (Industrias CH) is able to exert significant influence on our business and policies and its interests may differ from those of other shareholders.

As of April 8, 2013, Industrias CH, which the chairman of our board of directors, Rufino Vigil González, controls, owned approximately 84% of our shares. Industrias CH nominated and elected all of the current members of our board of directors, and Industrias CH is in a position to exercise substantial influence and control over our business and policies, including the timing and payment of dividends. The interests of Industrias CH may differ significantly from those of other shareholders. Furthermore, as a result of the significant equity position of Industrias CH, there is currently limited liquidity in our series B shares and the ADSs.

We have had a number of transactions with our affiliates.

Historically, we have engaged in a number and variety of transactions on market terms with affiliates, including entities that Industrias CH owns or controls. We expect that in the future we will continue to enter into transactions with our affiliates, and some of these transactions may be significant.

We depend on our senior management and their unique knowledge of our business and of the SBQ industry, and we may not be able to replace key executives if they leave.

We depend on the performance of our executive officers and key employees. Our senior management has significant experience in the steel industry, and the loss of any member of senior management or our inability to attract and retain additional senior management could materially and adversely affect our business, results of operations, prospects and financial condition. We believe that the SBQ steel market is a niche market where specific industry experience is key to success. We depend on the knowledge of our business and the SBQ industry of our senior management team, including Luis Garcia Limon, our chief executive officer. In addition, we attribute much of the success of our growth strategy to our ability to retain most of the key senior management personnel of the companies and businesses that we have acquired. Competition for qualified personnel is significant, and we may not be able to find replacements with sufficient knowledge of, and experience in, the SBQ industry for our existing senior management or any of these individuals if their services are no longer available. Our business could be adversely affected if we cannot attract or retain senior management or other necessary personnel.

Our tax liability may increase if the tax laws and regulations in countries in which we operate change or become subject to adverse interpretations.

Taxes payable by companies in the countries in which we operate are substantial and include income tax, value-added tax, excise duties, profit taxes, payroll related taxes, property taxes and other taxes. Tax laws and regulations in some of these countries may be subject to change, varying interpretation and inconsistent enforcement. Ineffective tax collection systems and continuing budget requirements may increase the likelihood of the imposition of onerous taxes and penalties which could have a material adverse effect on our financial condition and results of operations. In addition to the usual tax burden imposed on taxpayers, these conditions create uncertainty as to the tax implications of various business decisions. This uncertainty could expose us to significant fines and penalties and to enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden. In addition, many of the jurisdictions in which we operate, including Mexico, have adopted transfer pricing legislation. If tax authorities impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on our financial condition and results of operations. It is possible that tax authorities in the countries in which we operate will introduce additional revenue raising measures. The introduction of any such provisions may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Any such additional tax exposure could have a material adverse effect on our financial condition and results of operations.

Risks Related to Challenging Global Economic Conditions

Global economic conditions, such as the recent financial crisis and economic recession that occurred during 2008 and 2009, may continue to significantly impact our business.

The financial crisis that began in the United States in 2008 led to a global recession in which overall economic activity decreased across the world generally and in North America in particular. The corresponding reduction in demand across the economy in general and in the automotive, construction and manufacturing sectors in particular has reduced demand for steel products in North America and globally. These economic conditions significantly impacted our business and results of operations. Although demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree, the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. If global macroeconomic conditions deteriorate, however, the outlook for steel producers would be adversely affected. It is difficult to predict the duration or severity of a new global economic downturn, or to what extent it will affect us. An unsustainable recovery and persistently weak economic conditions in our key markets could depress demand for our products and adversely affect our business and results of operations.

In addition, in 2009, the decreased demand in the construction sector had a negative impact on our San Luis facilities, since these facilities produce mostly rebar and mesh. Under MFRS, when assessing the recoverability of the goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. As of December 31, 2009, this reporting unit did not exceed its respective carrying value; therefore, we determined there was an impairment of goodwill in the amount of

Ps. 2,368 million in the Grupo San unit. Assumptions used in the analysis considered the market conditions in developing short and long-term growth expectations. If global economic conditions deteriorate, we may be required to undertake additional asset impairments.

Our end-product markets have been severely affected by the recent global recession.

We sell our products to the automotive and construction-related industries, both of which have reported substantially lower customer demand due to the recent global recession. As a result, our operating levels declined and will remain at depressed levels, compared to pre-recession levels, until demand in end-product markets increases. While some of our end-product markets, such as the automotive industry, experienced modest recoveries during 2010, 2011 and 2012 others, such as the construction industry, remain depressed. In addition to slackening demand by end consumers, we believe that some of our customers are experiencing difficulty in obtaining credit or maintaining their ability to qualify for trade credit insurance, resulting in a further reduction in purchases and an increase in our credit risk exposure. The trajectory of the recovery of these industries may have a significant impact on our results of operations.

We may face increased risks of customer and supplier defaults.

There is an increased risk of insolvency and other credit related issues of our customers, particularly those in industries that were hard hit by the recent recession, such as automotive, construction and appliance. Also, there is the possibility that our suppliers may face similar risks. This decrease in available credit may increase the risk of our customers defaulting on their payment obligations to us and may cause some of our suppliers to be delayed in filling or to be unable to fill our needs.

Because a significant portion of our sales are to the automotive industry, a decrease in automotive manufacturing could reduce our cash flows and adversely affect our results of operations.

Direct sales of products to automotive assemblers and manufacturers accounted for approximately 37% of our net sales of SBQ in 2012. Demand for our products is affected by, among other things, the relative strength or weakness of the North American automotive industry. North American industry production manufacturers have experienced significant reductions in market share to mostly Asian companies and in the past have undertaken reductions in working capacity. In addition, during the recent financial crisis and economic recession many large original equipment manufacturers and two of the largest North American automobile manufacturers sought bankruptcy protection. A reduction in vehicles manufactured in North America, the principal market for Republic’s SBQ steel products, would have an adverse effect on our results of operations. We also sell to independent forgers, components suppliers and steel service centers, all of which sell to the automotive market as well as other markets. Developments affecting the North American automotive industry may adversely affect us.

Our customers in the automotive industry continually seek to obtain price reductions from us, which may adversely affect our results of operations.

A challenge that we and other suppliers of intermediary products used in the manufacture of automobiles face is continued price reduction pressure from our customers in the automobile manufacturing business. Downward pricing pressure has been a characteristic of the automotive industry in recent years and it is migrating to all our vehicular markets. Virtually all automobile manufacturers have aggressive price reduction initiatives that they impose upon their suppliers, and such actions are expected to continue in the future. In the face of lower prices to customers, we must continue to reduce our operating costs in order to maintain profitability. We have taken and continue to take steps to reduce our operating costs to offset customer price reductions; however, price reductions are adversely affecting our profit margins and are expected to do so in the future. If we are unable to offset customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives, technology enhancements and other cost reduction initiatives, or if we are unable to avoid price reductions from our customers, our results of

operations could be adversely affected.

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Sales may fall as a result of fluctuations in industry inventory levels.

Inventory levels of steel products held by companies that purchase our products can vary significantly from period to period. These fluctuations can temporarily affect the demand for our products, as customers draw from existing inventory during periods of low investment in construction and the other industry sectors that purchase our products and accumulate inventory during periods of high investment and, as a result, these companies may not purchase additional steel products or maintain their current purchasing volume. Accordingly, we may not be able to increase or maintain our current levels of sales volumes or prices.

Risks Related to Mexico

Adverse economic conditions in Mexico may adversely affect our financial performance.

A substantial portion of our operations are conducted in Mexico and our business is affected by the performance of the Mexican economy. The recent global credit crisis and the economic recession has had significant adverse consequences on the Mexican economy, which in 2009 contracted by 6.5%, in 2010 grew by 5.5% and in 2011 and 2012 grew by 3.9%, in terms of gross domestic production. Moreover, in the past, Mexico has experienced prolonged periods of economic crises, caused by internal and external factors over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, balance of payment deficits, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the Mexican economy, or periods of negative growth, or increases in inflation may result in lower demand for our products. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial performance.

Political, social and other developments in Mexico could adversely affect our business.

Political, social and other developments in Mexico may adversely affect our business. Additionally, the Mexican government has exercised, and continues to exercise, significant influence over the economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, the regulatory framework, the social or political context, and state-owned and stated controlled entities or industries could have a significant impact on private sector companies and on market conditions, prices and returns of Mexican securities. In the past, governmental actions have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports.

Currently, no single political party has a majority in either chamber of the Mexican Congress. The absence of a clear majority and the lack of alignment between the legislature and the administration could result in deadlock and prevent the timely implementation of political and economic reforms, which in turn could have an adverse effect on Mexican economic policy. We cannot assure you that future political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations. The candidate of the *Partido Revolucionario Institucional* won the Mexican presidential elections in July 2012, we cannot assure you that any new government policies will not adversely affect our business, financial condition and results of operations.

Violence in Mexico may adversely impact the Mexican economy and have a negative effect on our financial performance.

Mexico has, in recent years, experienced a significant increase in violence relating to illegal drug trafficking and other causes. This increase in violence could have an adverse impact on economic activity in Mexico. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not have an adverse effect on the country’s economy and, as a result, on our financial performance.

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Epidemics, such as the outbreak of the H1N1 influenza, may adversely impact the Mexican economy and our financial performance.

In 2009, the Mexican government declared a state of emergency because of an outbreak of the H1N1 influenza, granting the government various powers to contain the epidemic. The government cancelled nearly all public events from April 24 to May 5, 2009. Epidemics, such as the outbreak of the H1N1 influenza, could significantly impact commercial activity as well as general economic conditions. In addition, our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could severely disrupt our operations, the sickness or death of our key officers and employees, and a general slowdown in the Mexican economy. As a result, a new epidemic could have a materially adverse effect on our financial performance.

Depreciation of the Mexican peso relative to the U.S. dollar could adversely affect our financial performance.

Depreciation of the Mexican peso relative to the U.S. dollar decreases a portion of our revenues in U.S. dollar terms, as well as increases the cost of a portion of the raw materials we require for production and any debt obligations denominated in U.S. dollars, and thereby may negatively affect our results of operations. Since the second half of 2008, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the U.S. Federal Reserve Board, during this period the exchange rate registered a low of Ps.9.91 to U.S.$1.00 in August 5, 2008, and a high of Ps.15.38 to U.S.$1.00 in March 9, 2009. In 2012 the exchange rate registered a low of Ps. 12.63 to U. S.$1.00 and a high of Ps. 14.37 to U.S.$1.00.

A severe depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to transfer to convert Mexican pesos into U.S. dollars and other currencies. While the Mexican government does not currently restrict, and since 1982 has not restricted, the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, the Mexican government could institute restrictive exchange rate policies in the future.

Currency fluctuations or restrictions on transfer of funds outside Mexico may have an adverse effect on our financial performance, and could adversely affect the U.S. dollar value of the price of our Series B shares and the ADSs.

High inflation rates in Mexico may affect demand for our products and result in cost increases.

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the Mexican Central Bank was 4.4% for 2010, 3.8% for 2011 and 3.6% for 2012. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting demand for our products, increasing certain costs beyond levels that we could pass on to consumers, and by decreasing the benefit to us of revenues earned if the inflation rate exceeds the growth in our pricing levels.

Developments in other countries could adversely affect the Mexican economy, our financial performance and the price of our shares.

The Mexican economy may, to varying degrees, be affected by economic and market conditions in other countries. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers. In recent years, for example, prices of both Mexican debt securities and equity securities decreased substantially as a result of developments in Russia, Asia and Brazil. More recently, credit issues in the United States related principally to the sale of sub-prime mortgages have resulted in significant fluctuations in global financial markets, including Mexico.

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of NAFTA, increased economic activity between the two countries, and the remittance of funds from Mexican immigrants working in the United States to Mexican residents.

Therefore, adverse economic conditions in the United States, the termination of, or modifications to, NAFTA or other related events could have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our financial performance.

Our financial statements are prepared in accordance with IFRS and therefore are not comparable to financial statements of other companies prepared under U.S. GAAP or other accounting principles.

Beginning January 1, 2011, we adopted International Financial Reporting Standards (IFRS), and its amendments and interpretations in effect as of December 31, 2012, issued by the International Accounting Standard Board (IASB); consequently, we applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*. The reconciliations and descriptions of the effects of the Company's transition from MFRS to IFRS are explained in Note 28 to our consolidated financial statements included elsewhere herein.

All Mexican companies listed on the Mexican Stock Exchange must prepare their financial statements in accordance with IFRS which differs in certain significant respects from U.S. GAAP. Accordingly, Mexican financial statements and reported earnings are likely to differ from those of companies in other countries in this and other respects.

Mexico has different corporate disclosure and accounting standards than those in the United States and other countries.

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information. However, there may be different or less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in countries with more highly developed capital markets, including the United States.

Item 4. Information on the Company

A. History and Development of the Company

Overview

We are a diversified manufacturer, processor and distributor of SBQ steel and structural steel products with production and commercial operations in the United States, Mexico and Canada. We believe that in 2011 and 2012 we were an important producer of SBQ products in both the United States and Mexico, in each case in terms of sales volume. We also believe that in 2011 and 2012 we were an important producer of structural and light structural steel products in Mexico in terms of sales volume.

Our SBQ products are used across a broad range of highly engineered end-user applications, including axles, hubs and crankshafts for automobiles and light trucks, machine tools and off-highway equipment. Our structural steel products are mainly used in the non-residential construction market and other construction applications.

We focus on the Mexican and U.S. specialty steel markets by providing high value added products and services from our strategically located plants. The quality of our products and services, together with cost benefits generated by our facility locations, has allowed us to develop long standing relationships with many of our SBQ clients, which include Mexico and U.S.-based automotive and industrial equipment manufacturers and their suppliers. In addition, our facilities located in the North West and Central parts of Mexico allow us to serve the structural steel and construction markets in those regions and South West California with an advantage in the cost of freight over competitors which do not have production facilities in such regions.

Our legal name is Grupo Simec, S.A.B. de C.V. and our commercial name for advertising and publicity purposes is Simec. We are a *sociedad anónima bursátil de capital variable*, organized under the laws of Mexico.

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We are domiciled in the city of Guadalajara, Jalisco, and our principal administrative office is located at Calzada Lázaro Cárdenas 601, Guadalajara, Jalisco, Mexico 44440. Our telephone number is 011-52-33-3770-6700.

Our History

Our steel operations commenced in 1969 when a group of families from Guadalajara, Jalisco, formed Compañía Siderúrgica de Guadalajara, S.A. de C.V. ("CSG"), a mini-mill steel company. In 1980, Grupo Sidek, S.A. de C.V. ("Sidek"), our former parent company, was incorporated and became the holding company of CSG. In 1990, Sidek consolidated its steel and aluminum operations into a separate subsidiary, Grupo Simec, S.A. de C.V., a Mexican corporation with limited liability, organized under the laws of Mexico.

In March 2001, Sidek consummated the sale of its entire approximate 62% controlling interest in our company to Industrias CH. In June 2001, Industrias CH increased its interest in us to 82.5% by acquiring additional shares from certain of our bank creditors that had converted approximately U.S.$95.4 million of our debt (U.S.$90.2 million of principal and U.S.$5.2 million of interest) into our common shares. Industrias CH subsequently increased its equity position in, us through various conversions of debt to equity and capital contributions, to an 84% interest.

In August 2004, we acquired the property, plant and equipment and the inventories, and assumed liabilities associated with the seniority premiums of employees, of the Mexican steel-making facilities of Industrias Ferricas del Norte S.A. (Corporacion Sidenor of Spain, or "Grupo Sidenor") located in Apizaco, Tlaxcala and Cholula, Puebla. We refer to this acquisition as the "Atlax Acquisition." Our total net investment in this transaction was approximately U.S.$122 million (excluding value added tax of approximately U.S.$16 million paid in 2004 and recouped from the Mexican government in 2005), funded with cash from operations, and a U.S.$19 million capital contribution from Industrias CH.

In July 2005, we and Industrias CH acquired 100% of the capital stock of Republic, a U.S. producer of SBQ steel. We acquired 50.2% of Republic's stock through our majority owned subsidiary, SimRep, and Industrias CH purchased the remaining 49.8% through SimRep. We financed our portion of the U.S.$245 million purchase price principally through a loan we received from Industrias CH that we have repaid in full.

On October 9, 2006 we sold our share ownership in Administradora de Cartera de Occidente, S.A. de C.V. ("ACOSA"). ACOSA engages in the recovery of non-performing loans acquired pursuant to a public bidding process conducted by the Instituto de Protección al Ahorro Bancario in Mexico.

On November 24, 2007 we purchased 99.95% of the shares of three subsidiaries of Grupo TMM S.A de C.V. These three subsidiaries were TMM América, S.A. de C.V., TMM Continental, S.A. de C.V. and Mutimodal Doméstica, S.A. de C.V. Following the purchase, these companies have engaged in marketing steel. In February 2008, the names of these three companies were changed to CSG Comercial, S.A. de C.V., Comercializadora de Productos de Acero de Tlaxcala, S.A. de C.V. and Siderúrgica de Baja California, S.A. de C.V.

In 2007, the board of directors of CSG decided to spin-off CSG. CSG conveyed 87.4% of its stockholders equity to Tenedora CSG, S.A. de C.V, as the spun-off company. This corporate restructuring did not have a material effect on our consolidated financial statements.

On May 30, 2008, we acquired all the capital stock of Aceros DM and certain affiliated companies ("Grupo San") for a total cost of approximately Ps. 8,730 million (U.S.$844 million). Grupo San is a long products steel mini-mill and the second-largest corrugated rebar producer in Mexico. Grupo San's operations are based in San Luis Potosí, Mexico. Its plants and 1,450 employees produce 700 thousand tons of finished products annually.

On July 29, 2008, the company acquired 100% of the shares of Aroproc, S. A. de C. V., Del-Ucral, S. A. de C. V., Qwer, S. A. de C. V. and Transporte Integral Doméstico, S.A. de C.V., subsidiaries of Grupo TMM, S. A. de C. V., to convert them into the operating manager of the iron and steel plants located in Mexico. On July 30 2008, these companies were renamed to Promotora de Aceros San Luis, S. A. de C. V., Comercializadora Aceros DM, S.A. de C.V., Comercializadora Msan, S.A. de C.V. and Productos Siderúrgicos de Tlaxcala, S.A. de C.V. respectively.

On December 26, 2008, the company acquired 99.95% of the shares of Northarc Express, S. A. de C. V., a subsidiary corporation of Grupo TMM, S. A. de C. V., to convert this company into the operating manager of iron and steel plants located in Mexico. On January 6, 2009, this company changed its name to Simec International 2, S. A. de C. V.

On February 5, 2009, Simec International 2, S.A. de C.V. divested assets and liabilities to three new wholly owned Mexican subsidiaries. As a consequence of such reorganization, Simec International 3, S.A. de C.V. now operates the Tlaxcala and Puebla facilities, Simec International 4, S.A. de C.V. and Simec International 5, S.A. de C.V jointly operate the San Luis de Potosí facilities, and Simec International 2, S.A. de C.V. kept the operation of the Guadalajara and Mexicali facilities.

In 2009 we incorporated two new wholly owned subsidiaries. Simec Acero, S.A. de C.V. distributes all Grupo Simec products in Mexico and Simec USA, Corp. is responsible for all export sales of our Mexican companies.

On May 12, 2009, we incorporated Pacific Steel Projects, Inc., a wholly owned subsidiary organized under the laws of the State of California whose purpose is to develop technology improvement projects for our Mexican facilities.

On August 10, 2009, Simec International, S.A. de C.V. divested assets and liabilities to four new wholly owned Mexican subsidiaries named Siminsa A, S.A. de C.V., Siminsa B, S.A. de C.V., Siminsa C, S.A. de C.V. and Siminsa D, S.A. de C.V. After the divesture, Siminsa A was merged into Simec International 2, Siminsa B was merged into Simec International 3, Siminsa C was merged into Simec International 4 and Siminsa D was merged into Simec International 5.

On November 10, 2009, Simec International 2, Simec International 3, Simec International 4 and Simec International 5 divested assets and liabilities to Simec Steel, Inc., a new wholly owned subsidiary organized under the laws of the State of California whose purpose is to provide financing to the Mexican companies of the group and to seek new investment opportunities.

On May 31, 2010 Arrendadora Simec, S. A. de C. V. divested assets, liabilities and equity to our subsidiary Corporacion ASL, S. A. de C. V. which assumed the operation of Arrendadora Simec, S. A. de C. V.

On June 28, 2010, our subsidiary Simec International 6, S. A. de C. V., whose purpose is to produce steel, was constituted. Simec International 6, S. A. de C. V. begun operations in November of 2010.

On June 30, 2010, Simec International, S. A. de C. V., divested assets and equity to our subsidiary Simec International 7, S. A. de C. V. Among the assets transferred the shares of Aceros DM were included.

On September 3, 2010 we formed a Brazilian entity denominated GV do Brazil Indústria e Comércio de Aço Ltda. On august 5, 2011 we acquired 1,300,000 square meters of land on Pindamonhangaba, São Paulo State, Brazil, and paid U.S.$8 million for the construction of a new steel facility. The total budget for the project will be U.S.$236 million, with U.S.$171 million paid by us and U.S.$65 million provided as foreign investment incentives granted by the Brazilian Government. The facility will have a production capacity of 520,000 tons of billet and 400,000 tons of finished goods of rebar and wire, and will have 800 employees.

On October 21, 2010 in the Extraordinary Shareholders Meeting of Arrendadora Simec S.A. de C.V. the dissolution of the company was approved.

On November 2, 2010, we acquired 100% of the shares of Lipa Capital, LLC. The total cost of this acquisition was of Ps. 187 million (U.S.$15.2 million). On December 9, 2010, Lipa Capital, LLC merged to Simec International 6, S. A. de C. V.

On February 3, 2011 the company, through two of its wholly owned subsidiaries (Solon Wire Processing LLC, and the newly formed Republic Memphis LLC) acquired certain plants, machinery and equipment from BCS

Industries LLC and affiliates ("Bluff City Steel"), which was a customer and vendor of the company. For these assets the company paid U.S.$2.5 million in cash and forgave approximately U.S.$6 million due by Bluff City Steel to the company.

On May 2, 2011 in Extraordinary Shareholders Meetings of Acero Transportes S.A. de C.V. and Acero Transportes San S.A. de C.V. (subsidiaries of Grupo San), authorized the merger two subsidiaries, whereby Acero Transportes S.A. de C.V. was merged into Acero Transportes San S.A. de C.V.

On May 20 and October 3, 2011 in Extraordinary Shareholders Meetings, Simec International 2, S.A. de C.V., Simec International 3 S.A. de C.V., Simec International 4 S.A. de C.V. and Simec International 5 S.A. de C.V., changed their address and tax authority to report to the State of California, USA, transforming them into incorporated companies in accordance with the laws and regulations of the State of California, USA.

On May 31, 2011 we sold our shares in Arrendadora del Norte de Matamoros S.A. de C.V. to Perfiles Comerciales Sigosa, S.A. de C.V. (subsidiary of ICH) for Ps. 42.5 million, paid in cash.

On September 1, 2011 in their respective Extraordinary Shareholders Meetings, Procesadora Industrial San S.A. de C.V. and Malla San S.A. de C.V. (subsidiaries of Grupo San) the merger of Procesadora Industrial San S.A. de C.V. into Mall San S.A. de C.V. was authorized.

On November 2011, we entered into an agreement with an unrelated third-party "purchaser" for the factoring of specific accounts receivable in order to increase our working capital required to fund such receivables. The agreement has an initial term of one year and is automatically extended for additional periods of one year each unless either party provides written notice of cancellation. On the sale date, the purchaser advances funds to the company equivalent to 80% of the value of the company's receivables. The maximum amount of outstanding advances related to the assigned receivables is U.S.$30 million. Proceeds on the transfer reflect the face value of the account less a discount. The remaining amount between the receivable balance and the advance is held in reserve by the purchaser. Payment of the funds held in reserve less a discount fee are made by the purchaser within four days of receipt of payment on collection of funds related to each assigned receivable. The discount fee, which generally ranges from 1% if paid within 30 days (of the advance date) to 3.75% if paid within 90 days, is recorded as a charge to interest expense in the income of the period of the sale. The purchaser shall have no recourse against the company if payments are not received due to insolvency of an account debtor within 120 days of the invoice date. However, while the transaction calls for the sale, assignment, transfer and conveyance from us to the purchaser of all rights, title and interests in the selected accounts receivable, the purchaser may return and redeem the purchase price of any receivable not paid to the purchaser within 90 days of purchase for any reason other than insolvency of the account debtor. As collateral for the repayment of advances for receivables sold, the purchaser has a priority security interest in all our accounts receivable (as defined by the Uniform Commercial Code of the USA). For the years ended December 31, 2012 and 2011, we sold a face amount of U.S. $31.2 million and U.S.$11.0 million, respectively, of accounts receivables to the purchaser. Discount fees incurred by us pursuant to this agreement were approximately U.S. $0.5 million and U.S.$0.2 million for the year ended December 31, 2012 and 2011, respectively. There were US $2.6 million and US$ 0.9 million of accounts receivable that had been factored but which had not been collected by the purchaser at December 31, 2012 and 2011, respectively, and therefore was subject to charge-back to us.

On December 30, 2011 Simec International 7, S.A. de C.V. sold to Corporación ASL S.A. de C.V. all of its shares in Corporación Aceros DM, S.A de C.V., comprising of a total of 627,305,446 shares (99.9% of the common stock) for a value of Ps. 3,200 million, comprised of a down payment of Ps. 63 million and the remaining of Ps. 3,137 million due on April 30, 2012. This transaction generated a tax loss of Ps.7,860 million which amount under Mexican Tax Law (*Ley de Impuesto Sobre la Renta*), may be deducted against future gains related to dispositions of securities. On January 30, 2012 Simec International 7, S.A. de C.V. filed a demand challenging the current law, which limits the deduction of this net loss related to shares sales.

On August 1, 2012 in their respective extraordinary shareholders meetings of Abastecedora Siderúrgica, S.A. de C.V. and Aceros DM, S.A. de C.V. (subsidiaries of Grupo San) the merger of both companies was authorized, whereby Abastecedora Siderúrgica, S.A. de C.V. was merged into Aceros DM, S.A. de C.V.

On October 8, 2012 in their respective extraordinary shareholders meetings of Simec Steel, Inc., Simec International 2, Inc., Simec International 3, Inc. and Simec International 4, Inc., the merger of three subsidiaries was authorized, whereby Simec International 2, Inc., Simec International 3, Inc., Simec International 4, Inc. were merged into Simec Steel, Inc.

On October 30, 2012, we and Corporacion ASL, S.A. de C.V. (subsidiary of Simec) purchased shares of a company called Orge S.A. de C.V. (Orge) for Ps. 27 million, on that same date, Corporacion ASL, S.A. de C.V. made a capital increase of Ps. 67 million, which proceeds were used for the payment of an outstanding liability of Orge. The shares acquired correspond to one share of Class "I", "B" series, which represents 0.01% of the shares of such class, and 53,564,127 shares of Class "II", "L" series, which represent 100% of the shares of such class. These shares are without par value and shares of Class "II" are restricted and confer limited voting rights and no power to appoint the management of the company, however the Board of Directors is comprised exclusively of officers and shareholders of Grupo Simec, S.A.B. de C.V., therefore, from that date on, we consolidate the financial statements of Orge. Orge was incorporated on July 19, 2012 through a split and tax losses of Ps. 498 million were transferred. Before we acquired the shares, Orge had a loss on the sale of certain securities that will carry a tax loss of Ps. 1,700 million. Orge is engaged in the production of steel and began operating in October 2012.

Principal Capital Expenditures

We continually seek to improve our operating efficiency and increase sales of our products through capital investments in new equipment and technology. These capital expenditures are financed primarily with funds that we segregate monthly from the results of operations generated by each facility.

We currently estimate capital expenditures for the year 2013 will be approximately Ps. 3,620.3 million (U.S.$278.7 million), consisting of Ps. 618.4 million (U.S.$47.6 million) of estimated capital expenditures in our Republic facilities, Ps. 522.3 million (U.S.$40.2 million) of capital expenditures in our facilities in Mexico and Ps. 2,479.6 (U.S.$190.9 million) for the construction of a new steel facility in Brazil. Nevertheless, this estimate is subject to certain uncertainties and actual capital expenditures in 2013 may differ significantly from such estimate.

In 2012, we spent Ps. 366.2 million (U.S.$28 million) on capital investments for Republic’s facilities, including Ps. 234.8 million (U.S.$18 million) at the Lorain, Ohio facility, Ps. 7.6 million (U.S.$0.6 million) at the Lackawanna, New York facility, Ps. 104.9 million (U.S.$8 million) at the Canton, Ohio facility, Ps. 12 million (U.S.0.9 million) at our corporate location in Ohio, Ps. 0.2 million (U.S.$.01 million) at the Gary, Indiana facility, Ps. 5.5 million (U.S.0.4 million) at the Solon, Ohio facility, and Ps. 1.2 million (U.S.$0.09 million) at the Hamilton, Ontario, Canada facility. We spent Ps. 344.8 million (U.S.$26.5 million) on capital improvements at our facilities in Mexico, including Ps. 120.7 million (U.S.$9.3 million) at the Apizaco facility, Ps. 28.8 million (U.S.$2.2 million) at the Mexicali facility, Ps. 25 million (U.S.$1.9 million) at the Guadalajara facility, and Ps. 170.3 million (U.S.$13.1 million) at the San Luis facilities. We also spent Ps. 592.9 million (U.S.$45.6 million) in the construction of a new steel facility on Pindamonhangaba, Sao Paulo State, Brazil, and is estimated to become operational in December 2013.

In 2011, we spent Ps. 164.3 million (U.S.$13.1 million) on capital investments for Republic’s facilities, including Ps. 9 million (U.S.$0.7 million) at the Lorain, Ohio facility, Ps. 11.8 million (U.S.$0.9 million) at the Lackawanna, New York facility, Ps. 16.5 million (U.S.$1.3 million) at the Canton, Ohio facility, Ps. 0.7 million (U.S.$0.05 million) at the Massillon, Ohio facility, Ps. 19.4 million (U.S.1.6 million) at our corporate location in Ohio, Ps. 0.5 million (U.S.$.05 million) at the Gary, Indiana facility, Ps. 104.1 million (U.S.8.3 million) at the Solon, Ohio and Memphis, Tennessee facilities in connection with the acquisition of the fixed assets of Bluf City Steel, as described in Note 3(d) of our consolidated financial statements, and Ps. 2.3 million (U.S.$0.2 million) at the Hamilton, Ontario, Canada facility. We spent Ps. 146.6 million (U.S.$11.7 million) on capital improvements at our facilities in Mexico, including Ps. 74.2 million (U.S.$5.9 million) at the Apizaco facility, Ps. 2.3 million (U.S.$0.2 million) at the Mexicali facility, Ps. 18.5 million (U.S.$1.5 million) at the Guadalajara facility, and Ps. 51.6 million (U.S.$4.1 million) at the San Luis

facilities. We also spent Ps. 121.1 million (U.S.$9.7 million) in the acquisition of 1,300,000 square meters of land and other investments for the construction of a new steel facility on Pindamonhangaba, Sao Paulo State, Brazil, which facility is in the process of construction and is estimated to become operational in August 2013.

In 2010, we spent Ps. 60 million (U.S.$4.9 million) on capital investments for Republic's facilities, including Ps. 5 million (U.S.$0.4 million) at the Lorain, Ohio facility, Ps. 41 million (U.S.$3.4 million) at the Lackawanna, New York facility, Ps. 10 million (U.S.$0.8 million) at the Canton, Ohio facility, Ps. 1 million (U.S.$0.1 million) at the Massillon, Ohio facility and Ps. 3 million (U.S.$0.2 million) at the Hamilton, Ontario, Canada facility. We also spent Ps. 436 million (U.S.$35.3 million) on capital improvements at our facilities in Mexico, including Ps. 197 million (U.S.$15.9 million) at the Apizaco facility, Ps. 2 million (U.S.$0.2 million) at the Mexicali facility, Ps. 8 million (U.S.$0.6 million) at the Guadalajara facility, and Ps. 229 million (U.S.$18.6 million) at the San Luis facilities.

B. Business Overview

In the United States and Mexico, we own and operate fourteen state-of-the-art steel making, processing and/or finishing facilities with a combined annual crude steel installed production capacity of 4.8 million tons and a combined annual installed rolling capacity of 3.8 million tons. We operate both mini-mill and integrated steel making facilities, which give us the flexibility to optimize our production and reduce production costs based on the relative prices of raw materials (e.g., scrap for mini-mills and iron ore for blast furnace).

We currently own and operate:

- a mini-mill in Guadalajara, Jalisco;
- a mini-mill in Mexicali, Baja California Norte;
- a mini-mill in Apizaco, Tlaxcala;
- a cold finishing facility in Cholula, Puebla;
- two mini-mills in San Luis Potosí, San Luis Potosí, Mexico and
- a mini mill in Canton, Ohio, an integrated facility in Lorain, Ohio and value-added rolling and finishing facilities in Lorain and Massillon, Ohio; Lackawanna, New York; Gary, Indiana; Memphis, Tennessee, Solon, Ohio and Hamilton, Ontario, all of which we own through our majority-owned subsidiary, Republic.

In 2012, we had net sales of Ps. 29.5 billion, gross profit of Ps. 3.6 billion and net income of Ps. 2.0 billion. In 2012, approximately 45.3% of our consolidated sales were in the United States and Canada, approximately 53.3% were in Mexico, and approximately 1.4% were exports to other markets outside North America.

Business Strategy

We seek to further consolidate our position as a leading producer, processor and distributor of SBQ steel in North America and structural steel in Mexico. We also seek to expand our presence in the steel industry by identifying and pursuing growth opportunities and value enhancing initiatives. Our strategy includes:

Improving our cost structure.

We are continuing working to reduce our operating cost and non-operating expenses and plan to continue to do so by reducing overhead expenses and operating costs through sharing best practices among our operating facilities and maintaining a conservative capital structure.

Focusing on high margin and value-added products.

We prioritize the production of high margin steel products over volume and utilization levels. We plan to continue to base our production decisions on achieving relatively high margins.

Building on our strong customer relationships.

We intend to strengthen our long-standing customer relationships by maintaining strong customer service and proactively responding to changing customer needs.

Pursuing strategic growth opportunities.

We have successfully grown our business by acquiring, integrating and improving under-performing operations. In addition, we intend to continue to pursue acquisition opportunities that will allow for disciplined growth of our business and value creation for our shareholders. We also intend to pursue organic growth by reinvesting the cash generated by our operating activities to expand the capacity and increase the efficiency of our existing facilities.

Our Products

We produce a wide range of value-added SBQ steel, long steel and medium-sized structural steel products. In our Mexican facilities, we produce I-beams, channels, structural and commercial angles, hot rolled bars (round, square and hexagonals), flat bars, rebars, cold finished bars and wire rods. In our U.S. facilities, we produce hot rolled bars, cold finished bars, semi-finished tube rounds and other semi-finished trade products. The following is a description of these products and their main uses:

- *I-beams*. I-beams, also known as standard beams, are “I” form steel structural sections with two equal parallel sides joined together by the center with a transversal section, forming 90º angles. We produce I-beams in our Mexican facilities and they are mainly used by the industrial construction sector as structure supports.
- *Channels*. Channels, also known as U-Beams because of their “U” form, are steel structural sections with two equal parallel sides joined together by its ends with a transversal section, forming 90º angles. We produce channels in our Mexican facilities and they are mainly used by industrial construction sector as structure supports and for stocking systems.
- *Angles*. Angles are two equal sided sections joined by their ends with a 90º angle, in an “L” form. We produce angles in our Mexican facilities and they are used mainly by the construction and furniture industries as joist structures and framing systems.
- *Hot rolled bars*. Hot rolled bars are round, square and hexagonal steel bars that can be made of special or commodity steel. The construction, auto part and furniture industries mainly use the round and square bars. The hexagonal bars are made of special steel and are mainly used by the hand tool industry. We produce the steel sections in our Mexican and U.S. facilities.
- *Flat bars*. Flat bars are rectangular steel sections that can be made of special or commodity steel. We produce flat bars at our Mexican facilities. The auto part industry mainly uses special steel as springs, and the construction industry uses the commodity steel flat bars as supports.
- *Rebar*. Rebar is reinforced, corrugated round steel bars with sections from 0.375 to 1.5 inches in diameter, and we produced rebar our Mexican facilities. Rebar is only used by the construction industry to reinforce concrete. Rebar is considered a commodity product due to its general acceptance by most consumers of industry standard specifications.
- *Cold-finished bars*. Cold-finished bars are round and hexagonal SBQ steel bars transformed through a diameter reduction process. This process consists of (1) reducing the cross sectional area of a bar by drawing the material through a die without any pre-heating or (2) turning or “peeling” the surface of the bar. The process changes the mechanical properties of the steel, and the finished product is accurate to size, free from scale with a bright surface finish. We produce these bars in our Mexican, U.S. and Canadian facilities, and mainly the auto part industry uses them.

- *Semi-finished tube rounds*. These are wide round bars used as raw material for the production of seamless pipe. The semi-finished tube rounds are made of SBQ steel, and we produce them in our U.S. facilities. Seamless pipe manufacturers use them to produce pipes used in the oil extraction and construction industries.

The following table sets forth, for the periods indicated, our sales volume for basic steel products.

Steel Product Sales Volume

	Years ended December 31,		
	2010	**2011**	**2012**
	(thousands of tons)		
I-Beams	O0.3	O2.8	77.7
Channels	N6.8	N2.1	66.9
Angles (1)	I67.6	I59.3	152.1
Hot-rolled bars (round, square and hexagonal rods)	926.2	954.5	871.7
Flat bar	91.5	I01.0	97.9
Rebar	M33.1	M36.4	627.5
Cold finished bars	I66.5	I81.2	192.0
Other semi-finished trade products (2)	N7.5	O2.9	42.1
Electro-Welded wire mesh	L7.8	J2.1	18.9
Wire rod	N3.0	K7.7	21.4
Electro-Welded wire mesh panel	H.0	K4.5	26.9
Other	40.8	54.2	66.6
Total steel sales	2,241.1	2,288.7	2,261.7

(1) Includes structural angles and commercial angles.

(2) Includes billets and blooms (wide section square and round bars).

Sales and Distribution

We sell and distribute our steel products throughout North America. We also export steel products from Mexico to Central and South America and Europe. In 2012, approximately 49.1% of our steel product sales represented SBQ steel products, of which we sold 37% to the auto part industry, 33% to service centers, 1% for hand tools, 2% for mining equipment and the remaining 27% to other industries.

In 2012, direct sales to the automotive industry decreased by 2% compared to 2011. In 2011, direct sales to the automotive industry decreased by 7% compared to 2010. In 2010, direct sales to the automotive industry increased by 40% compared to 2009. The collapse of the energy market had the largest impact on our business as the energy market accounted for 22% of our sales of SBQ steel products in 2008 and less than 1% in 2009 as sales dropped by U.S.$350 million to US Steel alone. In 2010, we did not record any sales to this sector and in 2011 and 2012 sales to the energy sector accounted 0.4% and 0.9%, respectively, of our sales of SBQ steel products.

The following table sets forth, for the periods indicated, our Mexico, U.S. and Canada product sales as a percentage of our total product sales.

Steel Product Sales By Region

Mexico	United States, Canada and Other Countries

	Years ended December 31,					
	2010	2011	2012	2010	2011	2012
I-Beams	95%	97%	96%	5%	3%	4%

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	Mexico			United States, Canada and Other Countries		
	Years ended December 31,					
	2010	2011	2012	2010	2011	2012
Channels	59 %	55 %	50 %	41 %	45 %	50 %
Angles	78 %	76 %	75 %	22 %	24 %	25 %
Hot-rolled bars (round, square and hexagonal rods)	25 %	28 %	29 %	75 %	72 %	71 %
Rebar	96 %	97 %	100%	4 %	3 %	—
Flat bar	88 %	88 %	78 %	12 %	12 %	22 %
Cold drawn finished bars	27 %	42 %	46 %	73 %	58 %	54 %
Other semi-finished trade products	—	—	—	100%	100%	100%
Electro-Welded wire mesh	100%	100%	100%	—	—	—
Wire rod	99 %	98 %	100%	1 %	2 %	—
Electro-Welded wire mesh panel	—	100%	100%	—	—	—
Other	100%	12 %	37 %	—	88 %	63 %
Total (weighted average)	55 %	56 %	60 %	45 %	44 %	40 %

During 2012, approximately 35% of our sales by volume came from the U.S. market, with almost 100% of such sales representing SBQ products. The Mexican market represents approximately 65% of our sales by volume, with SBQ products representing approximately 22% of such sales and the remainder representing commercial steel products.

Approximately 60% of our sales in the United States and Canadian markets come from contractual long-term agreements that establish minimum quantities and prices, which are adjustable based on fluctuations of prices of key production materials. The remainder of our sales in the United States and Canadian markets are spot sales either directly to end customers through our sales force or through independent distributors. We sell to customers in the United States and Canadian markets through a staff of professional sales representatives and sales technicians located in the major manufacturing centers of the Midwest, Great Lakes and Southeast regions of the United States.

We sell to the Mexican market through a group of approximately 100 independent distributors, who also carry other steel companies' product lines, and through our wholly-owned distribution center in Guadalajara. Our sales force and distribution center are an important source of information concerning customer needs and market developments. By working through our distributors, we believe that we have established and can maintain market leadership with small-and mid-market end-users throughout Mexico. We believe that our domestic customers are highly service-conscious.

We distribute our exports outside North America primarily through independent distributors who also carry other product lines. In addition, we have three full-time employees in Mexico dedicated exclusively to exports.

During 2012 and 2011, we received orders for our products in our Mexican facilities on average approximately two weeks before producing those products. We generally fill orders for our U.S. and Canadian SBQ steel products within one to 12 weeks of the order depending on the product, customer needs and other production

requirements. Customer orders are generally cancelable without penalty prior to finishing size rolling and depending on customers' changing production schedules. Accordingly, we do not believe that backlog is a significant factor in our business. A substantial portion of our production is ordered by our customers prior to production. We cannot assure you that significant levels of preproduction sales orders will continue.

In our Republic plants, we have long term relationships with most of our major customers, in some cases for 10 to 20 years or longer. Our major direct and indirect customers include: leading automotive and industrial equipment manufacturers General Motors Corporation, Ford Motor Company, Chrysler LLC, Honda of America MFG, Inc. and Caterpillar Inc.; first tier suppliers to automotive and industrial equipment manufacturers such as American Axle & Manufacturing Holdings, Inc., ArvinMeritor, Inc., NTN Driveshaft, Inc., TRW Automotive Holdings Corp. and Hephaesus Holding Inc.; service centers which include AM Castle & Co., Earle M. Jorgensen Co., Thyssen Krupp Gerlach Company and Eaton Steel Bar Company; and tubular product manufacturer, U.S. Steel.

Our U.S. and Canadian facilities are strategically located to serve the majority of consumers of SBQ products in the United States. Our U.S. and Canadian facilities ship products between their mills and finished products to customers by rail and truck. Customer needs and location determine the type of transportation used for deliveries. The proximity of our rolling mills and cold finishing plants to our U.S. customers allows us to provide competitive rail and truck freight rates and flexible deliveries in order to satisfy just-in-time and other customer manufacturing requirements. We believe that the ability to meet the product delivery requirements of our customers in a timely and flexible fashion is a key to attracting and retaining customers as more SBQ product consumers reduce their in-plant raw material inventory. We optimize freight costs by using our significantly greater scale of operations to maintain favorable transportation arrangements, continuing to combine orders in shipments whenever possible and "backhauling" scrap and other raw materials.

Competition

Competition in the steel industry is significant. Competition in the steel industry exerts a downward pressure on prices, and, due to high start-up costs, the economics of operating a steel mill on a continuous basis may encourage mill operators to establish and maintain high levels of output even in times of low demand, which further decreases prices and profit margins. The recent trend of consolidation in the global steel industry may further increase competitive pressures on independent producers of our size, particularly if large steel producers formed through consolidations, which have access to greater resources than us, adopt predatory pricing strategies that decrease prices and profit margins. If we are unable to remain competitive with these producers, our profitability and market share would likely be materially and adversely affected.

A number of our competitors in the United States, Canada and Mexico have undertaken modernization and expansion plans, including the installation of production facilities and manufacturing capacity for certain products that compete with our products. As these producers become more efficient, we will face increased competition from them and may experience a loss of market share. In each of Mexico, the United States and Canada we also face competition from international steel producers. Increased international competition, especially when combined with excess production capacity, would likely force us to lower our prices or to offer increased services at a higher cost to us, which could materially reduce our profit margins.

Mexico

We compete in the Mexican domestic market and in its export markets for non-flat steel products primarily on the basis of price and product quality. In addition, we compete in the domestic market based upon our responsiveness to customer delivery requirements. The flexibility of our production facilities allows us to respond quickly to the demand for our products. We also believe that the geographic locations of our various facilities throughout Mexico and variety of products help us to maintain our competitive market position in Mexico and in the southwestern United States. We

believe that our Mexicali mini-mill, one of the closest mini-mills to the southern California market, is competitive in terms of production and transportation costs in northwestern Mexico and southern California.

We believe that our competitors' closest plants to the southern California market are: Nucor Steel, located in Plymouth, Utah; Schnitzer Steel (Cascade), located in McMinnville, Oregon; Oregon Steel (Rocky Mountain

Steel Mills), located in Pueblo, Colorado; Tamco Steel, located in Rancho Cucamonga, California; and Grupo Villacero (Border Steel), located in El Paso, Texas. We believe that we have an advantage over certain competitors due to the labor cost in our Mexican operations.

We believe that in 2012 and 2011 we were the sole Mexican producer of 5 inch, 6 inch and 200 mm I-beams, and that during such period there was one other producer of 4-inch I-beams. These products accounted for approximately 73,028 tons, or approximately 3.2%, and approximately 69,600 tons, or approximately 3%, of our total finished product sales in 2012 and 2011, respectively. The revenue that we derived from I-beam products represented approximately 3% and 2.4% of our net sales in 2011 and 2012, respectively.

In 2012, we sold approximately 205,935 tons of I-beams, channels and angles at least three inches in width (including the 73,028 tons of I-beams described above) which represented approximately 9% of our total finished product sales for the year. In 2011, we sold approximately 196,946 tons of I-beams, channels and angles at least three inches in width (including the 69,600 tons of I-beams described above) which represented approximately 9% of our total finished product sales for the year. We believe that the domestic competitors in the Mexican market for structural steel are Altos Hornos de Mexico, S.A. de C.V. (“Ahmsa”), Siderúrgica del Golfo, S.A. de C.V. (a wholly-owned subsidiary of Industrias CH), Aceros Corsa, S.A. de C.V. (“Corsa”) and Gerdão, S.A. We estimate that our share of Mexican production of structural steel was 49% in 2012 and 53% in 2011, according with information provided by the *Cámara Nacional de la Industria y del Acero* (CANACERO).

In 2012, we sold approximately 1,165,632 tons of hot rolled and cold finished steel bars and 1,133,574 tons in 2011. Our other major product lines are rebar and light structural steel (angles less than three inches in width and flat bar), for which our share of domestic production was 18% and 24%, respectively, in 2012 and 16% and 53%, respectively, in 2011. Rebar and light structural steel together accounted for approximately 718,194 tons, or 32%, of our total production of finished steel products in Mexico and the United States in 2012. Rebar and light structural steel together accounted for approximately 743,243 tons, or 32%, of our total production of finished steel products in Mexico and the United States in 2011. We compete in the Mexican market with a number of producers of these products, including Ahmsa, Hylsamex, S.A. de C.V., Sicartsa, S.A. de C.V., Corsa, Aceros Tultitlán, S.A. de C.V., Commercial Metals Inc., Belgo Mineira Aceralia Perfiles Bergara, S.A., Chaparral Steel Company, Deacero, S.A. de C.V., Talleres y Acero, Nucor Corporation and Bayou Steel Corporation.

We believe that we have been able to maintain our domestic market share and profitable pricing levels in Mexico in part because the central Mexico sites of the Guadalajara, Apizaco, Cholula and San Luis facilities afford us cost advantages relative to certain U.S. producers when shipping to customers in central and southern Mexico, and our flexible production facility has given us the ability to ship specialty products in relatively small quantities with short lead times. The Mexicali mini-mill has helped to increase sales in northwestern Mexico and the southwestern United States because its proximity to these areas reduces our freight costs.

United States and Canada

In the United States and Canada, we compete primarily with both domestic SBQ steel producers and importers. Our U.S. domestic competition for hot-rolled engineered bar products is both large U.S. domestic steelmakers and specialized mini-mills. Non-U.S. competition may impact segments of the SBQ market, particularly where certifications are not required, and during periods when the U.S. dollar is strong compared with foreign currencies.

The principal areas of competition in our markets are product quality and range, delivery reliability, service and price. Special chemistry and precise processing requirements characterize SBQ steel products. Maintaining high standards of product quality, while keeping production costs low, is essential to our ability to compete in our markets. The ability of a manufacturer to respond quickly to customer orders currently is, and is expected to remain, important as customers continue to reduce their in-plant raw material inventory.

We believe our principal competitors in the United States market, depending on the product, include Nucor Corporation, Niagara LaSalle, Arcelor Mittal, Charter Steel, Steel Dynamics, Inc., The Timken Company and Gerdau Macsteel.

Certifications

ISO is a worldwide federation of national standards bodies which have united to develop internationally accepted standards so that customers and manufacturers have a system in place to provide a product of known quality and standards. The standards set by ISO cover every facet of quality from management responsibility to service and delivery. We believe that adhering to the stringent ISO procedures not only creates efficiency in manufacturing operations, but also positions us to meet the strict standards that our customers require. We are engaged in a total quality program designed to improve customer service, overall personnel qualifications and team work. The facilities at Apizaco and Cholula have received ISO 9001:2000 certification from International Quality Certifications covering the period January 19, 2007 to July 18, 2010. This certification was renewed in January 2013 and will expire on March 11, 2016. We are in the process of obtaining the ISO/TS 16949 certification.

Five of the Republic Steel plants are certified to ISO/TS 16949; Canton, Lorain, Lackawanna, Massillon and Hamilton. The plants in Gary and Solon are certified to ISO 9001. The ISO/TS 16949:2009 standard, developed by the International Automotive Task Force, is the result of the harmonization of the supplier quality requirements of vehicle manufacturers worldwide and provides for a single quality management system of continuous improvement, defect prevention and reduction of variation and waste in the supply chain. It places greater emphasis on management's commitment to quality and customer focus. ISO 9001 is a set of international quality control standards for management and practices.

Our Republic facilities are currently ISO 14001 and OHSAS 18001 certified except for the Solon plant. Through these certifications, Republic's Environmental, Health & Safety Management System is structured upon training, communication, employee participation, document control, objective and target setting, and management's periodic reviews to implement our commitments to environmental protection and providing a safe and clean workplace. Most of the automotive customers of our Republic facilities require ISO 14001 certification, however, OHSAS 18001 is voluntary. The current ISO 14001 certification is effective until November 2013. The OHSAS 18001 certification is effective through February 2015.

Raw Materials

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and significant increases in raw material prices could adversely affect our profit margins. During periods when prices for scrap metal, iron ore, ferroalloys, coke and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw materials costs to customers by means of price increases. For example, prices of scrap metal increased approximately 34% in 2010, 21% in 2011 and 1% in 2012; and prices of ferroalloys increased approximately 22% in 2010 and 10% in 2011 and decreased approximately 10% in 2012. We may not be able to pass along these and other cost increases in the future and, therefore, our profitability may be materially and adversely affected. Even when we can successfully increase our prices, interim reductions in profit margins frequently occur due to a time lag between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that our customers will agree to pay increased prices for our steel products that compensate us for increases in our raw material costs.

We purchase our raw material requirements either in the open market or from certain key suppliers. We cannot assure you that we will be able to continue to find suppliers of these raw materials in the open market, that the prices of these materials will not increase or that the quality will remain the same. In addition, if any of our key suppliers fails to deliver or we fail to renew our supply contracts, we could face limited access to some raw materials, or higher costs and delays resulting from the need to obtain our raw materials requirements from other suppliers.

In 2012, our cost of sales in Mexico, as a percentage of sales in Mexico, was 79%, compared to our U.S. operations where our cost of sales, as a percentage of sales in the United States, was 99%, and our consolidated cost of sales, as a

percentage of consolidated sales, was 88%. The higher cost of sales of Republic facilities is mainly a result of higher labor costs prevailing in our U.S. operations, and the higher costs of the raw materials that our U.S. operations use in the production of SBQ steel.

Scrap metal, electricity, iron ore coke, ferroalloys, electrodes and refractory products are the principal materials that we use to manufacture our steel products.

Scrap metal. Scrap metal is among the most important components for our steel production and accounted for approximately 57% of our consolidated manufacturing conversion cost in 2012 (64% of the manufacturing conversion cost in our Mexico operations and 47% of the manufacturing conversion cost in our U.S. operations), compared to 56% of our manufacturing conversion cost in 2011 (64% of the manufacturing conversion cost in our Mexico operations and 47% of the manufacturing conversion cost in our U.S. operations). Scrap metal is principally generated from automobile, industrial, naval and railroad industries. The market for scrap metal is influenced by availability, freight costs, speculation by scrap brokers and other conditions largely beyond our control. Fluctuations in scrap costs directly influence the cost of sales of finished goods.

We purchase raw scrap from dealers in Mexico and the San Diego area, and we process the raw scrap into refined scrap metal at our Guadalajara, San Luis, Mexicali and Apizaco facilities. We meet our refined scrap metal requirements through: (i) our wholly owned scrap processing facilities, which in the aggregate provided us with approximately 9% and 16.6% of our refined scrap tonnage in 2012 and 2011, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 88.1% and 2.9%, respectively, in 2012 and approximately 83% and 0.4%, respectively, in 2011 of our refined scrap metal requirements. We are a large scrap collector in the Mexicali, Tijuana and Hermosillo regions, and, by primarily dealing directly with small Mexican scrap collectors, we believe we have been able to purchase scrap at prices lower than those in the international and Mexican markets. We purchase scrap on the open market through a number of brokers or directly from scrap dealers for our U.S. and Canadian facilities. We do not depend on any single scrap supplier to meet our scrap requirements.

Iron Ore Pellets and Coke. Our U.S. and Canadian facilities purchase iron ore pellets and coke. These are the principal raw materials used in our blast furnaces. We made no purchases of these raw materials in 2010, 2011 and 2012, since our Lorain, Ohio blast facility was idle during that period. Our Mexican facilities and our Canton facilities do not use iron ore pellets or coke.

Ferroalloys, Electrodes and Refractory Products. In our Mexican operations, ferroalloys, electrodes and refractory products collectively accounted for approximately 10% of our manufacturing conversion cost in 2012, compared to 10% in 2011, and they accounted for 18% of our manufacturing conversion cost in 2012, compared to 17% in 2011 in our U.S. and Canadian facilities.

Ferroalloys are essential for the production of steel and are added to the steel during manufacturing process to reduce undesirable elements and to enhance its hardness, durability and resistance to friction and abrasion. For our Mexican operations, we buy most of our manganese ferroalloys from Compañía Minera Autlán, S.A., and the remainder from Electrometalúrgica de Veracruz, S.A. de C.V., Ferroatlántica de México, S.A. de C.V. and Oxbow Metales México, S. de R.L de C.V. Our U.S. and Canadian facilities purchase most of their ferroalloys from International Nickel, Climax Molybdenum Co., Considar Inc., Minerais U.S. LLC and Glencore LTD.

We obtain electrodes used to melt raw materials from Ucar Carbon Mexicana, S.A. de C.V., Graphite Electrode Sales, Missano, Luoyang Hong Feng Refractories and Abrasives, Co., LTD and JCS Energoprom – Die & From.

Refractory products include firebricks, which line and insulate furnaces, ladles and other transfer vessels. We purchase our refractory products from RHI Refmex, S.A. de C.V., Fedmet Resources Corp., Vesuvius de México, S.A. de C.V., Magnesita Refractories México, S.A. de C.V., Puyang Refractories Group Co., LTD, Magna Refractarios México, S.A. de C.V. and Refratechnik.

Electricity. In 2012 and 2011, electricity accounted for approximately 8% of our consolidated manufacturing conversion cost for the period. Electricity accounted for 10% of our manufacturing conversion cost in 2012 and 2011 in our Mexico facilities and is supplied by the *Comisión Federal de Electricidad* ("CFE"). It accounted for 7% of the manufacturing conversion cost in 2012 and 6% in 2011 in our U.S. and Canadian operations and is supplied by American Electric Power Company and Ohio Edison. We, like all other high volume users of electricity in Mexico, pay special rates to CFE for electricity. Energy prices in Mexico have historically been very

volatile and subject to dramatic price increases in short periods of time. In the late 1990s, the CFE began to charge for electricity usage based on the time of use during the day and the season (summer or winter). As a result, we have modified our production schedule in order to reduce electricity costs by limiting production during periods when peak rates are in effect. We cannot assure that any future cost increases will not have a material adverse effect on our business.

Natural Gas. Natural gas (including "combustoleo" which is an oil derivative that is less refined than gasoline and diesel fuel oil that can be used instead of gasoline in our Mexicali plant) consisted of approximately 2% of our consolidated manufacturing conversion cost (2% of the manufacturing conversion cost of our Mexican operations and 3% of the manufacturing conversion cost of our U.S. operations) in 2012, compared to 3% in 2011 (3% in Mexico and 3% in the United States). We use natural gas cash-flow exchange contracts or swaps where we receive a floating price and pay a fixed price to hedge our risk of from fluctuations in natural gas prices. Fluctuations in natural gas prices from volume consumed are recognized as part of our operating costs. As applicable, we recognized the fair value of instruments either as liabilities or assets. Such fair value and thus, the value of these assets or liabilities were restated at each month's-end. As indicated in Note 5(t) to our consolidated financial statements as of and for the years ended December 31, 2012 and 2011, derivative financial instruments are recognized in the statement of financial position at fair value, which is initially represented by the amount of consideration agreed on. Such fair value is restated at the end of each month based on the new estimate. We periodically evaluate the changes in the cash flows of derivative instruments to analyze if the swaps are highly effective for mitigating the exposure to natural gas price fluctuations. In 2012, 2011 and 2010, the fair value of derivatives that did not qualify for hedge accounting was adjusted through statement of income. For the derivatives that qualified for hedge accounting, their fair value was adjusted through the stockholders' equity under the caption fair value of derivative financial instruments until such time as the related item in the derivative hedges is recognized as income.

We do not enter into contracts for speculation purposes. We account for these derivative instruments in accordance with IFRS 7 "Financial Instruments: Disclosures".

Regulation

U.S. and Canadian Operations

Our U. S. and Canadian operations are subject to U.S. and Canadian federal, state and local environmental laws and administrative regulations concerning, among other things the management of, hazardous materials and the discharge of pollutants to the atmosphere and to surface waters. Our U.S. operations have been the subject of administrative action by federal, state (or provincial) and local environmental authorities. The resolution of any of these claims may result in significant liabilities. See Item 3.D. "Risk Factors—Risk Factors Related to our Business—In the event of environmental violations at our facilities we may incur significant liabilities" and Item 8. "Financial Information—Legal Proceedings."

Environmental Matters

We are subject to a broad range of environmental laws and regulations, including those governing the following:

- discharges to the air, water and soil;
- the handling and disposal of solid and hazardous wastes;
- the release of petroleum products, hazardous substances, hazardous wastes, or toxic substances to the environment; and
- the investigation and remediation of contaminated soil, sediment and groundwater.

We monitor our compliance with these laws and regulations through our environmental management system, and believe that we currently are in substantial compliance with them, although we cannot assure you that we will at all times operate in compliance with all such laws and regulations. If we fail to comply with these laws and regulations, we may be assessed fines or penalties or be subject to injunctive relief which could have a material adverse effect on us.

Future changes in the applicable environmental laws and regulations, or changes in the regulating agencies' approach to enforcement or interpretation of their regulations, could cause us to make additional capital expenditures beyond what we currently anticipate.

We do not believe that our facility in Lorain, Ohio is subject to the Maximum Achievable Control Technology ("MACT") standard for Iron & Steel Manufacturers, because it does not emit hazardous air pollutants above the major source regulatory threshold. However, it is possible that in the future the regulatory agency could disagree with our determination or that operations will change such that the applicability threshold is exceeded. In that event, or under similar circumstances, we could incur additional costs of compliance. In addition, it is anticipated that the Lorain, Ohio plant will be subject to the MACT standard for Industrial, Commercial and Institutional Boilers and Process Heaters. Once effective, this may cause us to incur additional costs at this facility in order to come into compliance. Our Canton, Ohio facility is subject to the MACT standard for Electric Arc Furnaces as an "area source." Revisions of this standard are under development and, when promulgated, may impose additional restrictions on our Canton operations including those relating to mercury emissions and control.

Our integrated steel making operation at Republic's Lorain, Ohio facility involves carbon and generates significant amounts of carbon dioxide (CO2), while our other steel making operations in the United States and in Mexico use electric arc furnaces where carbon dioxide generation is primarily linked to energy use. In the United States, the federal environmental agency has issued rules imposing inventory and reporting obligations to which some of our facilities are subject, and has also issued rules that will affect preconstruction permits for our facilities where increases in greenhouse gas pollutants are contemplated. The U.S. Congress has debated various measures for regulating greenhouse gas emission (such as carbon dioxide) and may enact them in the future. Such laws and regulations may also result in higher costs for coking coal, natural gas and electricity generated by carbon-based systems (such as coal-fired electric generating facilities). Canada's federal government is also considering various approaches for reducing greenhouse gas emissions, although we do not presently believe Republic's Hamilton, Ontario facility would be significantly impacted by this efforts since it is not a steel-producing facility. Such future laws and regulations, whether in the form of cap-and-trade emissions permit system, a carbon tax or other regulatory regime may have a negative effect on our operations. Additionally, international negotiations to supplement and eventually replace the 1997 Kyoto Protocol are ongoing. The outcome of these negotiations or whether any of the countries in which we operate will sign on to any resulting agreement is unknown. More stringent GHG policies and regulations could adversely affect our business and results of operations.

Various federal, state (or provincial) and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos-containing materials ("ACMs"). These laws, regulations and ordinances may impose liability for the release of ACMs and may permit third parties to seek recovery from owners or operators of facilities at which ACMs were or are located for personal injury associated with exposure to ACMs. We are aware of the presence of ACMs at our facilities but we currently believe that such materials are being managed in accordance with applicable law.

In the United States, the federal environmental agency is developing a new rule that is expected, among other things, to impose a timeline for the phasing out of PCB-containing fluid in equipment that we currently use at many of our U.S. facilities. A preliminary notice regarding this future regulation was issued in April 2010, and a formal proposed rule is expected within the next two years. While the specifics of the proposed rule are not yet known, the phase-out may take place over a period of 5 to 10 years following issuance of the final rule, with the complete elimination of

equipment containing PCBs above 50 ppm by 2025. Thus, once a final rule is issued, we may have to incur significant costs at our facilities to remove and replace the existing PCB-containing equipment.

Also in the United States, the federal environmental agency recently tightened or is in the process of tightening several environmental air quality standards under the Clean Air Act. More stringent ambient standards were adopted in 2010 for sulfur dioxide (SO2) and nitrogen oxide (NOx), and carbon monoxide (CO) in 2011.

More stringent standards for particulate matter have been promulgated in 2012. As these new more stringent standards are implemented through the different state programs, we are likely to experience higher costs associated with any preconstruction permitting of new or modified sources at our U.S. facilities in 2014 and subsequent years. These costs are related to extensive dispersion modeling and/or pre-construction monitoring not previously required.

Mexican Operations

We are subject to Mexican federal, state and municipal laws, administrative regulations and Mexican Official Rules (*Normas Oficiales Mexicanas)* relating to a variety of environmental matters, anti-trust matters, trade regulations, and tax and employee matters.

Among other matters, Mexican tax returns are open for review generally for a period of five years, and, according to Mexican tax law, the purchaser of a business may become jointly and severally liable for unpaid tax liabilities of the business prior to its acquisition, which may have an impact on the liabilities and contingencies derived from any such acquisitions. Although we believe that we are in compliance with all material Mexican federal, state and municipal laws, administrative regulations and Mexican Official Rules, we cannot assure you that the interpretation of the Mexican authorities of the laws and regulations affecting our business or the enforcement thereof will not change in a manner that could increase our costs of doing business or could have a material adverse effect on our business, results of operations, financial condition or prospects.

Environmental Matters

We are subject to various Mexican federal, state and municipal laws, administrative regulations and Mexican Official Rules (*Normas Oficiales Mexicanas)* relating to the protection of human health, the environment and natural resources.

The major federal environmental laws applicable to our operations are: (i) the General Law of Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente* or "LGEEPA") and its regulations, which are administered and overseen by the Ministry of the Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales* or "SEMARNAT") and enforced by the Ministry's enforcement branch, the Federal Attorney's Office for the Protection of the Environment (*Procuraduría Federal de Protección al Ambiente* or "PROFEPA"); (ii) the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos* or the "Law on Wastes"), which is also administered by SEMARNAT and enforced by PROFEPA; and (iii) the National Waters Law (*Ley de Aguas Nacionales*) and its regulations, which are administered and enforced by the National Waters Commission (*Comisión Nacional de Agua*), also a branch of SEMARNAT.

In addition to the foregoing, Mexican Official Rules, which are technical standards issued by applicable regulatory authorities pursuant to the General Normalization Law (*Ley General de Metrología y Normalización*) and to other laws that include the environmental laws described above, establish standards relating to air emissions, waste water discharges, the generation, handling and disposal of hazardous wastes and noise control, among others. Mexican Official Rules regarding soil contamination and waste management were enacted in order to protect these potential contingencies. Although not enforceable, the internal administrative criteria on soil contamination established by PROFEPA are widely used as guidance in cases where soil remediation, restoration or clean-up is required.

LGEEPA sets forth the legal framework applicable to the generation and handling of hazardous wastes and materials, the release of contaminants into the air, soil and water, as well as the environmental impact assessment of the construction, development and operation of different projects, sites, facilities and industrial plants similar to the ones owned and/or operated by us and our subsidiaries. In addition to LGEEPA, the Law on Wastes regulates the generation, handling, transportation, storage and final disposal of hazardous waste.

LGEEPA also mandates that companies that contaminate soil be responsible for the clean-up. Furthermore, the Law on Wastes provides that owners and lessors of real property with soil contamination are jointly and severally liable for the remediation of such contaminated sites, irrespective of any recourse or other actions such

owners and lessors may have against the contaminating party, and aside from the criminal or administrative liability to which the contaminating party may be subject. The Law on Wastes also restricts the transfer of contaminated sites.

PROFEPA can bring administrative, civil and criminal proceedings against companies that violate environmental laws, regulations and Mexican Official Rules, and has the power to impose a variety of sanctions. These sanctions may include, among others, monetary fines, revocation of authorizations, concessions, licenses, permits or registries, administrative arrests, seizure of contaminating equipment, and in certain cases, temporary or permanent closure of facilities.

Additionally, as part of its inspection authority, PROFEPA is entitled to periodically visit the facilities of companies whose activities are regulated by Mexican environmental legislation, and verify compliance. Similar rights are granted to state environmental authorities pursuant to applicable state environmental laws.

Companies in Mexico are required to obtain proper authorizations, concessions, licenses, permits and registries from competent environmental authorities for the performance of activities that may have an impact on the environment or may constitute a source of contamination. Such companies in Mexico are also required to comply with a variety of reporting obligations that include, among others, providing PROFEPA and SEMARNAT with periodic reports regarding compliance with various environmental laws. Among other permits, the operations and related activities of the steel industry are subject to the prior obtainment of an environmental impact authorization granted by SEMARNAT.

We believe that we have obtained all the necessary authorizations, concessions, general operating licenses, permits and registries from the applicable environmental authorities to duly operate our facilities, plants and sites, and sell our products and that we are in material compliance with applicable environmental legislation. We, through our subsidiaries, have made significant capital investments to assure our production and operation facilities comply with requirements of federal, state and municipal law and administrative regulation, and to remain in compliance with our current authorizations, concessions, licenses, permits and registries.

We cannot assure you that in the future, we and our subsidiaries will not be subject to stricter Mexican federal, state or municipal environmental laws and administrative regulations, or more stringent interpretation or enforcement of existing laws and administrative regulations. Mexican environmental laws and administrative regulations have become increasingly stringent over the last decade, and this trend is likely to continue, influenced recently by the North American Agreement on Environmental Cooperation entered into by Mexico, the United States and Canada in connection with the North American Free Trade Agreement or NAFTA. Further, we cannot assure you that we will not be required to devote significant expenditures to environmental matters, including remediation-related matters. In this regard, any obligation to remedy environmental damages caused by us or any contaminated sites owned or leased by us could require significant unplanned capital expenditures and be materially adverse to our financial condition and results of operations.

Water

In Mexico, the National Waters Law regulates water resources. In addition, the Mexican Official Rules govern the quality of water. A concession granted by the National Waters Commission is required for the use and exploitation of national waters. All of our facilities have a five-year renewable concession to use and exploit underground waters from wells in order to meet the water requirements of our production processes. We pay the National Waters Commission duties per cubic meter of water extracted under our concessions. We believe we are in substantial compliance with all the requirements imposed by each of the concessions we have obtained.

Pursuant to the National Waters Law, companies that discharge waste into national water bodies must comply with certain requirements, including maximum permissible contaminant levels. Periodic reports on water quality must be

provided by dischargers to applicable authorities. Liability may result from the contamination of underground waters or recipient water bodies. We believe that we are in substantial compliance with all water and waste water legislation applicable to us.

Antitrust Matters

We are also subject to the Mexican Antitrust Law (*Ley Federal de Competencia Económica*), which regulates monopolies and monopolistic practices in Mexico and requires Mexican government approval of certain mergers, acquisitions and joint ventures. We believe that we are currently in material compliance with the Mexican Antitrust Law. However, due to our growth strategy of acquiring new businesses and assets and because we are a large manufacturer with a significant share of the markets in Mexico with respect to certain of our products, we may be subject to greater regulatory scrutiny in the future.

Measurements Law

Mexico's Ministry of Economy (*Secretaría de Economía*), through the General Rules Department (*Dirección General de Normas* or "DGN"), promulgates regulations regarding many products that we manufacture. Specifically, pursuant to the Measurements Law (*Ley Federal sobre Metrología y Normalización*), the DGN issues specifications on the quality and safety standards for our product lines. We believe that all of our products are in material compliance with all applicable DGN regulations.

Trade Regulation Matters

We have experienced significant competition from imports into Mexico in the past as a result of excess worldwide steel production capacity, particularly in periods of economic slowdown, and as a consequence of the Peso's appreciation, making imports cheaper and more competitive in peso terms. In 2003, imports declined as international market conditions improved and the peso weakened. Recently, the Mexican government, at the request of CANACERO, has taken several measures to prevent unfair trade practices such as dumping the steel import market. The overall climate for imports in Mexico is influenced by the free trade agreements that Mexico has entered into with other countries, as well as the level of tariffs and anti-dumping duties (some of which are described below).

We have benefited from the free trade agreements that Mexico has entered into. Specifically, we have directly benefited from our ability to export finished steel products directly to export markets and compete with similar products manufactured in those markets. We have also indirectly benefited from increased demand from our domestic customers who similarly manufacture their products to foreign markets under free trade agreements. Nevertheless, we cannot assure you that the trade agreements affecting our business or the enforcement thereof will not change in a manner that could have a material adverse effect on our business, results of operations, financial condition or prospects.

North American Free Trade Agreement. NAFTA became effective on January 1, 1994. NAFTA provided for the progressive elimination over a period of ten years of the 10% duties formerly in effect on most steel products imported into Mexico from the United States and Canada, including those that compete with our main product lines. There is currently no duty.

Mexican-European Community Free Trade Agreement. The Mexican-European Free Trade Agreement, or "MEFTA", became effective on July 1, 2000. MEFTA provides for the progressive elimination of Mexican duties for steel producers that are members of the European Union over a period of 6.5 years for finished steel products, including those that compete with our products.

Mexico-Japan Economic Association (the "Association"). On January 1, 2004, Japan and the other members of the G-7, agreed to reduce the steel tariffs to zero percent, so Mexico has benefited from this rate since such date. However, Mexico is sensitive to the steel exports coming from Japan, so the Association was negotiated in the following terms: (i) the specialized steel that is not produced in Mexico, and that is used to produce vehicles, spare parts, electronics, machinery and heavy equipment, was released from any tariffs, as from the effective date of the

Association, (ii) the Japanese steel that Mexico imports will be maintained without changes (13% and 18%) during the first five years as of the effective date (iii) the steel products coming from Japan will start paying less taxes gradually as from January 1, 2010 until reaching a zero percent rate in 2015, (iv) the products to be imported from the under the programs established by the Association, will pay the tariffs pursuant to the fixed tariffs

established in such Sector Programs, so the electronic and vehicles industries will be exempted as of the effective date of the Association.

Other Trade Agreements. In the last several years, Mexico has signed other free trade agreements with Israel (2000), Iceland, Norway, Liechtenstein and Switzerland (2001), and with the following Latin American countries: Chile (1992 and amended in 1999); Venezuela and Colombia (1995); Costa Rica (1995); Bolivia (1995); Nicaragua (1998); Honduras, El Salvador and Guatemala (2001); and Uruguay (2003). We do not anticipate any significant increase in competition in the Mexican steel market as a result of these trade agreements due to their minimal steel production or, in the case of Venezuela and Chile, minimal share of the Mexican market.

Dumping and Countervailing Duties. We are or have been a party to, or have been affected by, numerous steel dumping and countervailing duty claims. Many of these claims have been brought by Mexican steel producers against international steel companies, while others have been brought against Mexican steel companies. In certain instances, such cases have resulted in duties being imposed on certain imported steel products and, in a few instances, duties have been imposed on Mexican steel exports. In the aggregate, these duties have not had a material impact on our results of operations.

C. Organizational Structure

The chart below sets forth a summary of our corporate structure

(1) Includes the following subsidiaries: Compañía Siderúrgica del Pacífico, S.A. de C.V. (99.99%); Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V. (100%); Comercializadora Simec, S.A. de C.V. (100%); Industrias del Acero y del Alambre, S.A. de C.V. (99.99%); Procesadora Mexicali, S.A. de C.V. (99.99%); Servicios Simec, S.A. de C.V. (100%); Sistemas de Transporte de Baja California, S.A. de C. V.

(100%); Operadora de Metales, S.A. de C.V. (100%); Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V. (100%); Arrendadora Simec S.A. de C.V. (100%); Siderúrgica de Baja California, S.A. de C.V. (99.95%); CSG Comercial, S.A. de C.V. (99.95%); Comercializadora de Productos de Acero de Tlaxcala, S.A. de C. V. (99.95%); Productos Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Comercializadora MSAN, S.A. de C.V. (100%); Compañía Siderúrgica de Guadalajara S.A. de C.V. (99.99%); Simec Acero, S.A. de C.V. (100%); Undershaft Investment N. V., (100%); Simec USA Corp. (100%); Pacific Steel Projects Inc. (100%); Simec Steel Inc. (100%), Simec International, S. A. de C. V.(100%), Corporativos G&DL, S.A. de C.V. (100%) Simec International 7, S. A. de C. V., (99.99%), Corporación ASL, S.A. de C.V. (99.99%) and Simec International 5, Inc. (100%).

(2) Our principal Mexican facilities consist of steel-making facilities in Guadalajara, Jalisco; Mexicali, Baja California; Apizaco, Tlaxcala; and cold finishing facilities in Cholula, Puebla; and San Luis Potosí., these facilities were operated by Simec International 6, S.A. de C.V. until October 31, 2012 (began operations in November 2010). Since November 1, 2012 these facilities are operated by Orge, S.A. de C.V. (incorporated in October, 2012).

(3) The remaining 49.8% of SimRep is owned by our controlling shareholder, Industrias CH.

(4) SimRep, Co. owns 100% of Republic Steel, Inc. Our principal U.S. and Canadian facilities consist of a steel-making facility in Canton, Ohio; a steel- making and hot-rolling facility in Lorain, Ohio; a hot-rolling facility in Lackawanna, New York; and cold finishing facilities in Massillon, Ohio; Solon, Ohio; Gary, Indiana, and Hamilton, Memphis, Tennessee; Ontario, Canada, all of which are owned directly by Republic.

(5) Grupo San facilities are conformed by Corporacion Aceros DM, S. A. de C. V. (100%) and Subsidiaries, Abastecedora Siderúrgica, S. A. de C. V. (99.98%) (merged into Aceros DM, S.A. de C.V. in 2012), Aceros DM, S. A. de C. V. (99.99%) Acero Transportes SAN, S. A. de C. V. (99.99%), Aceros San Luis, S. A. de C. V. (99.99%, Malla San, S. A. de C. V., (99.98%), Comercializadora Aceros DM, S.A. de C.V. (99.99%) y Promotora de Aceros san Luis, S.A. de C.V. (99.99%).

The following table identifies each of our significant operating subsidiaries, including its country of incorporation and our percentage ownership thereof at December 31, 2011:

Name of Subsidiary	**Country of Incorporation**	**Ownership Interest (%)**
Simec International, S.A. de C.V.	Mexico	100.00%
Undershaft Investments, N.V.	Curaçao	100.00%
Pacific Steel, Inc.	United States	100.00%
SimRep Corporation and subsidiaries (Republic)	United States	50.22%
Compañía Siderúrgica del Pacífico, S.A. de C.V.	Mexico	99.99%
Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V.	Mexico	100.00%
Comercializadora Simec, S.A. de C.V.	Mexico	100.00%
Industrias del Acero y del Alambre, S.A. de C.V.	Mexico	99.99%
Procesadora Mexicali, S.A. de C.V.	Mexico	99.99%
Servicios Simec, S.A. de C.V.	Mexico	100.00%
Sistemas de Transporte de Baja California, S.A. de C.V.	Mexico	100.00%
Operadora de Metales, S.A. de C.V.	Mexico	100.00%
Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	Mexico	100.00%
Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	Mexico	100.00%
Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V.	Mexico	100.00%
Arrendadora Simec S.A. de C.V.	Mexico	100.00%
Compañía Siderúrgica de Guadalajara S.A. de C.V.	Mexico	99.99%
CSG Comercial, S.A. de C.V	Mexico	99.95%

Comercializadora de Productos de Acero de Tlaxcala, S.A. de C.V.	Mexico	99.95%
Siderúrgica de Baja California, S.A. de C.V.	Mexico	99.95%
Corporación Aceros DM, S.A. de C.V. and subsidiaries	Mexico	100.00%
Productos Siderúrgicos de Tlaxcala, S.A. de C.V.	Mexico	100.00%
Comercializadora MSAN, S.A de C.V.	Mexico	100.00%
Simec International 2, Inc. (merged into Simec Steel, Inc. in 2012)	U.S.A.	99.99%
Simec International 3, Inc. (merged into Simec Steel, Inc. in 2012)	U.S.A.	99.99%
Simec International 4, Inc. (merged into Simec Steel, Inc. in 2012)	U.S.A.	99.99%
Simec International 5, Inc.	U.S.A.	99.99%
Corporación ASL, S.A. de C.V.	Mexico	99.99%
Simec International 6, S. A. de C. V.	Mexico	100.00%

Name of Subsidiary	Country of Incorporation	Ownership Interest (%)
Simec International 7, S. A. de C. V.	Mexico	99.99%
Simec Acero, S. A. de C. V.	Mexico	100.00%
Simec USA, Corp.	United States	100.00%
Pacific Steel Projects, Inc.	United States	100.00%
Simec Steel, Inc.	United States	100.00%
Corporativos G&DL, S.A. de C.V.	Mexico	100.00%
GV do Brasil Industria e Comercio de Aço LTDA.	Brazil	100.00%
Orge, S.A. de C.V.	Mexico	99.99%

D. Property, Plants and Equipment

Our Operations and Production Facilities

We conduct our operations at fourteen facilities throughout North America. At December 31, 2012, our crude steel production capacity was 4.8 million tons, of which 1.2 million tons were based on an integrated blast furnace technology, and 3.6 million were based on electric arc furnace, or mini-mill, technology. Our Mexican facilities have 2.2 million tons of crude steel production capacity, operating five mini-mill facilities. Our U.S. operations have 2.6 million tons of crude steel production capacity. In addition, we have 3.8 million tons of rolling and finishing capacity, of which 1.8 million are located in Mexico, and 2 million are located in the United States and Canada.

We operate six mini-mills, five in Mexico and one in the United States. The Mexican mini-mills are located in Guadalajara, Jalisco; Apizaco, Tlaxcala; Mexicali, Baja California; as well as two in San Luis Potosi, San Luis Potosí. Our mini-mill in the United States is located in Canton, Ohio. We also own an integrated blast furnace in Lorain, Ohio and a rolling mill in Lackawanna New York. Processing mills are located in Massillon Ohio, Hamilton Ontario, Gary Indiana and Solon Ohio.

Because we operate both mini-mill and integrated blast furnace production facilities, we can allocate production between each type of facility based on efficiency and cost. In addition, as long as our facilities are not operating at full capacity, we can allocate production based on the relative cost of basic inputs (iron ore, coke, scrap metal and electricity) to the facility where production costs would be the lowest. Our production facilities are designed to permit the rapid changeover from one product to another. This flexibility permits us to efficiently produce small volume orders to meet customer needs and to produce varying quantities of standard product. Production runs, or campaigns, occur on four to eight weeks cycles, minimizing customer waiting time for both standard and specialized products.

We use scrap metal and iron ore to produce our finished steel products. We produce molten steel using both an electric arc furnace and integrated blast furnace technology, alloying elements and carbon are added, and which then is transported to continuous casters for solidification. The continuous casters produce long, square strands of steel that are cut into billet and transferred to the rolling mills for further processing or, in some cases, sold to other steel producers. In the rolling mills, the billet is reheated in a walking beam furnace with preheating burners, passed through a rolling mill for size reduction and conformed into final sections and sizes. The shapes are then cut into a variety of lengths. Our facility in Canton, Ohio is capable of producing billets and blooms.

Our mini-mill plants use an electric arc furnace to melt ferrous scrap and other metallic components, which are then cast into long, square bars called billet in a continuous casting process, all of which occurs in a melt shop. The billet is then transferred to a rolling mill, reheated and rolled into finished product. In contrast, an integrated steel mill heats iron pellets and other primary materials in a blast furnace to first produce pig iron, that must be refined in a basic oxygen furnace to liquid steel, and then cast to billet and finished product. Mini-mill plants typically produce certain steel products more efficiently because of the lower energy requirements resulting from their smaller size and because of their use of ferrous scrap. Mini-mills are designed to provide shorter production runs with relatively fast product changeover times. Integrated steel mills are more efficient in producing longer runs and are able to produce certain steel products that a mini-mill cannot.

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The production levels and capacity utilization rates for our melt shops and rolling mills for the periods indicated are presented below.

Production Volume and Capacity Utilization

	Years ended December 31,		
	2010	2011	2012
	(tons in thousands)		
Melt shops			
Steel billet production	2,458.3	2,495.0	2,562.4
Annual installed capacity[1]	4,532.2	4,797.2	4,797.2
Effective capacity utilization	54.2%	52.0%	53.4%
Rolling mills			
Total production	2,354.4	2,440.4	2,462.4
Annual installed capacity[1]	3,521.9	3,757.8	3,790.5
Effective capacity utilization	66.8%	64.9%	65.0%

(1) Annual installed capacity is determined based on the assumption that billet of various specified diameters, width and length is produced at the melt shops or that a specified mix of rolled products are produced in the rolling mills on a continuous basis throughout the year except for periods during which operations are discontinued for routine maintenance, repairs and improvements. Amounts presented represent annual installed capacity as of December 31 for each year.

Mexican Operations and Facilities

The following table presents production by product at each of our Mexican facilities as a percentage of total production at that facility for 2012.

Mexican Production per Facility by Product
Location

Product	**Guadalajara**	**Mexicali**	**Apizaco/ Cholula**	**San Luis**	**Total**
(Production %)					
I Beams	21.9%	0%	0%	0%	5.3%
Channels	12.6%	14.2%	0%	0%	4.5%
Angles	25.4%	24.1%	2.7%	0%	10.3%
Hot rolled bars (round, square And hexagonal rods)	22.4%	4.9%	46.9%	1.1%	18.2%
Rebar	5.9%	46.4%	12.6%	84.2%	42.6%
Flat bars	6.9%	6.5%	16.0%	0%	6.6%
Cold finished Bars	4.1%	0%	21.0%	0%	6.2%
Electro-Welded Wire mesh	0%	0%	0%	3.4%	1.3%
Wire rod	0%	0%	0%	3.6%	1.5%
Electro-Welded Wire mesh panel	0%	0%	0%	4.8%	1.8%
Other	0.8%	3.9%	0.8%	2.9%	1.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Guadalajara. Our Guadalajara mini-mill facility is located in central western Mexico in Guadalajara, Jalisco which is Mexico's second largest city. Our Guadalajara facilities and equipment include one improved electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, five reheating

furnaces and three rolling mills. The Guadalajara mini-mill has an annual installed capacity of 350,000 tons of billet and an annual installed capacity of finished product of 480,000 tons. In 2012, the Guadalajara mini-mill produced 317,654 tons of steel billet and 350,721 tons of finished product, operating at 91% capacity for billet production and 73% capacity for finished product production. The Guadalajara rolling facilities process billet production from our Mexicali and Apizaco mills. Our Guadalajara facility is 336 miles from Mexico City. Our Guadalajara facility mainly produces structurals, SBQ steel, light structurals and rebars.

Guadalajara Mini-Mill

	Years ended December 31,		
	2010	2011	2012
Steel sales (thousands of tons)	393	383	353
Average finished product price per ton	Ps. 9,069	Ps.I0,809	Ps.I1,357
Average scrap cost per ton	4,072	4,983	5,372
Average manufacturing conversion cost per ton of finished product	2,892	3,143	3,070
Average manufacturing conversion cost per ton of billet	1,610	1,707	1,749

Mexicali. In 1993, we began operations at our mini-mill located in Mexicali, Baja California. The mini-mill is strategically located approximately 22 miles south of the California border and approximately 220 miles from Los Angeles.

Our Mexicali facilities and equipment include one electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, one walking beam reheating furnace, one SACK rolling mill, a Linde oxygen plant and a water treatment plant. This facility has an annual installed capacity of 430,000 tons of steel billet and an annual installed capacity of finished product of 250,000 tons. Excess billet produced at the Mexicali facility is used primarily by the Guadalajara facility. This allows us to increase the utilization of the Guadalajara facility's finishing capacity, which exceeds its production capacity. In 2012, the Mexicali mini-mill produced approximately 271,549 tons of billet, of which the Guadalajara mini-mill used 55,485 tons. In 2012, the Mexicali mini-mill produced 171,154 tons of finished products. In 2012 we operated the Mexicali mini-mill at 63% capacity for billet production and at 68% capacity for finished product production. Our facility is strategically located and has access to key markets in Mexico and the United States, stable sources of scrap, electricity, a highly skilled workforce and other raw materials. The Mexicali mini-mill also is situated near major highways and a railroad linking the Mexicali and Guadalajara mini-mills, allowing for coordinated production at the two facilities. Our Mexicali facility mainly produces structurals, light structurals and rebar. In 2012, 46% of the products produced at the Mexicali mini-mill were rebar, 24% were angles, 5% were hot rolled bars (round, square and hexagonal rods) and the remaining 25% were other products, principally channels and flat bars.

Mexicali Mini-Mill

	Years ended December 31,		
	2010	2011	2012
Steel sales (thousands of tons)	177	180	186
Average finished product price per ton	Ps. 9,090	Ps.I0,072	Ps.I0,527
Average scrap cost per ton	3,895	5,028	5,283
Average manufacturing conversion cost per ton of finished product	2,172	2,564	2,765
Average manufacturing conversion cost per ton of billet	1,584	1,700	1,895

Apizaco mini-mill and Cholula facility. We have operated the Apizaco mini-mill and Cholula facility since August 1, 2004. The mini-mill is located in central Mexico in Apizaco, Tlaxcala. Our Apizaco facilities and equipment include one EBT Danieli electric arc furnace utilizing water-cooled sidewalls and roof, two ladle stations (one Danieli and the

other Daido), one Daido degasification station, one Danieli four-strand continuous caster, two walking beam reheating furnaces and two rolling mills (one Danieli and the other Pomini). This facility has an annual installed capacity of 510,000 tons of steel billet and an annual installed capacity of finished product of

480,000 tons. In 2012, the Apizaco mini-mill produced 468,895 tons of steel billet, of which the Guadalajara mini-mill used 12,572 tons. In 2012 the Apizaco mini-mill produced 403,164 tons of finished products. In 2012 we operated the Apizaco mini-mill at 88% capacity for billet production and at 76% capacity for finished product production. Our Apizaco facility is 1,112 miles from Mexicali and less than 124 miles from Mexico City. Our Apizaco facility mainly produces SBQ steel, light structurals and rebar. Our Cholula facility is approximately 25 miles from our Apizaco facility, which allows the integrated operations of the Apizaco mini-mill and Cholula facility. Our Cholula facilities and equipment include cold drawing and turning machines for peeling bars. This facility has an annual installed capacity of finished product of 78,000 tons. In 2012, the Cholula facility produced 78,290 tons of finished products, at 100% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2012, 13% of the products we produced at the Apizaco and Cholula facilities were rebar, 47% were hot rolled bars (round, square and hexagonals) and the remaining 40% were other products, flat merchant bar and cold finished products.

Apizaco Mini-Mill and Cholula Facility

	Years ended December 31,		
	2010	2011	2012
Steel sales (thousands of tons)	284	343	376
Average finished product price per ton	Ps.I0,651	Ps.I1,942	Ps.I2,479
Average scrap cost per ton	3,660	4,725	5,037
Average manufacturing conversion cost per ton of finished product	3,755	3,360	3,135
Average manufacturing conversion cost per ton of Billet	2,105	2,090	2,033

San Luis Operations and Facilities. We have operated our San Luis facilities since we acquired them on May 30, 2008. The facilities are located in central Mexico in San Luis Potosi, in the state of San Luis Potosi. Our San Luis facilities and equipment include four electric arc furnaces, three continuous casters, three reheating furnaces, two rebar rolling mills and one wire rod rolling mill. As of December 31, 2012, these facilities had an annual installed capacity of 860,000 tons of billet and 620,000 tons of finished product. In 2012, the San Luis facilities produced 594,804 tons of steel billet, of which the Guadalajara mini-mill used 6,300 tons. In 2012 the San Luis facilities produced 557,624 tons of finished product, operating at 69% capacity for billet production and 90% capacity for finished product production. Our San Luis facilities mainly produces rebar, light structurals and wire rod. In 2012, 84% of the products produced at the San Luis facilities were rebar, 4% wire rod, and the remaining 12% were other light structural.

The following table sets forth, for the periods indicated selected operating data for our San Luis facilities.

	Years ended December 31,		
	2010	2011	2012
Steel sales (thousands of tons)	542	503	560
Average finished product price per ton	Ps. 8,164	Ps.I0,133	Ps.I0,438
Average scrap cost per ton	4,287	4,935	5,434
Average manufacturing conversion cost per ton of finished product	1,952	2,166	2,390
Average manufacturing conversion cost per ton of Billet	1,511	1,630	1,604

U.S. and Canada Operations and Facilities

We have operated our Republic facilities (in Ohio, New York, Indiana and Canada) since we acquired them from Republic on July 22, 2005. As of December 31, 2012, these facilities had an annual installed capacity of 2,647,000

tons of billet and 1,960,000 tons of finished product. In 2012, Republic facilities produced 909,523 tons of steel billet. For the same period, Republic facilities produced 699,258 tons of hot-rolled bars. Republic facilities produced 136,245 tons of cold finish bars. In 2012, Republic facilities produced 144,216 tons of wire products.

The following table sets forth, for the periods indicated selected operating data for our Republic facilities.

	Years ended December 31,		
	2010	2011	2012
Steel sales (thousands of tons)	845	880	787
Average finished product price per ton	Ps.I4,146	Ps.I6,050	Ps.I6,544
Average scrap cost per ton	4,944	5,678	5,212
Average manufacturing conversion cost per ton of finished product[(1)]	6,240	6,367	5,787
Average manufacturing conversion cost per ton of billet[(1)]	3,641	3,835	4,016

(1) Manufacturing conversion cost is defined as all production costs excluding the cost of scrap and related yield loss.

Lorain, Ohio. The Lorain facility operates an integrated steel mill, it has a blast furnace, two 220-ton basic oxygen furnaces, two ladle metallurgy facilities, a vacuum degasser, a five-strand continuous bloom caster, a six-strand billet caster, a billet rolling mill and two bar rolling mills.

Our Lorain facility had, at December 31, 2012, an annual installed capacity of 1,264,000 tons of steel billet and 838,000 tons of finished product. During 2012, the Lorain facility operated at 28.9% of capacity for 9-10” rolling mill and 36.6% of capacity for 20” mill finishing and shipping production, and it produced 271,312 tons of finished products. The facility did not produce any steel billets in 2012.

Canton, Ohio. Our Canton facility mainly produces SBQ steel and includes two 220-ton top charge electric arc furnaces, a 5-strand bloom/billet caster, two ladle metallurgical furnaces, two vacuum degassers and two slag rakes. This facility also includes a combination Caster rolling facility that continuously casts blooms in a 4-strand caster, heats the blooms to rolling temperature in a walking beam furnace, then rolls billets through an 8-stand rolling mill in an inline operation. We installed and commissioned the electric arc furnace, the bloom/billet caster, ladle metallurgical furnace and vacuum degasser in 2005. Other Canton equipment includes a Mecana billet inspection line, four stationary billet grinders, a saw line and a quality verification line (or “QVL line”).

Canton produces blooms and billets for the three rolling mills in Republic facilities and for trade customers. We use the QVL inspection line to inspect finished bar produced in Lackawanna and Lorain. As of December 2012, the Canton facility had annual installed capacity of 1,383,000 tons of steel billet. In 2012, this facility produced 909,523 tons of blooms, billets and other semi-finished trade product and was operated at 65.7% capacity of steel billet.

Lackawanna, New York. Our Lackawanna facility mainly produces SBQ steel and includes a three-zone walking beam billet reheat furnace, a recently upgraded 16 conventional stand mill with a 5 stand sizing mill and two saw lines capable of producing rounds, squares, and hexagons in both cut length and coils. This facility produces hot rolled bar sizes that range from .758" to 3.250" with coil weights up to 6,000 lb. Our Lackawanna facility’s finishing equipment includes a QVL inspection line and three saw lines. We sell a portion of the hot rolled bars produced at our Lackawanna facility to trade customers, and we also ship a portion of the finished bars to our cold finishing operations for further processing. As of December 31, 2012, the Lackawanna facility had annual installed capacity of 599,000 tons of hot rolled bars. In 2012, this facility produced 427,946 tons of hot rolled bars and was operated at 71.5% capacity of finished product.

Massillon, Ohio. Our Massillon facility mainly produces SBQ steel and contains a cold finishing facility which includes the machinery and equipment to clean, draw, turn, chamfer, anneal, grind, straighten and saw bars. Our Massillon facility had, at December 31, 2012, an annual installed capacity of 125,000 tons of finished product. During 2012, the Massillon facility was operated at 55.5% capacity of finished product and produced 69,521 tons of cold finished bars.

Gary, Indiana. Our Gary facility mainly produces SBQ steel and has a cold finishing facility which includes the machinery and equipment to clean, draw, turn, chamfer, anneal, grind, straighten and saw bars.

As of December 31, 2012, the Gary facility had annual installed capacity of 71,000 tons of cold finished bars. In 2012, this facility produced 39,448 tons of cold finished bars and was operated at 55.7% capacity of finished product.

Solon Ohio and Memphis, Tennessee. Our Solon and Memphis facilities, acquired in February, 2011, mainly produce Cold Heading Quality (CHQ) wire products and have wire drawing and finishing facilities that include the machinery and equipment to clean and coat, draw, and anneal wire. As of December 31, 2012, the Solon and Memphis facilities had installed capacities of 181,000, and 87,000 tons, respectively, for wire products. During 2012, the Solon facility produced and shipped 144,216 tons of wire products and was operated at 79.5% capacity of finished product. No wire products were produced at the Memphis facility during 2012.

Hamilton, Ontario, Canada. Our Hamilton facility mainly produces SBQ steel and has a cold finishing facility which includes the machinery and equipment to clean, draw, turn, chamfer, anneal, grind, straighten and saw bars. As of December 31, 2012, the Hamilton facility had annual installed capacity of 59,000 tons of cold finished bars. In 2012, this facility produced 27,276 tons of cold finished bars and was operated at 46.3% capacity of finished product.

The following table shows the products that we produce, the equipment that we use and the volume that we produce in each of our separate production facilities:

Production per Facility by Product, Equipment and Volume

Location	**Product (%)**	**Equipment**	**2012 Annual Production Volume (tons)**	**Finished Product Annual Installed Capacity (tons)**
Guadalajara	Structurals (47%); Light structurals (14%); SBQ (33%), Rebar (6%)	electric arc furnace with continuous caster rolling mill and bar processing lines	350,721	480,000
Mexicali	Structurals (22%); Rebar (46%); Light structurals (32%)	electric arc furnace with continuous caster and bar rolling mills	171,154	250,000
Apizaco and Cholula	SBQ (84%); Rebar (13%); Light structurals (3%)	electric arc furnace with vacuum tank degasser, continuous caster, bar rolling mills, cold drawn and bar turning equipment	403,164	480,000
Aceros DM, San Luis Potosí	Rebar (78%), Light structurals (5%), Wire rod (5%), Electro-Welded wire mesh (5%), Electro-Welded wire mesh panel (7%)	three electric arc furnaces, two continuous casters, two reheating furnaces, rebar rolling mill and wire rod rolling mills	388,047	400,000
Aceros San Luis, San Luis Potosí	Rebar (100%)	electric arc furnace, continuous caster, reheating furnace and rebar rolling mill	169,577	220,000

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Location	Product (%)	Equipment	2012 Annual Production Volume (tons)	Finished Product Annual Installed Capacity (tons)
Lorain(1)	SBQ (100%)	blast furnace, vacuum tank degasser, continuous caster, bar and wire rod rolling mills	271,312	838,000
Canton(2)	SBQ (100%)	electric arc furnace, vacuum tank degasser, continuous caster	909,523	1,383,000
Lackawanna	SBQ (100%)	reheat furnace, bar and wire rod rolling mills	427,946	599,000
Massillon	SBQ (100%)	cold drawn bar turning and heat treating equipment	69,521	125,000
Gary	SBQ (100%)	cold drawn bar turning and heat treating equipment	39,448	71,000
Solon and Memphis (acquired in February, 2011)	Cold Heading Quality (CHQ) wire products (100%)	machinery and equipment to clean and coat, draw, and anneal wire	144,216	269,000
Hamilton	SBQ (100%)	cold drawn bar turning and heat treating equipment	27,276	59,000

(1) Production capacity is for rolling only.
(2) Production capacity is for billets only.

Item 4A. Unresolved Staff Comments

There are no unresolved written comments received from the staff of the U.S. Securities and Exchange Commission (the “Commission”) regarding our periodic reports under the U.S. Securities Exchange Act of 1934, as amended.

Item 5. Operating and Financial Review and Prospects

The following discussion is derived from our audited consolidated financial statements, which are presented elsewhere in this annual report. This discussion does not include all of the information included in our financial statements. You should read our financial statements to gain a better understanding of our business and our historical results of operations.

Adoption of International Financial Reporting Standards (IFRS)

The Mexican National Banking and Securities Commission (CNBV) has established the requirement that listed companies must disclose their financial information to the public, through the Mexican Stock Exchange (BMV), and therefore, beginning in 2012, we prepare our financial information in accordance with IFRS, issued by the IASB. IFRS differs in certain significant respects from U.S. GAAP. Accordingly, Mexican financial statements and reported earnings are likely to differ from those of companies in other countries in this and other respects. We applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*.

Our Financial Statements for the year ending December 31, 2012 are the first annual financial statements presented in accordance with IFRS. The translation date is January 1, 2011 and therefore, the year ended December 31, 2011 is the comparative period covered by the standard of adoption IFRS 1, “Initial Adoption of International Financial Reporting Standards”. According to IFRS 1 we will apply the relevant mandatory exceptions and certain optional exemption to retroactive application of IFRS. The reconciliation and description of the effects of the transition into IFRS are explained in Note 28 of our consolidated financial statements. We applied the following mandatory exceptions with respect to the retroactive application of IFRS:

- ***Accounting estimates*** – Accounting estimates made under MFRS in 2011 are consistent with estimates under IFRS made for the same periods and are thus, not retrospectively modified, except for the fixed asset componentization as explained in Note 28 to our consolidated financial statements included elsewhere herein.

- ***Hedging instruments -*** Certain hedging instruments that were designated as hedges under MFRS qualify for hedge accounting under IAS 39, Financial Instruments: Recognition and Measurement. No designations of hedging relationships were made retrospectively.

- Other mandatory exceptions were not applicable to us.

Additionally, we have applied the option for first-time adoption exemptions as follows:

- We elected not to apply IFRS 3, Business Combinations (as revised in 2008) retrospectively to prior business combinations that occurred before its date of transition to IFRS.

- We elected to present the items of property, plant and equipment at their net book value under MFRS at the transition date, which represents the depreciated cost adjusted for price changes of a specific index (deemed cost).

- We elected to recognize all cumulative unrecognized actuarial gains and losses at the date of transition to IFRS.

- We elected to reset to zero the balance of cumulative translation adjustment of foreign subsidiaries at the date of transition.

- We applied the transitional provisions set out in paragraphs 27 and 28 of IAS 23, Borrowing Costs. Therefore, we designated the transition date to IFRS as the commencement date for capitalization of borrowing costs relating all qualifying assets.

A. Operating Results

Overview

We are producers of SBQ and structural steel products. Accordingly, our net sales and profitability are highly dependent on market conditions in the steel industry which is greatly influenced by general economic conditions in North America and globally. The sharp reduction in economic activity and consumer demand in

general, and in the automotive, construction and manufacturing industries in particular, in North America starting in the fourth quarter of 2008 has had a significant negative impact on the demand and price levels for all steel products, including SBQ and structural steel products. These economic conditions have had an impact on all parts of our operations since the fourth quarter of 2008. Our sales dropped in 2009 by 37% in the automotive sector and by 21% in the energy sector relative to 2008. Demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree, although the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. Our sales increased in 2010, compared to 2009, by 48% in the automotive sector, 16% in the independent distributor sector and 80% in the mining sector. The total increase in net revenue from sales of SBQ products in 2010, compared to 2009, was of 34%. Our net revenue from sales decreased in 2011, compared to 2010, by 7% in the automotive sector, increased 1% in the independent distributor sector and increased 22% in the mining sector. The total increase in net revenue from sales of SBQ products in 2011, compared to 2010, was 16%. Our net revenue from sales decreased in 2012, compared to 2011, increased by 1% in the automotive sector, increased 20% in the independent distributor sector, decreased 55% in the hand tools sector, decreased 53% in the mining sector and decreased 20% in other industries. The total decrease in net revenue from sales of SBQ products in 2012, compared to 2011, was 4%.

As a result of the significant competition in the steel industry and the commodity-like nature of some of our products, we have limited pricing power over many of our products. The North American and global steel markets influence finished steel product prices. Nevertheless, many of our products are SBQ products for which competition is limited, and, therefore, these products tend to generate somewhat higher margins compared with our more commoditized steel products. We attempt to adjust the mix of our product output toward higher margin products to the extent that we are able to do so, and we also adjust our overall product levels based on the product demand.

We focus on controlling our cost of sales as well as our selling, general and administrative expenses. Our cost of sales largely consist of the costs of acquiring the raw materials necessary to manufacture steel, primarily scrap metal and iron ore. Market supply and demand generally determine scrap and iron ore prices, and, as a result, we have limited ability to influence their cost or the costs of other raw materials, including energy costs; however, in 2010, 2011 and 2012 we did not purchase iron ore pellets or coke since our Lorain, Ohio blast furnace facility, which is our only facility that utilizes these materials, was idle during this period. There is a correlation between the prices of scrap and iron ore and finished product prices, although the degree and timing of this correlation varies from time to time, so we may not always be able to fully pass along scrap, iron ore and other raw material price increases to our customers. Therefore, our ability to decrease our cost of sales as a percentage of net sales is largely dependent on increasing our productivity. Our ability to control selling, general and administrative expenses, which do not correlate to net sales as closely as cost of sales do, is a key element of our profitability. Although our revenues and costs fluctuate from quarter to quarter, we do not experience large fluctuations due to seasonality.

Production costs at our U.S. facilities are higher than those in our facilities in Mexico principally due to the higher cost of labor and the higher cost of ferroalloys used to manufacture SBQ steel, which is the only steel product that we produce in the United States.

Sales Volume, Price and Cost Data, 2011 - 2012

	Year ended December 31,	
	2011	2012
Shipments (thousands of tons)	2,289	2,262
Guadalajara and Mexicali	563	539
Apizaco and Cholula	343	376
San Luis facilities	503	560
Republic facilities	880	787

Net sales (Ps. millions)	29,270	29,524
Guadalajara and Mexicali	5,953	5,967
Apizaco and Cholula	4,096	4,692
San Luis facilities	5,097	5,845
Republic facilities	14,124	13,020

	Year ended December 31,	
	2011	2012
Cost of sales (Ps. millions)	25,563	25,960
Guadalajara and Mexicali	4,866	5,116
Apizaco and Cholula	3,067	3,344
San Luis facilities	4,005	4,568
Republic facilities	13,625	12,932
Average price per ton (Ps.)	12,787	13,052
Guadalajara and Mexicali	10,574	11,071
Apizaco and Cholula	11,942	12,479
San Luis facilities	10,133	10,438
Republic facilities	16,050	16,544
Average cost per ton (Ps.)	11,168	11,477
Guadalajara and Mexicali	8,643	9,492
Apizaco and Cholula	8,942	8,894
San Luis facilities	7,962	8,157
Republic facilities	15,483	16,432

Our results are affected by general global trends in the steel industry and by the economic conditions in the countries in which we operate and in other steel producing countries. Our results are also affected by the specific performance of the automotive, non-residential construction, industrial equipment, tooling equipment and other related industries. Our profitability is also impacted by events that affect the price and availability of raw materials and energy inputs needed for our operations. The factors and trends discussed below also affect our results and profitability.

Our primary source of revenue is the sale of SBQ steel and structural steel products.

In August 2004, we completed the Atlax Acquisition (Tlaxcala and Cholula facilities). In July 2005, we and our controlling shareholder, Industrias CH, completed the acquisition of Republic. We believe that these acquisitions allowed us to become the leading producer of SBQ steel in North America and the leading producer of structural and light structural steel in Mexico, in each case in terms of sales volume. We expect the sale of SBQ steel, structural steel and other steel products to continue to be our primary source of revenue. The markets for our products are highly competitive and highly dependent on developments in global markets for those products. The main competitive factors are price, product quality and customer relationships and service.

Our results are affected by economic activity, steel consumption and end-market demand for steel products.

Our results of operations depend largely on macroeconomic conditions in North America. Historically, there has been a strong correlation between the annual rate of steel consumption and the annual change in gross domestic products (“GDP”) in the Mexican, U.S. and Canadian markets.

We sell our steel products to the automotive, construction, manufacturing and other related industries. These industries are generally cyclical, and their demand for steel is impacted by the stage of their industry market cycles and the country’s economic performance. Mexico’s GDP increased 3.9% in 2012 and increased 3.9% in 2011. The U.S.

GDP increased 2.2% in 2012 and increased 1.7% in 2011. A deterioration in economic conditions in the countries in which we operate is likely to adversely affect our results of operation.

Our results are affected by international steel prices and trends in the global steel industry.

Steel prices are generally set by reference to world steel prices, which are determined by global supply and demand trends. As a result of general excess capacity in the industry, the world steel industry was previously subject to substantial downward pricing pressure, which negatively impacted the results of steel companies in the second

half of 2000 and all of 2001. International steel prices generally improved beginning in 2003, driven by a strong increase in global demand fostered by economic growth in Asia and an economic recovery in the United States, combined with increased rationalization of production capacity in the United States and elsewhere. Average steel prices continued to improve from 2003 to 2008 due to strong end-market demand fundamentals for a number of key steel-consuming industries, continued strong steel demand in China, India and other developing economies, relatively high raw material and energy costs and reductions in U.S. production from some of the industry's largest producers.

This period of high prices for steel encouraged reactivation of investment in production capacity, and, consequently, an increase in the supply of steel products that contributed to a decline in steel prices. As the 2008 financial crisis worsened in late 2008 and early 2009, global demand for steel fell while new steel production capacity was coming into the market, and as a result steel prices fell worldwide. In 2009 the average steel price decreased approximately 22% compared to 2008. Due to an increase in the demand, in 2010, the average steel price increased approximately 16% compared to 2009. The average steel price increased approximately 17% in 2011 compared to 2010. The average steel price increased approximately 2% in 2012 compared to 2011.

In recent years, there has been a trend toward consolidation of the steel industry. For example, in 2006, Arcelor completed the acquisition of Dofasco in Canada, and Mittal Steel announced the acquisition of Arcelor, forming the largest steel company in the world. Aceralia, Arbed and Usinor merged in February 2002 to create Arcelor, and LNM Holdings and Ispat International merged in October 2004 to create Mittal Steel, which subsequently acquired International Steel Group. In addition, a number of other steel acquisition transactions have been announced, including the acquisition of Oregon Steel by Evraz and the acquisition of Corus by Tata Steel. Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures or idling, as the ones observed recently in the United States by Mittal Steel, U.S. Steel and others. Consolidation may result in increased competition and could adversely affect our results.

Our results are affected by competition from imports.

Our ability to sell our products is influenced, to varying degrees, by global trade for steel products, particularly trends in imports of steel products into the Mexican and U.S. markets. During 2005, the Mexican government, at the request of CANACERO, implemented several measures to prevent unfair trade practices such as dumping in the steel import market. These measures include initiating anti-dumping and countervailing duty proceedings, temporarily increasing import tariffs for countries with which Mexico does not have free trade agreements. As a result, the competitive price pressure from dumping declined, contributing to a general upward trend in domestic Mexican steel prices. In 2006 and 2007, imports to Mexico increased as market conditions improved, and in 2008, imports to Mexico continued to increase, notwithstanding the worsening of international market conditions. In 2009, however, imports to Mexico decreased as domestic and global market conditions worsened. In 2010, 2011 and 2012, imports to Mexico increased as market conditions improved.

Steel imports to the United States accounted for an estimated 24% of the domestic U.S. steel market in 2012 and an estimated 22% in 2011. Foreign producers typically have lower labor costs, and in some cases are owned, controlled or subsidized by their governments, allowing production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Increases in future levels of imported steel in the United States could reduce future market prices and demand levels for steel in the United States. To this extent, the U.S. Department of Commerce and the U.S. International Trade Commission are currently conducting five year "sunset" reviews of existing trade relief in several different steel products. Imports represent less of a threat to SBQ producers like us in the United States than to commodity steel producers because of the high quality requirements and standard required by buyers of SBQ steel products.

Our results are affected by the cost of raw materials and energy.

We purchase substantial quantities of raw materials, including scrap metal, iron ore, coke and ferroalloys for use in the production of our steel products. The availability and price of these inputs vary according to general market and economic conditions and thus are influenced by industry cycles. As a result of the 2008 financial crisis that continues to affect the international markets, the prices of these inputs have remained highly volatile.

For example, prices of scrap metal increased approximately 34% in 2010, increased approximately 21% in 2011 and increased approximately 1% in 2012; and prices of ferroalloys increased approximately 22% in 2010 and 10% in 2011 and decreased approximately 10% in 2012. As with other raw materials, iron ore and coke prices fluctuate significantly. However, in 2010, 2011 and 2012 we did not purchase coke or pellets since our Lorain, Ohio blast furnace facility was idle during this period.

In addition to raw materials, electricity and natural gas are both relevant components of our cost structure. We purchase electricity and natural gas at prevailing market prices in Mexico and the United States. These prices are impacted by general demand and supply for energy in the United States and Mexico as economic activity fueled energy demand and the supply and price of oil was impacted by geopolitical events. While natural gas and electricity prices in the United States and Mexico decreased in response to the financial crisis, they have remained highly volatile. Prices for electricity increased approximately 8% in 2010, 11% in 2011 and 3% in 2012; and prices for natural gas decreased approximately 18% in 2010, 14% in 2011 and 32% in 2012.

If inflation rates in Mexico rise significantly, our costs may increase and the demand for our services may decrease.

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the Mexican Central Bank (Banco de Mexico) was 4.4% for 2010 3.8% for 2011 and 3.6% for 2012. High inflation rates could adversely affect our business and results of operations by increasing certain costs, such as the labor costs of our Mexican facilities, beyond levels that we could pass on to our customers and reducing consumer purchasing power, thereby adversely affecting demand for our products.

Depreciation of the Mexican peso relative to the U.S. dollar, as well as the reinstatement of exchange controls and restrictions, could adversely affect our financial performance.

Depreciation of the Mexican peso relative to the U.S. dollar may negatively affect our results of operations. Since the second half of 2008, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the Mexican Central Bank (Banco de Mexico), during this period the exchange rate registered a low of Ps. 9.92 per US$1.00 at August 6, 2008, and a high of Ps. 15.37 per US$1.00 at March 10, 2009 and was Ps. 12.13 per US$1.00 at April 30, 2013.

A severe depreciation of the Mexican peso may also result in disruption of the international foreign exchange markets and may limit our ability to convert Mexican pesos into U.S. dollars and other currencies. While the Mexican government does not currently restrict, and has not recently restricted the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, it has done so in the past and could reinstate exchange controls and restrictions in the future. Currency fluctuations or restrictions on the transfer of foreign currency outside of Mexico may have an adverse effect on our financial performance.

Segment Information

We are required to disclose segment information in accordance with IFRS 8 Operating Segments: Information which establishes standards for reporting information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial reports issued to shareholders. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. The statement also establishes standards for related disclosures about a company’s products and services, geographical areas and major customers.

We conduct business in two principal business segments which are organized on a geographical basis:

- our Mexican segment represents the results of our operations in Mexico, including our plants in Mexicali, Guadalajara, Tlaxcala and San Luis Potosí; and

- our U.S. segment represents the results of our operations of Republic, including its eight plants of which seven are located in the United States and one is located in Canada.

The following information shows other results by segment.

	For the year ended December 31, 2012			
	Mexico	United States	Operations between Segments	Total
	(in thousands of pesos)			
Net Sales	16,524,598	13,019,924	(20,555)	29,523,967
Cost of Sales	13,049,147	12,931,572	(20,555)	25,960,164
Gross profit	3,475,451	88,352	—	3,563,803
Administrative expenses	850,205	378,117	—	1,228,322
Other income, net	156,570	24,659	—	181,229
Interest income	23,344	250	—	23,594
Interest expense	7,804	18,505	(3,284)	23,025
Exchange loss, net	(509,149)	(750)	—	509,899
Income (loss) before income tax	2,288,207	(284,111)	3,284	2,007,380
Income tax	109,686	(56,054)	—	53,622
Net income (loss)	2,178,521	(228,057)	3,284	1,953,748

Other Data	Mexico	United States	Operations between Segments	Total
Depreciation and Amortization	750,888	261,134	—	1,012,022
Total Assets	25,588,667	8,288,629	(1,420,511)	32,456,785
Total liabilities	3,649,409	4,560,505	(1,420,511)	6,789,403
Additions of property, plant and equipment, net	937,761	366,213	—	1,303,974

	For the year ended December 31, 2011			
	Mexico	United States	Operations between Segments	Total
	(in thousands of pesos)			
Net Sales	15,174,922	14,127,627	(32,051)	29,270,498
Cost of Sales	11,964,761	13,630,778	(32,051)	25,563,488
Gross profit	3,210,161	496,849	—	3,707,010
Administrative expenses	718,392	331,561	—	1,049,953
Other expense, net	(103,670)	(10,036)	—	(113,706)
Interest income	26,089	46	—	26,135
Interest expense	9,502	14,223	—	23,725
Exchange gain, net	581,630	—	—	581,630
Income before income tax	2,986,316	141,075	—	3,127,391
Income tax	182,027	(33,197)	—	148,830
Net income	2,804,289	174,272	—	2,978,561

Other Data	Mexico	Total

		United States	Operations between Segments	
Depreciation and Amortization	731,678	217,838	—	949,516
Total Assets	23,353,289	9,092,150	(1,326,388)	31,119,051
Total liabilities	3,472,301	4,841,686	(1,326,388)	6,987,599
Additions of property, plant and equipment, net	267,720	164,280	—	432,000

Our net sales by product during 2012 and 2011 are as follows:

SALES BY PRODUCT

(in thousands of pesos)

	2012	2011
Light structurals	1,119,824	988,808
Structurals	2,091,040	2,061,210
Bars	1,507,091	1,892,768
Rebar	6,557,581	5,350,784
Flat bar	715,994	614,662
Hot rolled bars	11,526,773	12,165,621
Cold drawn bars	3,678,059	3,375,967
Other	2,327,605	2,820,678
Total	29,523,967	29,270,498

Our net sales by country or region during 2012 and 2011 are as follows:

SALES
(in thousands of pesos)

	2012	2011
Mexico	15,749,895	14,399,682
USA	12,577,226	13,709,807
Canada	795,929	766,318
Latin America	366,123	356,932
Other (Europe and Asia)	34,794	37,759
Total	29,523,967	29,270,498

Comparison of Years Ended December 31, 2011 and 2012

Net Sales

Net sales increased 1%, to Ps. 29,524 million in 2012 compared to Ps. 29,270 million in 2011. This increase resulted principally from a 2% increase in the average price per ton of steel products. Total sales outside of Mexico decreased 7%, to Ps. 13,774 million in 2012 compared with Ps. 14,871 million in the same period of 2011. Total sales in Mexico increased 9%, from Ps. 14,399 million in 2011 to Ps. 15,750 million in 2012.

Shipments of finished steel products decreased 1%, to 2.262 million tons in 2012, compared to 2.289 million tons in 2011. Total sales volume outside of Mexico of finished steel products was 0.905 million tons in 2012, compared to 1.014 million tons in 2011, while total Mexican sales increased 6%, from 1.275 million tons in 2011, compared to 1.357 million tons in 2012.

The average price of steel products increased 2% in 2012 compared to 2011, mainly as a result of an increase in sales of SBQ and higher prices in worldwide steel markets.

Cost of Sales

Our cost of sales increased 1.5%, from Ps. 25,563 million in 2011 to Ps. 25,960 million in 2012, which increase is mainly attributable to (i) an 5% increase in the average cost of raw materials used to produce finished

steel products in our Mexican operations; (ii) higher SBQ sales in our Mexican operations; and (iii) a 6% increase in shipments in our Mexican operations. Cost of sales as a percentage of net sales was 88% in 2012, compared to 87% in 2011. We experienced higher cost of sales at our Republic facilities, mainly a result of (i) higher labor costs corresponding to our U.S. operations, and (ii) the higher cost of raw materials, which our U.S. operations use in the production of SBQ steel. Hourly wages at our Mexican operations were approximately U.S.$2.1 and U.S.$1.8 per hour in 2012 and 2011, respectively, compared to U.S.$47.4 and U.S.$46 per hour for 2012 and 2011, respectively, at our U.S. operations. Although raw material costs are similar in the United States and Mexico, our U.S. operations produce only the more costly SBQ steel, which requires more expensive raw materials such as chromium, nickel, molybdenum and other alloys. Our Mexican operations require these alloys to a lesser extent, because they produce commodity steel as well as SBQ steel.

Gross Profit

Our gross profit decreased 4%, to Ps. 3,564 million in 2012 compared to Ps. 3,707 million in 2011. This decrease attributable mainly to a decrease of approximately 11% of volumes shipped in our operations in Republic. As a percentage of net sales, our gross profit was 12% in 2012, compared to 13% in 2011.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 17%, to Ps. 1,228 million in 2012, compared to Ps. 1,050 million in 2011. In 2012 and 2011, our general and administrative expenses included Ps. 297 million and Ps. 354 million, respectively, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Operating expenses as a percentage of net sales were 4% in 2012 and 2011. Depreciation and amortization expense were Ps. 475 million in 2012 compared to Ps. 455 million in 2011.

Other Income (Expense), Net

We recorded other income, net of Ps. 181 million in 2012, reflecting (i) an income of ps. 216 million related to compensation from litigation settlement received by missing inventory from the acquisition of Grupo San; (ii) expenses of Ps. 8 million corresponding to land remediation work at Pacific Steel (iii) an expense of Ps. 68 million related to the depuration of some account balances and (iv) other income related to other financial operations of Ps. 41 million.

We recorded other expenses, net of Ps. 114 million in 2011, reflecting (i) an expense of Ps. 49 million related to the depuration of some account balances; (ii) expenses of Ps. 14 million corresponding to land remediation work at Pacific Steel; and (iii) expenses of Ps. 12 million related to obsolete machinery; and (iv) other expenses related to other financial operations of Ps. 39 million.

Interest Income

We recorded an interest income of Ps. 23 million in 2012 compared to Ps. 26 million in 2011.

Interest Expense

We recorded an interest expense of Ps. 23 million in 2012 compared to Ps. 24 million in 2011.

Foreign Exchange (Loss) Gain

We recorded a foreign exchange loss of Ps. 509 million in 2012 compared to an exchange gain of Ps. 582 million in 2011; this foreign exchange loss reflected the 7% appreciation of the peso against the dollar in 2012 and the 13% devaluation of the peso against the dollar in 2011. Foreign exchange loss in 2012 resulted because our monetary position in dollar assets is greater than our liabilities in dollars.

Income Tax

In 2012 we recorded an income tax provision of Ps. 54 million, which included an income tax benefit of Ps. 16 million and an income tax provision for deferred income taxes and deferred Flat-Rate Business Tax (FRBT) of Ps. 70 million. In 2011 we recorded an income tax provision of Ps. 149 million which included an income tax benefit of Ps. 87 million and an income tax provision for deferred income taxes and deferred FRBT of Ps. 236 million.

Our effective income tax rates for 2012 and 2011 were 2.7% and 4.8%, respectively.

According to the Income Tax Law in México, the tax rate for the year 2013 is 30%, 29% for 2014 and 28% for 2015 and thereafter.

The FRBT Law was published in the *Official Gazette* on October 1, 2007. This Law came into force on January 1, 2008, and abolished the Asset Tax Law. In 2010 FRBT is computed by applying the 17.5% rate (17% for 2009 and 16.5% for 2008) to income determined on the basis of cash flows, net of acquisitions of inventory and fixed assets and certain authorized credits. FRBT is payable only to the extent it exceeds income tax for the same period. In other words, to determine FRBT payable, income tax paid in a given period must first be subtracted from the FRBT for the same period and the difference shall be the FRBT payable. The deferred taxes of the years ended December 31, 2012 and 2011 where determined based on the specific rules of each tax.

Net Income

We recorded net income of Ps. 1,954 million in 2012, compared to net income of Ps. 2,978 million in 2011. This decrease is mainly attributable to (i) a foreign exchange loss of Ps. 509 million in 2012 compared to Ps. 582 million of exchange gain in 2011 (ii) an increase in cost of sales and (iv) an increase in administrative expenses.

Critical Accounting Policies

The discussion in this section is based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates, including those related to the carrying value of property, plant and equipment and other non-current assets, inventories and cost of sales, income taxes, foreign currency transactions and exchange differences, valuation allowances for receivables, inventories and deferred income tax assets, liabilities for deferred income taxes, valuation

of financial instruments, obligations relating to employee benefits, potential tax deficiencies, environmental obligations, and potential litigation claims and settlements. Management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not

readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions or conditions.

Management believes that the critical accounting policies which require the most significant judgments and estimates used in the preparation of the financial statements relate to deferred income taxes, the impairment of property, plant and equipment, impairment of intangible assets, valuation allowance on accounts receivable and inventories obsolescence. We evaluate the recoverability of operating tax losses (NOL) carry forwards, and only for those who have probability of being recovered is determined a deferred tax asset. The final realization of deferred tax assets depends on the generation of taxable profits in the periods when the temporary differences are deductible. Upon carrying out this evaluation, we considered the expected reversal of deferred tax liabilities, projected taxable profit and planning strategies. As part of our analysis, we also considered the impact of Mexico's Flat-Rate Business Tax in the projected utilization of NOLs to determine which tax system (the regular income tax or the Flat Rate Business Tax) would be more likely to limit the realization of deferred tax assets. To the extent that the Flat Rate did not limit recognition of deferred tax assets, we projected future taxable profits for a period of four years. Based on the company's evaluation, it determined the amount of deferred tax asset that is more likely than not to be realized in the future against those taxable profits. Any deferred tax amounts which were not recovered in that time period or through the reversal of deferred tax liabilities had a valuation allowance provided for their realization.

We evaluate periodically the adjusted values of our property, plant and equipment and intangible assets to determine whether there is an indication of potential impairment. Impairment exists when the carrying amount of an asset exceeds net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or realizable value. Significant judgment is involved in estimating future revenues and cash flows or realizable value, as applicable, of our property, plant and equipment due to the characteristics of those assets. The class of our assets which most require complex determinations based upon assumptions and estimates relates to indefinite lived intangibles including goodwill, due to the current market environment.

In assessing the recoverability of the goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. We perform an annual review in the fourth quarter of each year, or more frequently if indicators of potential impairment exist, to determine if the carrying value of recorded goodwill is impaired. The impairment review process compares the fair value of the reporting unit in which goodwill resides to its carrying value. We estimate the reporting unit's fair value based on a discounted future cash flow approach that requires estimating income from operations. In order to estimate our cash flows used in impairment computations, we considered the following:

- our history of earnings;
- our history of capital expenditures;
- the remaining useful lives of our primary assets;
- current and expected market and operating conditions; and
- our weighted average cost of capital.

Other intangible assets are mainly comprised of trademarks, customer list and non-competition agreements. When impairment indicators exist, or at least annually for indefinite live intangibles, we determine our projected revenue streams over the estimated useful life of the asset. In order to obtain undiscounted and discounted cash flows attributable to each intangible asset, such revenues are adjusted for operating expenses, changes in working capital and other expenditures as applicable, and discounted to net present value using the risk adjusted discount rates of return. As of December 31, 2011 and 2012 there was not impairment charge to other intangible assets.

As a result of the downturn in the construction industry in Mexico during 2009 and the negative impact the downturn had on our operations mainly at the San Luis facilities, in which goodwill resides we adjusted the key

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assumptions used in the valuation model. As of December 31, 2011 and 2012, there was no impairment charge related to the San Luis facilities.

As of December 31, 2012, the main key assumptions used in the valuation models of San Luis reporting unit are as follows:

- discount rate: 12%; and
- sales: we estimate an increase in sales, mainly attributable to the increase in the volume by the mesh products and billet. The company forecast an increase of 37% in 2013. After 2014, no sales increases in volume terms are considered in the valuation model and the useful remaining life of the assets we keep the volume and only the increase in sales prices proportional to the estimated inflation.

As of December 31, 2011, the main key assumptions used in the valuation models of San Luis reporting unit are as follows:

- discount rate: 10.9%; and
- sales: we estimate an increase in sales, mainly attributable to the increase in the volume by the mesh products. The company forecast an increase of 10% in 2012 and 1.7% for 2013. After 2014, no sales increases in volume terms are considered in the valuation model and the useful remaining life of the assets we keep the volume and sales prices.

If these estimates or their related assumptions for prices and demand change in the future, we may be required to record additional impairment charges for these assets.

With respect to valuation allowance on accounts receivable, on a periodic basis management analyzes the recoverability of accounts receivable in order to determine if, due to credit risk or other factors, some receivables may not be collected. If management determines that such a situation exists, the book value of the non-recoverable assets is adjusted and charged to the income statement through an increase in the doubtful accounts allowance. This determination requires substantial judgment by management. As a result, final losses from doubtful accounts could differ significantly from estimated allowances.

Net realizable value of inventory. We apply judgment at each balance sheet date to determine whether the low moving inventory is impaired. Inventory is impaired when the carrying value is greater than the net realizable value.

Reserve for environmental liabilities: The reserve for environmental liabilities represent the estimated environmental remediation costs associated that we believe are going to incur. These estimates are based on currently available data, existing technology, the current laws and regulations and take into account the likely effects of inflation and other economic and social factors. The time in which they could incur these costs cannot be determined reliably at this time due to the absence of deadlines for remediation under the laws and regulations which apply to remediation costs will be made.

New Accounting Pronouncements

IASB has issued amendments to IFRS, which were enacted but not yet effective some of them:

	Effective for annual periods beginning on or after
IFRS 9, Financial Instruments	January 1, 2013
IFRS 10, Consolidated Financial Statements	January 1, 2013
IFRS 11, Joint Arrangements	January 1, 2013

IFRS 12, Disclosure of Interest in Other Entities	January 1, 2013
IFRS 13, Fair Value Measurement	January 1, 2013
IAS 27, Consolidated and Separate Financial Statements - Reissued as IAS 27 Separate financial statements (as amended in 2011)	January 1, 2013
IAS 28, Investments in Associates – Reissued as IAS 28 Investment in associates and joint ventures (as amended in 2011)	January 1, 2013
Amendment to IFRS 7 Disclosures – Transfers of Financial Assets	January 1, 2013
Amendment to IFRS 9 and IFRS 7 Mandatory effective date of IFRS 9 and Transition Disclosures	January 1, 2015
Amendments to IFRS 10, IFRS 11 e IFRS 12, Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	January 1, 2013
IAS 19 (as revised in 2011), Employee Benefits	January 1, 2013
Amendment to IAS 32 Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Amendments to IFRSs, Annual Improvements to IFRSs 2009-2011 Cycle Except for the Amendment to IAS 1	January 1, 2013

At the date of issuance of these consolidated financial statements, we have not had any effect with these new standards on its financial information.

B. Liquidity and Capital Resources

As a result of the economic crisis in Mexico arising from the devaluation of the peso versus the U.S. dollar in 1994, including the liquidity crisis which affected the Mexican banking system, the insolvency of our former parent, Sidek, and our high levels of short-term indebtedness, we became unable to generate or borrow funds to refinance our debt or to support our operations and capital improvements. As of December 15, 1997, and immediately prior to the consummation of the restructuring discussed below, we had total outstanding indebtedness of approximately U.S.$322 million. Over half of our debt had matured and was unpaid and substantially all of the balance was subject to acceleration.

In December 1997, we consummated a corporate reorganization and restructuring of our liabilities. As part of this restructuring, our wholly-owned subsidiary, CSG, incurred new bank debt and issued new debt securities and paid limited amounts of accrued interest on certain outstanding debt in exchange for and in an aggregate amount approximately equal to our aggregate outstanding consolidated debt at the date of consummation of the restructuring. In exchange, CSG received equity in all of our subsidiaries, and we eliminated the intercompany debt that CSG owed to us.

The restructuring did not result in a reduction in the overall amount of our consolidated outstanding debt, and, accordingly, following the restructuring, through CSG, we continued be highly leveraged. In 2001, subsequent to Industrias CH’s acquisition of a controlling interest in us, CSG redeemed or repurchased all of the outstanding debt securities it had issued in connection with the restructuring, which it financed principally with borrowings from Industrias CH. In 2001, we converted approximately U.S.$90 million of bank debt to equity, which equity Industrias

CH acquired. From 2001 through 2004, CSG continued to pay down its outstanding bank debt, making scheduled amortization payments as well as additional principal payments which it financed primarily by capital contributions from Industrias CH or borrowings from Industrias CH which it later converted to equity. In March 2004, we prepaid U.S.$1.7 million of the remainder of our outstanding bank debt.

On December 31, 2010, 2011 and 2012, our total consolidated debt was U.S.$302,000 of 8 7/8% medium-term notes (“MTNs”) due 1998 which remained outstanding after we conducted exchange offers for the MTNs in October 1997 and August of 1998. We could not identify the holders of such MTNs at the time of the exchange offers and as a result such MTNs, which matured in 1998, have not been paid and remain outstanding.

On September 6, 2006, Industrias CH and its subsidiaries and affiliates made available a line of credit in favor of Republic. Effective January 1, 2009, Industrias CH reduced the interest rate from 5.23% to 0.25% per annum. As of December 31, 2012 and 2011, Republic had U.S.$50 million, outstanding under this line of credit. See Note 20 to our consolidated financial statements included elsewhere herein.

On May 30, 2008, we acquired 100% of the stock of Grupo San for approximately U.S.$844 million (Ps. 8,730 million). To finance the purchase price, on May 29, 2008 we accepted a loan from Banco Inbursa S.A. for U.S.$120 million (Ps. 1,325 million) at Libor + 1.45% that was due on May 29, 2009, which debt has since been repaid in full. We also received U.S.$112.5 million (Ps. 1,169 million) of capital stock increase from Industrias CH that was formalized on July 22, 2008. We paid the remaining balance of the purchase price through our own cash reserves.

We depend heavily on cash generated from operations as our principal source of liquidity. Other sources of liquidity have included financing made available to us by our parent Industrias CH (primarily in the form of equity or debt, substantially all of which was subsequently converted to equity), primarily for the purpose of repaying third party indebtedness, as well as limited amounts of vendor financing. On February 8, 2007, we completed a public offering of ADSs and series B shares and raised cash proceeds of approximately U.S.$214 million. As of December 31, 2010 we had cash and cash equivalents of Ps. 3,385 million, as of December 31, 2011 we had cash and cash equivalents of Ps. 6,537 million and as of December 31, 2012 we had cash and cash equivalents of Ps. 8,102 million. We believe that this amount and cash generated from operations will be sufficient to satisfy our currently anticipated cash requirements, including our currently anticipated capital expenditures.

Our principal use of cash has generally been to fund our operating activities, to acquire businesses and, capital expenditure programs. The following is a summary of cash flows for the two years ended December 31, 2011 and 2012:

Principal Cash Flows

	Years ended December 31,	
	2011	2012
Funds provided by operating activities	2,954	3,655
Funds used in investing activities	(440)	(1,507)
Funds used by financing activities	—	(23)

Our net funds provided by operations were Ps. 3,655 million in 2012 compared to Ps. 2,954 million in 2011. The increase of Ps. 701 million in the net funds provided by operation between 2012 and 2011 originated mainly from the net decrease in accounts receivable for the year.

We attribute our net funds used in investing activities primarily to the acquisition of new facilities, property, plant and equipment and other non-current assets. Our net funds used in investing activities were Ps. 1,507 million in 2012 compared to Ps. 440 million in 2011.

Our net funds used by financing activities in 2012 were Ps. 23 million, compared to Ps. 0 million by financing activities in 2011. We do not have in place any interest rate or currency hedging instruments. We are not a party to any non-exchange traded contracts accounted for at fair value other than, as described in Note 15 to our consolidated financial statements, certain futures contracts that we entered to fix the price of our natural gas purchases.

As of December 31, 2012, we have the following commitments for capital expenditures:

On September 27, 2011, we entered into an agreement with SMS Concast AG. ("Concast") for the manufacture of the melt shop equipment to be used by our subsidiary GV do Brazil Industria e Comercio of Aço LTDA with a capacity of 520,000 tons of annual steel billet for the production of rebar and wire production with an arc furnace of 65,000 tons.

The purchase price was 15 million Euros, to be paid in dollars at a fixed exchange rate of 1.3764 U.S. dollars per Euro in accordance with the following payment schedule:

- 70% on 5 payments within 15 days after the signing the contract and 10 months following.

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- The remaining 30% by irrevocable letter of credit in favor of the supplier, which shall be valid for a minimum period of 18 months. This letter shall be payable in equal installments of 10% of the contract value which will start from the last shipment of equipment to final testing and startup. This amount will be paid as follows:
  - 5%, 11.5 months after signing the contract.
  - 5% within a few weeks after notification of the supplier to the Company's bill of lading and / or airway and / or certificate in the store that has received the equipment in good condition, however this partial payment of 5% may be paid in any event no later than February 28, 2013.
- The remaining 20% will be paid by letter of credit irrevocable nontransferable, open until June 30, 2014, which shall be in force until the date agreed and this 20% will be covered as follows:
  - 10% will be paid to the contractor upon delivery of documents of all operating units, but if the cold tests with respect to any equipment operation cannot be completed and / or successful completion in 12 months from the date of delivery, then do not pay until they are delivered successfully tested over a period of thirteen months.
  - 10% will be paid to the contractor upon delivery of documentation and conducting performance tests with respect to any operating unit and if not successfully, the contractor will be responsible for performing this test to the end of the warranty period.

At December 31, 2012, payments in advance totaled USD$15.5 million.

The Supplier shall provide a guarantee (Warranty Bond) of 10% for a period of 24 months from the last shipment.

On November 18, 2011 we entered into an agreement with SMS Meer S. p. A. (“Meer”) providing for our acquisition from Meer of a rolling mill to be used by our subsidiary GV do Brasil Indústria e Comércio de Aço Ltda., with a production capacity of 400,000 tons of wire and rebar. The purchase price was 19.6 million Euros, to be paid in dollars at a fixed exchange rate of 1.3482 dollars per euro. The payments will be done on dollars in accordance with the following payment schedule:

- 80% of the contract through an irrevocable letter of credit on behalf of Meer, valid for 14 months, to be granted at the time of receipt of the majority of the equipment;
- 20% of the contract price shall be paid in US dollars through an irrevocable, non-transferable documentary letter of credit, which shall be entered into 11.5 months from the signing of the supply contract, with a minimum validity of 14.5 months and payable in two parts:

a) 10% of the contract once the cold tests are performed, Meer will provide a bank warranty on behalf of Simec for the same amount, which will be valid for 8 months after the last major shipment.

b) 10% of the contract after the signing of the final acceptance certificate. The warranty period of the equipment will be 18 months after the last major shipment until the signing of the provisional acceptance certificate.

We have made advances for US$4.4 million at December 31, 2012.

On July 20, 2012 we entered to make an amendment to the original contract, an added an acquisition of a box for the rolling mill, the purchase price was 0.5 million Euros, to be paid in dollars at a fixed exchange of 1.23482 dollars per euro. The payments will be done on dollars in accordance with the following payment schedule:

- 20% of the contract in advance and the vendor will provide a bank guarantee for this amount
- 60% of the contract at the time of good delivery
- 10% of the contract at the provisional acceptance, the delivery of a pro-forma invoice and the certificate of provisional acceptance

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- 10% of the contract once accepted the equipment permanently

We have made advances for US$0.1 million at December 31, 2012.

On August 21, 2012 the Company entered into a contract with the supplier Russula, SA for an amount of US$ 5.4 million for the development of a treatment plant wastewater for its subsidiary GV do Brasil Industria e Comercio of Aço LTDA. This contract shall be payable as follows:

- 10% at 15 days after signing the contract.
- The 5% within 15 days after certification of basic engineering approval, which will be issued by the subsidiary.
- 10.65% on March 12, 2013.
- 7% on April 15, 2013.
- The 5% within 15 days after certification of approval to engineering detail, which will be issued by the subsidiary.
- The 19.35% upon delivery of the commercial invoice, packing list, certificate of origin of the equipment and insurance and freight for the team's arrival at the port.
- The 13% upon delivery of the equipment at the port of Brazil.
- The 20% against proforma invoice delivery and acceptance of the provisional certificate.
- 10% upon delivery of final acceptance certificate of the plant and the warranty.

At December 31, 2012 have made payments in advance totaled US$ 0.8 million.

On August 30, 2012 the Company entered into a contract with the provider Mochetti Gino Industrie Sollevamenti S.r.l. for an amount of US$ 4.1 million for the development of two overhead cranes to its subsidiary GV do Brasil Industria e Comercio LTDA of Aco. Payments will be made as follows:

- 30% within 30 days after signing the contract.

- 60% by credit card which will be issued within 2 months from the date of signing the contract and the letter of credit must have a minimum validity of 12 months.

- The remaining 10% will be paid upon delivery of the proforma invoice and the final acceptance certificate.

At December 31, 2012 have made advances US$ 1.2 million.

C. Research and Development, Patents and Licenses

The San Luis facilities are registered with the Mexican Institute of Industrial Property ("IMPI") and the trademarks "SAN" and "Aceros San Luis". The trademark "Grupo Simec" is currently in process of registration at the IMPI. Also, a patent is currently in process of registration before the IMPI entitled in favor of Simec International 6, S.A. de C.V.

D. Trend Information

In the first quarter 2013 net sales increased 6% compared to the fourth quarter 2012. Sales in tons of finished steel increased 2% in the first quarter 2013 compared with the fourth quarter 2012. Prices of finished products sold in the first quarter 2013 increased approximately 3% compared to the fourth quarter 2012

All of the statements in this "Trend Information" section are subject to and qualified by the information set forth under the "Cautionary Statement Regarding Forward Looking Statements." See also Item 5.A "Operating and Financial Review and Prospects—Overview of Operating Results."

E. Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

F. Contractual Obligations

The table below sets forth our significant short-term and long-term contractual obligations as of December 31, 2012:

	Maturity				
	Less than 1 year	1– 3 years	4– 5 years	In excess of 5 years	Total
	(millions of pesos)				
Short-term debt obligations of related parties[(1)]	662	—	—	—	662
Short-term debt obligations	4	—	—	—	4
Long-term contractual obligations (see paragraph below)	13	27	1	—	41
Total	679	27	1	—	707

(1) Ps. 656 million correspond to a note payable to Industrias CH, Tuberías Procarsa, Pytsa Industrial de México and Procarsa Tube and Pipe denominated in U.S. dollars, for an indefinite term and bearing annual interest at a rate of 0.25%; Ps. 4 million correspond to other liabilities.

Republic leases certain equipment, office space and computers through operating contracts under non-cancelable operating leases. These lease contracts expire on several different dates by the end of 2017. During 2012, 2011 and 2010, the expenses for operating leases were U.S.$7.4 million, U.S.$5.4 million and U.S.$4.8 million, respectively. As of December 31, 2012, total future minimum lease payments under non-cancelable operating leases are U.S.$1 million in 2013, U.S.$0.8 million in 2014, U.S.$0.7 million in 2015, U.S.$0.6 million in 2016 and U.S.$0.4 million in 2017. At December 31, 2012 there are no additional obligations after 2017. As of December 31, 2012, the current purchase commitments related to the new electric arc furnace in the plant of Lorain were U.S.$23.1 million.

On December 28, 2012 Republic entered into a sale and purchase agreement with Proyectos Comerciales el Ninzi, S.A. de C.V. (Shareholder of ICH) to sell 261,000 short tons of Coke (short ton equals 907.18474 kilos). Through this contract, the buyer is obliged to purchase those tons in a period not exceeding two years, without liability if it did not acquire. The sale price will be US$ 450 per short ton, for a total of US$ 117.4 million.

Item 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Our Board of Directors

Our board of directors is responsible for managing our business. Pursuant to our by-laws, the board of directors shall consist of a maximum of 21 but not less than five members elected at an ordinary general meeting of shareholders. Our board of directors currently consists of seven directors, each of whom is elected at the annual shareholders' meeting for a term of one year with an additional period of thirty days, if a successor has not been appointed. The board of directors may appoint provisional directors until the shareholders' meeting appoints the new directors. Under the Mexican Securities Market Law and our bylaws, at least 25% of our directors must be independent. Under the law, the determination as to the independence of our directors made by our shareholders' meeting may be contested by the CNBV.

Election of the Board of Directors

At each shareholders' meeting for the election of directors, the holders of shares are entitled pursuant to our by-laws to elect the directors. Each person (or group of persons acting together) holding 10% of our capital stock is entitled to designate one director.

The current members of our board of directors were nominated and elected to such position at the 2013 general meeting of shareholders as proposed by Industrias CH. We expect that Industrias CH will be in a position to continue to elect the majority of our directors and to exercise substantial influence and control over our business and policies and to influence us to enter into transactions with Industrias CH and affiliated companies. However, our by-laws provide that at least 25% of our directors must be independent from us and our affiliates, and our board of directors has passed a resolution requiring the approval of at least two independent directors for certain transactions between us and our affiliates which are not our subsidiaries.

Under Mexican law, a majority shareholder has no fiduciary duty to minority shareholders but may not act contrary to the interests of the corporation for the majority shareholder's benefit. Such a majority shareholder is required to abstain from voting on any matter in which it directly or indirectly has a conflict of interest and can be liable for actual and consequential damages if such matter passes as a result of its vote in favor thereof. In addition, the directors of a Mexican corporation owe a duty to act in a manner which, in their independent judgment, is in the best interests of the corporation and all its shareholders.

Our board of directors adopted a code of ethics in December 2002.

Authority of the Board of Directors

The board of directors is our legal representative. The board of directors must approve, among other matters, the following:

- our general strategy;
- annual approval of the business plan and the investment budget;
- capital investments not considered in the approved annual budget for each fiscal year;
- proposals to increase our capital or that of our subsidiaries;
- with input from the Audit Committee, on an individual basis: (i) any transactions with related parties, subject to certain limited exceptions, (ii) our management structure and any amendments thereto, and (iii) the election of our chief executive officer, his compensation and removal for justified causes; (iv) our financial statements and those of our subsidiaries, (v) unusual or non-recurrent transactions and

any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets or (b) the giving of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of our consolidated assets, and (vi) contracts with external auditors and the chief executive officer annual report to the shareholders' meeting;

- calling shareholders' meetings and acting on their resolutions;
- any transfer by us of shares in our subsidiaries;
- creation of special committees and granting them the power and authority, provided that the committees will not have the authority which by law or under our by-laws is expressly reserved for the board of directors or the shareholders;
- determining how to vote the shares that we hold in our subsidiaries; and