

GROUP SIMEC SA DE CV  
Form 20-F  
May 16, 2012

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

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

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)

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GROUP SIMEC

(Translation of registrant's name into English)

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UNITED MEXICAN STATES

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

**Adolfo Luna Luna, telephone number 011-52-33 3770-6700, e-mail aluna@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:**

| <b>Title of Each Class</b>  | <b>Name of Each Exchange on Which Registered</b> |
|---|--|
| 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, 2011 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

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

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  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  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  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

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

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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. 13.9904 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2011. On April 30, 2012, the interbank transactions rate for the peso was Ps.12.99 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 similar 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 cyclicity 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.

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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 2010 and for each of the three years ended December 31, 2011, 2010 and 2009. We have prepared our financial statements in conformity with Mexican Financial Reporting Standards (“MFRS”) issued by the Mexican Financial Reporting Standards Research and Development Board (*Consejo Mexicano de Normas de Información Financiera, A.C.*) (“CINIF”), which include bulletins and circulars issued by the Accounting Principles Commission (“CPC”) of the Mexican Institute of Public Accountants (“IMCP”) to the extent not amended, replaced or abrogated by MFRS. We have adjusted the financial statements of our non-Mexican subsidiaries to conform to MFRS, and we have translated them to Mexican pesos. See Note 4(b) to our consolidated financial statements included elsewhere herein.

MFRS differ in certain significant respects from generally accepted accounting principles in the United States (“U.S. GAAP”). Note 25 to our consolidated financial statements included elsewhere herein provides a description of the principal differences between MFRS and U.S. GAAP, as they relate to us, a reconciliation to U.S. GAAP of net income, total stockholders’ equity and a statement of cash flows under U.S. GAAP.

Pursuant to MFRS, in our consolidated financial statements and the selected financial information set forth below:

Beginning January 1, 2008, MFRS B-10, "Effects of Inflation", has been in effect, which requires the recognition of the effects of inflation through the application of the comprehensive method only in inflationary environments (i.e., inflation equal or higher than 26%, accumulated during the previous three annual periods). Since the accumulated inflation in Mexico during the three years prior to our financial statements included herein was lower than 26%, the economic environment has been qualified as non-inflationary. Therefore, our financial statements for 2009, 2010 and 2011 included herein are presented in nominal pesos, except for the non-monetary items acquired before 2008, which include their restatement to constant pesos as of December 31, 2007.

Accumulated inflation in Mexico during the last three years prior to 2009, 2010 and 2011 amounted to 15.0%, 14.5% and 15.2%, respectively.

MFRS C-8 was issued by the CINIF to replace Mexican accounting Bulletin C-8, “Intangible Assets”. The rule defines intangible assets as non-monetary items and broadens the criteria of identification, indicating that an intangible asset must be separable; this means that such asset could be sold, transferred, or used by the entity. In addition, intangible assets arise from legal or contractual rights, whether those rights are transferable or separable from the entity. On the other hand, this standard establishes that preoperative costs should be eliminated from the capitalized balance, affecting retained earnings, and without restating prior financial statements. This amount should be presented as an accounting change in consolidated financial statements. The effect of the adoption of this MFRS was to cancel unamortized preoperative expenses to retained earnings for Ps. 152 million less its deferred income tax liability of Ps. 42 million in 2009.

Certain of the financial information set forth below is presented in accordance with U.S. GAAP. The effect of inflation accounting under MFRS until December 31, 2007 has not been reversed in the reconciliation to U.S.





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GAAP of net income and total stockholders' equity, except with respect to certain information included in the cash flow statement. See Note 25 to our consolidated financial statements included elsewhere herein.

The following tables present the selected consolidated financial information for our company as of and for the years ended December 31, 2007, 2008, 2009, 2010 and 2011. The selected financial and operating information as of and for the years ended December 31, 2007, 2008 and 2009 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Mancera S.C., a member practice of Ernst & Young Global (“Ernst & Young”), an independent registered public accounting firm, and the selected financial and operating information as of and for the years ended December 31, 2010 and 2011 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”), an independent registered public accounting firm. Ernst & Young 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 member of Moore Stephens International (“Moore Stephens”). The selected financial information as of and for the years ended December 31, 2007 and 2008 set forth below has been derived in part from our consolidated financial statements that are not included herein. 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 and for Year Ended December 31,                                   |         |          |         |         | 2011(1)                    |
|--|---|---------|----------|---------|---------|----------------------------|
|  | 2007  | 2008    | 2009     | 2010    | 2011    | (Millions of U.S. dollars) |
|  | (Millions of pesos, except per share and ADS data and operational data) |         |          |         |         |                            |
| <b>Income Statement</b>                                  |   |         |          |         |         |                            |
| Data:  |   |         |          |         |         |                            |
| <b>MFRS:</b>   |   |         |          |         |         |                            |
| Net sales  | 24,106  | 35,185  | 19,232   | 24,576  | 29,270  | 2,092                      |
| Cost of sales(2)   | 21,125  | 30,744  | 18,980   | 22,250  | 25,624  | 1,831                      |
| Gross profit   | 2,981   | 4,441   | 252      | 2,326   | 3,646   | 261                        |
| General and administrative expenses                      | 698   | 907     | 597      | 599     | 599     | 43                         |
| Depreciation and amortization                            | 22  | 378     | 507      | 553     | 455     | 33                         |
| Operating income (loss)                                  | 2,261   | 3,156   | (852 )   | 1,174   | 2,592   | 185                        |
| Financial (expense) income                               | 41  | (175 )  | (96 )    | (207 )  | 584     | 42                         |
| Other (expense) income, net                              | 21  | (4 )    | 30       | (186 )  | (114 )  | (8 )                       |
| Impairment of Intangible assets                          | —   | —       | (2,368 ) | —       | —       | —                          |
| Income (loss) before taxes, and non-controlling interest | 2,323   | 2,977   | (3,286 ) | 781     | 3,062   | 219                        |
| Income tax expense (benefit)                             | 644   | 1,048   | (2,065 ) | 112     | 110     | 8                          |
| Net income (loss)  | 1,679   | 1,929   | (1,221 ) | 669     | 2,952   | 211                        |
| Non-controlling interest income (loss)                   | 122   | 118     | (877 )   | (268 )  | 90      | 6                          |
| Controlling interest income (loss)                       | 1,557   | 1,811   | (344 )   | 937     | 2,862   | 205                        |
| Net income (loss) per share                              | 3.33  | 3.73    | (0.69 )  | 1.88    | 5.75    | 0.41                       |
| Net income (loss) per ADS(3)                             | 9.99  | 11.20   | (2.07 )  | 5.65    | 17.25   | 1.23                       |
| Weighted average shares outstanding (thousands)(3)       | 468,228   | 484,904 | 497,709  | 497,709 | 497,709 | 497,709                    |
| Weighted average ADSs outstanding (thousands)(3)         | 155,743   | 161,635 | 165,903  | 165,903 | 165,903 | 165,903                    |
| U.S. GAAP including effects of inflation until 2007:     |   |         |          |         |         |                            |
| Net sales  | 24,106  | 35,185  | 19,232   | 24,576  | 29,270  | 2,092                      |

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|  |        |        |          |        |        |       |
|--|--------|--------|----------|--------|--------|-------|
| Cost of sales(2)   | 21,125 | 30,744 | 18,980   | 22,250 | 25,624 | 1,831 |
| Gross profit   | 2,981  | 4,441  | 252      | 2,326  | 3,646  | 261   |
| Operating income (loss)(5)                               | 2,310  | 3,166  | (3,115 ) | 950    | 2,584  | 184   |
| Financial (expense) income                               | 41     | (175 ) | (96 )    | (207 ) | 584    | 42    |
| Other income, net  | 12     | 20     | 30       | (69 )  | (33 )  | (2 )  |
| Income (loss) before taxes, and non-controlling interest | 2,363  | 3,011  | (3,181 ) | 674    | 3,135  | 224   |
| Income tax expense (benefit)                             | 653    | 1,057  | (2,025 ) | 112    | 108    | 8     |
| Income (loss) before non-controlling interest            | 1,709  | 1,954  | (1,156 ) | 562    | 3,027  | 216   |
| Non-controlling interest income (loss)                   | 122    | 110    | (877 )   | (268 ) | 129    | 9     |
| U.S. GAAP adjustment on non-controlling interest         | 0      | 0      | 0        | 0      | 0      | 0     |
| Net income (loss)  | 1,587  | 1,844  | (279 )   | 830    | 2,898  | 207   |
| Net income (loss) per share                              | 3.39   | 3.80   | (0.56 )  | 1.67   | 5.82   | 0.42  |
| Net income (loss) per ADS(3)                             | 10.19  | 11.41  | (1.68 )  | 5.00   | 17.47  | 1.25  |
| Balance Sheet Data:                                      |        |        |          |        |        |       |
| MFRS:  |        |        |          |        |        |       |
| Total assets   | 23,011 | 31,018 | 26,906   | 27,349 | 31,269 | 2,235 |
| Total short-term liabilities                             | 2,860  | 5,256  | 3,952    | 3,899  | 3,822  | 273   |
| Total long-term liabilities(6)                           | 2,780  | 4,314  | 2,875    | 2,832  | 3,178  | 227   |
| Total stockholders' equity                               | 17,371 | 21,448 | 20,079   | 20,618 | 24,269 | 1,735 |
| U.S. GAAP including effects of inflation                 |        |        |          |        |        |       |

|  | As of and for Year Ended December 31,                                   |          |        |        |        | 2011(1)                    |
|--|---|----------|--------|--------|--------|----------------------------|
|  | 2007  | 2008     | 2009   | 2010   | 2011   | (Millions of U.S. dollars) |
|  | (Millions of pesos, except per share and ADS data and operational data) |          |        |        |        |                            |
| until 2007:  |   |          |        |        |        |                            |
| Total assets                                       | 22,849  | 30,908   | 27,978 | 27,353 | 31,398 | 2,244                      |
| Total short-term liabilities                       | 2,865   | 5,268    | 4,499  | 4,434  | 4,433  | 317                        |
| Total long-term liabilities(6)                     | 2,731   | 4,280    | 3,292  | 2,299  | 2,619  | 187                        |
| Non-controlling interest                           | 2,440   | 3,178    | 2,222  | 1,844  | 2,216  | 158                        |
| Total stockholders' equity                         | 14,813  | 18,182   | 17,965 | 18,776 | 22,130 | 1,582                      |
| Cash Flow Data:                                    |   |          |        |        |        |                            |
| MFRS:  |   |          |        |        |        |                            |
| Cash provided by operating activities              | 2,352   | 1,845    | 1,159  | 2,344  | 2,954  | 211                        |
| Cash provided by (used in) financing activities    | 2,324   | 1,334    | 469    | (126 ) | 26     | 2                          |
| Cash (used in) provided by investing activities    | (484 )  | (9,000 ) | (256 ) | (693 ) | (466 ) | (33 )                      |
| Other Data:  |   |          |        |        |        |                            |
| MFRS:  |   |          |        |        |        |                            |
| Capital expenditures                               | 486   | 480      | 263    | 496    | 432    | 31                         |
| Adjusted EBITDA(7)                                 | 2,810   | 4,051    | 196    | 2,272  | 3,593  | 257                        |
| Working capital(8)                                 | 11,764  | 7,994    | 8,548  | 8,290  | 12,378 | 885                        |
| Depreciation and Amortization                      | 549   | 895      | 1,048  | 1,098  | 1,001  | 72                         |
| Dividends declared                                 | 0   | 0        | 0      | 0      | 0      | 0                          |
| Operational Data:                                  |   |          |        |        |        |                            |
| (capacity and production in thousands of tons):    |   |          |        |        |        |                            |
| Annual installed capacity(9)                       | 2,902   | 3,522    | 3,522  | 3,522  | 3,758  |                            |
| Total tons shipped                                 | 2,691   | 2,924    | 2,040  | 2,241  | 2,289  |                            |
| Mexico   | 900   | 1,028    | 1,285  | 1,225  | 1,275  |                            |
| United States, Canada and elsewhere outside Mexico | 1,791   | 1,896    | 755    | 1,016  | 1,014  |                            |
| SBQ steel  | 1,951   | 1,952    | 826    | 1,109  | 1,178  |                            |
| Structural and other steel products                | 740   | 972      | 1,214  | 1,132  | 1,111  |                            |
| Per ton data                                       |   |          |        |        |        |                            |
| MFRS:  |   |          |        |        |        |                            |
| Net sales per ton                                  | 8,958   | 12,033   | 9,427  | 10,967 | 12,787 |                            |
| Cost of sales per ton                              | 7,850   | 10,514   | 9,303  | 9,929  | 11,194 |                            |
| Operating (loss) income per ton                    | 840   | 1,079    | (418 ) | 524    | 1,132  |                            |
| Adjusted EBITDA(7) per ton                         | 1,044   | 1,385    | 96     | 1,014  | 1,570  |                            |
| Number of employees                                | 4,437   | 4,823    | 4,378  | 4,361  | 4,686  |                            |

(1) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 13.9904 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2011.

(2) From January 1, 2011 the amendment to MFRS C-4 ("inventories") no longer permits the use of direct cost to determine the value of inventories. Instead, the indirect cost of production must be included in the determination of the production cost (full absorption cost). Accordingly, for comparative purposes, in accordance with the MFRS B-1 "Accounting changes and error corrections", we made retroactive adjustments to our financial statements for the years ended December 31, 2010, 2009, 2008 and 2007. The cumulative effect derived from this change amounted

to Ps. 160,675, Ps 96,658, Ps. 142,740 and Ps. 113,716 as of December 31, 2010, 2009, 2008 and 2007, respectively, net of the deferred income tax. The effect to the controlling interest amounted to Ps. 101,030, Ps. 68,072, Ps. 88,879, and Ps. 64,731, for December 31, 2010, 2009, 2008 and 2007, respectively.

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.

(3) For U.S. GAAP and MFRS purposes, the weighted average shares outstanding were calculated to give effect to the stock split mentioned in note (3) above.

(4) In 2010 we recorded expenses for employee profit sharing at Ps. 0.095 million, an impairment loss of intangible assets of Ps. 102 million and a cancellation of other assets of Ps. 117 million. In 2009 we recorded an impairment loss of intangible assets of Ps. 2,266 million and other expense of Ps. 7 million for employee profit sharing, which were reclassified to operating expenses for U.S. GAAP purposes. In 2008 we recorded other expense of Ps. 24 million for employee profit sharing, which were reclassified to operating expenses for U.S. GAAP purposes. In 2007 we recorded Ps. 17 million of gain on derivative instruments in other income and an expense of Ps. 8 million for fiscal amnesty offered by the Mexican government in other expense, which were reclassified to operating expenses for U.S. GAAP purposes. In 2011 we did not record expenses for employee profit sharing or impairment loss of intangible assets.

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

Adjusted EBITDA is not a financial measure computed under Mexican or U.S. GAAP. Adjusted EBITDA is (7) derived from our MFRS financial information and means MFRS net income excluding: (i) depreciation, amortization and impairment loss; (ii) financial income

(expense), net (which is composed of net interest expense, 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 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, |        |         |        |        |                            |
|----------------------------------|-------------------------|--------|---------|--------|--------|----------------------------|
|                                  | 2007                    | 2008   | 2009    | 2010   | 2011   | 2011(1)                    |
|                                  | (Millions of pesos)     |        |         |        |        | (Millions of U.S. dollars) |
| <b>MFRS:</b>                     |                         |        |         |        |        |                            |
| Net income (loss)                | 1,679                   | 1,929  | (1,221) | 669    | 2,952  | 211                        |
| Depreciation and amortization    | 549                     | 895    | 1,048   | 1,098  | 1,001  | 72                         |
| Other income (expense)           | 21                      | (4 )   | 30      | (186 ) | (114 ) | (8 )                       |
| Financial income (expense), net  | 41                      | (175 ) | (96 )   | (207 ) | 584    | 42                         |
| Impairment of intangibles assets | —                       | —      | 2,368   | —      | —      | —                          |
| Income tax expense (benefit)     | 644                     | 1,048  | (2,065) | 112    | 110    | 8                          |
| Adjusted EBITDA                  | 2,810                   | 4,051  | 196     | 2,272  | 3,593  | 257                        |

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

(9) 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 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.

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## Exchange Rates

| Year Ended December 31 | High  | Low   | Average (1) | Period End |
|------------------------|-------|-------|-------------|------------|
| 2007                   | 11.27 | 10.67 | 10.93       | 10.92      |
| 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      |

Year Ended December 31 **High Low Average (1) Period End**

## Month in 2012

|                          |       |       |       |       |
|--------------------------|-------|-------|-------|-------|
| January                  | 13.75 | 12.93 | 13.38 | 13.04 |
| February                 | 12.95 | 12.63 | 12.78 | 12.79 |
| March                    | 12.99 | 12.63 | 12.75 | 12.81 |
| April (through April 30) | 13.23 | 12.73 | 13.06 | 12.99 |

(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 and 2011, 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 decreased approximately 24% in 2009, increased approximately 34% in 2010 and increased approximately 21% in 2011; and prices of ferroalloys decreased approximately 43% in 2009, increased approximately 22% in 2010 and increased approximately 10% in 2011. As with other raw materials, iron ore and coke prices fluctuated significantly; however, in 2009, 2010 and 2011 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 17% in 2009, 8% in 2010 and 11% in 2011; and prices for natural gas decreased approximately 10% in 2009, 18% in 2010 and 14% in 2011. 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 12% for 2011 compared to 13% for 2010.

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 of December 31, 2011, we have entered into derivative financial instruments in Mexico and the United States to cover risks of fluctuations in the price of natural gas with PEMEX and Hess Corporation. 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:

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- 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 three 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 and 2011, 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 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.

For information on the remedial measures adopted by us to address the material weaknesses identified during the preparation of our financial statements for the year ended December 31, 2009, see Item 15.D “Controls and Procedures—Changes in Internal Control Over Financial Reporting” elsewhere in this Annual Report.

*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 also detected at our subsidiary Corporación Aceros DM, S.A. de C.V. which, in the aggregate constitute a material weakness, which 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.

On April 25, 2012, our Audit Committee adopted a series remedial measures to address the material weaknesses in our internal controls including the following:





Republic will improve internal controls with respect to valuation and accounting, including the adoption of a written policy with specific procedures and criteria with respect thereto and clear instructions for reporting to Grupo Simec. Grupo Simec will institute procedures, including visitations, to ensure that Republic complies with the newly adopted policy and process and with instructions from Grupo Simec, and to ensure that SimRep's CEO does not influence accounting matters.

Republic's management will communicate a clear commitment throughout the organization to timely and accurate financial reporting, including providing sufficient accounting staff who are adequately trained, improving written accounting policies, and establishing a constructive climate among management.

Republic will improve the accounting and financial reporting expertise of senior financial executives. Republic's CFO will not provide input on general accounting and financial reporting matters and will follow directives from, and, along with Republic's CFO, will provide certifications of compliance to Grupo Simec's CFO on accounting and financial reporting matters.

Grupo Simec will open a clear direct line of communication between each of Republic's CFO and Controller, on the one hand, and Grupo Simec's CFO, on the other hand, on all significant accounting matters. Such communications will not be dependent on Republic CEO's involvement, approval or consent.

Republic will monitor compliance by adding a full-time internal auditor to help design, implement and monitor the continuing effectiveness of internal controls, and by performing quarterly financial reviews to ensure timelier reporting and resolution of accounting issues or concerns.

Republic will improve its current whistleblower procedures in order to enable members of Republic's accounting staff to report problems anonymously, establish a confidential procedure for reporting accounting concerns, provide training to staff on these procedures, and communicate to all employees the importance of anonymity of the complaints.

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 currently range from 3% to 5% for steel products. 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, 2011, approximately 82% 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 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 2011,

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2010 and 2009, sales to our ten largest customers in the United States accounted for approximately 40.4%, 38.6% and 39.2% of our consolidated revenues in the United States, respectively, and approximately 19.5%, 19% and 16% 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 (CO<sub>2</sub>), 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 those negotiations or whether any of the countries in which we operate will sign on the 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, is able to exert significant influence on our business and policies and its interests may differ from those of other shareholders.

As of April 25, 2012, 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 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.

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## 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 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, 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 36% of our net sales of SBQ in 2011. 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.

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 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 state-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. In July 2012, Mexico will face presidential elections which could lead to materially different government policies. 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.

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 2011 the exchange rate registered a low of Ps. 11.51 to U. S.\$1.00 and a high of Ps. 14.25 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 3.6% for 2009, 4.4% for 2010 and 3.8% for 2011. 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 MFRS and therefore are not comparable to financial statements of other companies prepared under U.S. GAAP or other accounting principles.

All Mexican companies must prepare their financial statements in accordance with MFRS 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. See Note 24 to our consolidated financial statements included elsewhere herein for a description of certain principal differences between MFRS and U.S. GAAP as they relate to us.

In March 2010, the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores*, or "CNBV") required a work plan to evaluate the incorporation of International Financial Reporting Standards ("IFRS") into the financial reporting for public companies in Mexico beginning in the first quarter of 2012. See "Item 5 Operating and Financial Review and Prospects", which summarizes the main differences that we have identified in the transition to IFRS and an estimate of any significant impacts related thereto.

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.

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| 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 2010 and 2011 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 2010 and 2011 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. 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.

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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

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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 in charge of distribution of our products outside of Mexico.

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 divestiture, 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, which is estimated to become operational in the third quarter of 2013. 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) authorized the merger of Procesadora Industrial San S.A. de C.V. into Mall San S.A. de C.V.

On November 2011, the company entered into an agreement with an unrelated third-party “purchaser” for the factoring of specific accounts receivable of the company in order to increase the company’s 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 the company 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 accounts receivable of the company (as defined by the Uniform Commercial Code of the USA). For the year ended December 31, 2011, the company sold a face amount of U.S.\$11.0 million of accounts receivables to the purchaser. Discount fees incurred by the company pursuant to this agreement were approximately U.S.\$0.2 million for the year ended December 31, 2011. There was US\$ 0.9 million of accounts receivable that had been factored but which had not been collected by the purchaser at December 31, 2011, and therefore was subject to charge-back to the company.

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.

### 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 2012 will be approximately Ps. 2,313 million (U.S.\$165.3 million), consisting of Ps. 747.4 million (U.S.\$53.4 million) of estimated capital expenditures in our Republic facilities, Ps. 306.5 million (U.S.\$21.9 million) of capital expenditures in our facilities in Mexico and Ps. 1,259.1 (U.S.\$90 million) for the construction of a new steel facility in Brazil. Nevertheless, this estimate is subject to certain uncertainties and actual capital expenditures in 2012 may differ significantly from such estimate.

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.\$0.05 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(a) and Note 25 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.



In 2009, we spent Ps. 84 million (U.S.\$6.4 million) on capital investments for Republic's facilities, including Ps. 7 million (U.S.\$0.5 million) at the Lorain, Ohio facility, Ps. 74 million (U.S.\$5.7 million) at the Lackawanna, New York facility, and Ps. 3 million (U.S.\$0.2 million) at the Hamilton, Ontario, Canada facility. We also spent Ps. 179 million (U.S.\$13.7 million) on capital improvements at our facilities in Mexico, including Ps. 77

million (U.S.\$5.8 million) at the Apizaco facility, Ps. 4 million (U.S.\$0.3 million) at the Mexicali facility, Ps. 21 million (U.S.\$1.6 million) at the Guadalajara facility, and Ps. 78 million (U.S.\$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 3.7 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 2011, we had net sales of Ps. 29.3 billion, gross profit of Ps. 3.6 billion and net income of Ps. 2.9 billion. In 2011, approximately 49.5% of our consolidated sales were in the United States and Canada, approximately 49.2% were in Mexico, and approximately 1.3% 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 90° 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 90° 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 90° 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, |         |         |
|--|--------------------------|---------|---------|
|  | 2009                     | 2010    | 2011    |
|  | (thousands of tons)      |         |         |
| I-Beams  | 76.8                     | 70.3    | 72.8    |
| Channels   | 51.0                     | 66.8    | 62.1    |
| Angles (1)   | 168.0                    | 167.6   | 159.3   |
| Hot-rolled bars (round, square and hexagonal rods) | 724.6                    | 926.2   | 954.5   |
| Flat bar   | 67.2                     | 91.5    | 101.0   |
| Rebar  | 590.0                    | 533.1   | 536.4   |
| Cold finished bars                                 | 131.9                    | 166.5   | 181.2   |
| Semi-finished tube rounds                          | 51.7                     | —       | —       |
| Other semi-finished trade products (2)             | 6.9                      | 67.5    | 72.9    |
| Electro-Welded wire mesh                           | 48.9                     | 47.8    | 22.1    |
| Wire rod   | 64.2                     | 63.0    | 37.7    |
| Electro-Welded wire mesh panel                     | 0.0                      | 0.0     | 34.5    |
| Other  | 58.8                     | 40.8    | 54.2    |
| Total steel sales                                  | 2,040.0                  | 2,241.1 | 2,288.7 |

(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 2011, approximately 51.5% of our steel product sales represented SBQ steel products, of which we sold 36% to the auto part industry, 24% to service centers, 3% for hand tools, 5% for mining equipment and the remaining 32% to other industries.

In 2010, direct sales to the automotive industry increased by 40% as compared to 2009. In 2011, direct sales to the automotive industry decreased by 7% as compared to 2010. 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 sales to the energy sector accounted 0.4% 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 and<br>Canada |      |      |
|----------|--------|------|------|-----------------------------|------|------|
|          | 2009   | 2010 | 2011 | 2009                        | 2010 | 2011 |
| I-Beams  | 97%    | 95%  | 97%  | 3%                          | 5%   | 3%   |
| Channels | 69%    | 59%  | 55%  | 31%                         | 41%  | 45%  |
| Angles   | 78%    | 78%  | 76%  | 22%                         | 22%  | 24%  |

Hot-rolled bars (round, square  
and 32% 25% 28% 68% 75% 72%

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|                                    | Mexico                   |      |      | United States and<br>Canada |      |      |
|------------------------------------|--------------------------|------|------|-----------------------------|------|------|
|                                    | Years ended December 31, |      |      |                             |      |      |
|                                    | 2009                     | 2010 | 2011 | 2009                        | 2010 | 2011 |
| hexagonal rods)                    |                          |      |      |                             |      |      |
| Rebar                              | 98 %                     | 96 % | 97 % | 2 %                         | 4 %  | 3 %  |
| Flat bar                           | 77 %                     | 88 % | 88 % | 23 %                        | 12 % | 12 % |
| Cold drawn finished bars           | 24 %                     | 27 % | 42 % | 76 %                        | 73 % | 58 % |
| Semi-finished tube rounds          | —                        | —    | —    | 100%                        | —    | —    |
| Other semi-finished trade products | —                        | —    | —    | 100%                        | 100% | 100% |
| Electro-Welded wire mesh           | 100%                     | 100% | 100% | —                           | —    | —    |
| Wire rod                           | 100%                     | 99 % | 98 % | —                           | 1 %  | 2 %  |
| Electro-Welded wire mesh panel     | —                        | —    | 100% | —                           | —    | —    |
| Other                              | 59 %                     | 100% | 12 % | 41 %                        | —    | 88 % |
| Total (weighted average)           | 63 %                     | 55 % | 56 % | 37 %                        | 45 % | 44 % |

During 2011, approximately 38% 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 62% of our sales by volume, with SBQ products representing approximately 21% 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 2011 and 2010, 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 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 69,600 tons, or approximately 3%, and approximately 72,356 tons, or approximately 3.2%, of our total finished product sales in 2011 and 2010, respectively. The revenue that we derived from I-beam products represented approximately 3.3% and 3.1% of our net sales in 2010 and 2011, respectively.

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. In 2010, we sold approximately 199,805 tons of I-beams, channels and angles at least three inches in width (including the 72,356 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 53% in 2011 and 59% in 2010, according with information provided by CANACERO.

In 2011, we sold approximately 1,133,574 tons of hot rolled and cold finished steel bars. 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 16% and 53%, respectively, in 2011. In 2010, we sold approximately 1,091,759 tons of hot rolled and cold finished steel bars. 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 17% and 62%, respectively, in 2010. 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. Rebar and light structural steel together accounted for approximately 731,486 tons, or 33%, of our total production of finished steel products in Mexico and the United States in 2010. 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 as 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.

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## 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 2010 and will expire on March 11, 2013. We are in the process of obtaining the ISO/TS 16949 certification.

Our U.S. operations are currently ISO/TS 16949:2009 certified. 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.

Our Republic facilities are currently ISO 14001 and OHSAS 18001 certified. 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 initial OHSAS 18001 certification was effective through February 2012; we are awaiting the formal renewal, which once received will continue 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 decreased approximately 24% in 2009, increased approximately 34% in 2010 and increased approximately 21% in 2011; and prices of ferroalloys decreased approximately 43% in 2009, increased approximately 22% in 2010 and increased approximately 10% in 2011. 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 2011, our cost of sales in Mexico, as a percentage of sales in Mexico, was 80%, compared to our U.S. operations where our cost of sales, as a percentage of sales in the United States, was 96%, 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 56% of our consolidated 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), compared to 52% of our manufacturing conversion cost in 2010 (60% of the manufacturing conversion cost in our Mexico operations and 44% 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 16.6% and 14.2% of our refined scrap tonnage in 2011 and 2010, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 83% and 0.4%, respectively, in 2011 and approximately 85.4% and 0.4%, respectively, in 2010 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 2009, 2010 and 2011, 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 2011, compared to 11% in 2010, and they accounted for 17% of our manufacturing conversion cost in 2011, compared to 18% in 2010 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., Manuchar Internacional, S.A. de C.V. and Industria Nacional de la Fundición, S.A. de C.V. Our U.S. and Canadian facilities purchase most of their ferroalloys from International Nickel, Climax Molybdenum Co., Considar Inc., Minerai 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 and SGL Carbon, LLC.

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., LWB de México, S.A. de C.V., Fedmet Resources Corp., Vesuvius de México, S.A. de C.V., Mayerton Refractories and Tecnologías Minerales de México, S.A. de C.V.

*Electricity.* In 2011 and 2010, electricity accounted for approximately 8% of our consolidated manufacturing conversion cost for the period. Electricity accounted for 10% of our manufacturing conversion cost in 2011 in our

Mexico facilities and is supplied by the *Comisión Federal de Electricidad* (“CFE”). It accounted for 6% of the manufacturing conversion cost in 2011 and 2010 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 3% of our consolidated manufacturing conversion cost (3% of the manufacturing conversion cost of our Mexican operations and 3% of the manufacturing conversion cost of our U.S. operations) in 2011, compared to 4% in 2010 (5% 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 4(d) to our consolidated financial statements, derivative financial instruments are recognized in the balance sheet 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 2011, 2010 and 2009, 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 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 Accounting Standards Codification Section 815, “*Derivatives and Hedging*” and with MFRS relating to Bulletin C-10 “*Derivative Financial Instruments and Hedging.*”

## 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 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 one or more of our facilities will be subject to the MACT standard for Industrial, Commercial and Institutional Boilers and Process Heaters once that rule is promulgated. Once effective, this may cause us to incur additional costs at these facilities 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, once promulgated, may impose additional restrictions on our Canton operations including those relating to mercury emissions.

Our integrated steel making operation at Republic's Lorain, Ohio facility involves carbon and generates significant amounts of carbon dioxide (CO<sub>2</sub>), 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 those negotiations or whether any of the countries in which we operate will sign on the resulting agreement is unknown. More stringent gas 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 in mid-2012. 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 (SO<sub>2</sub>) and nitrogen oxide (NO<sub>x</sub>), and carbon monoxide (CO) in 2011. More stringent standards for ozone, carbon monoxide and particulate matter are in the proposal stage with final issuance expected to be issued later 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 2012 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.

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#### 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%) and Corporación ASL, S.A. de C.V. (99.99%).

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 (2)are operated by Simec International 6, S.A. de C.V., and began operations in November 2010. Simec International 2, Inc., Simec International 3, Inc., Simec International 4, Inc. and Simec International 5, Inc. ceased operations as of December 2010.

(3) The remaining 49.8% of SimRep is owned by our controlling shareholder, Industrias CH. 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 (4)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%), 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:

| <b>Name of Subsidiary</b>  | <b>Country of Incorporation</b> | <b>Ownership Interest (%)</b> |
|--|---------------------------------|-------------------------------|
| 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%                        |
| Arrendadora Norte de Matamoros, S.A. de C.V. (sold in May, 2011)     | Mexico                          | 100.00%                       |
| 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.  | U.S.A.                          | 99.99%                        |
| Simec International 3, Inc.  | U.S.A.                          | 99.99%                        |
| Simec International 4, Inc.  | U.S.A.                          | 99.99%                        |
| Simec International 5, Inc.  | U.S.A.                          | 99.99%                        |

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|--|---------------|---------|
| Corporación ASL, S.A. de C.V. (since 2010)         | Mexico        | 99.99%  |
| Simec International 6, S. A. de C. V. (since 2010) | Mexico        | 100.00% |
| Acero Transportes San, S.A. de C.V.                | Mexico        | 100.00% |
| 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% |

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| <b>Name of Subsidiary</b>                      | <b>Country of Incorporation</b> | <b>Ownership Interest (%)</b> |
|--|---------------------------------|-------------------------------|
| 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%                       |
| D.   | Property, Plants and Equipment  |                               |
| Our Operations and Production Facilities       |                                 |                               |

We conduct our operations at fourteen facilities throughout North America. At December 31, 2011, 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 3.7 million tons of rolling and finishing capacity, of which 1.8 million are located in Mexico, and 1.9 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 Potosi. Our mini-mill in the United States is located in Canton, Ohio. We also operate an integrated blast furnace in Lorain, Ohio. We operate rolling and finishing facility in each of our mill facilities in Cholula and in the United States, (except in Canton, Ohio) and Canada.

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. In addition, to producing billet, our Canton, Ohio facility also produces 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.

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

|  | <b>Years ended December 31,</b> |             |             |
|--|---------------------------------|-------------|-------------|
|  | <b>2009</b>                     | <b>2010</b> | <b>2011</b> |
|  | (tons in thousands)             |             |             |
| <b>Melt shops</b>                        |                                 |             |             |
| Steel billet production                  | 2,110.0                         | 2,458.3     | 2,495.0     |
| Annual installed capacity <sup>(1)</sup> | 4,532.2                         | 4,532.2     | 4,797.2     |
| Effective capacity utilization           | 46.6%                           | 54.2%       | 52.0%       |
| <b>Rolling mills</b>                     |                                 |             |             |
| Total production                         | 2,015.6                         | 2,354.4     | 2,440.4     |
| Annual installed capacity <sup>(1)</sup> | 3,521.9                         | 3,521.9     | 3,757.8     |
| Effective capacity utilization           | 57.2%                           | 66.8%       | 64.9%       |

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 (1) 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 2011.

Mexican Production per Facility by Product  
Location

| <b>Product</b>                                     | <b>Guadalajara Mexicali</b> |       | <b>Apizaco/<br/>Cholula</b> |       | <b>San Luis Total</b> |
|--|-----------------------------|-------|-----------------------------|-------|-----------------------|
| (Production %)                                     |                             |       |                             |       |                       |
| I Beams  | 19.7%                       | 0%    | 0%                          | 0%    | 5.2%                  |
| Channels   | 11.4%                       | 11.9% | 0%                          | 0%    | 4.4%                  |
| Angles   | 25.1%                       | 27.2% | 0%                          | 1.1%  | 11.3%                 |
| Hot rolled bars (round, square And hexagonal rods) | 26.6%                       | 8.4%  | 53.4%                       | 0.6%  | 21.0%                 |
| Rebar  | 3.9%                        | 44.5% | 10.0%                       | 79.7% | 38.1%                 |
| Flat bars  | 8.2%                        | 7.0%  | 17.3%                       | 0%    | 7.2%                  |
| Cold finished Bars                                 | 4.5%                        | 0.1%  | 18.9%                       | 0%    | 5.6%                  |
| Electro-Welded Wire mesh                           | 0%                          | 0%    | 0%                          | 4.4%  | 1.6%                  |
| Wire rod   | 0%                          | 0%    | 0%                          | 7.3%  | 2.7%                  |
| Electro-Welded Wire mesh panel                     | 0%                          | 0%    | 0%                          | 6.9%  | 2.4%                  |
| Other  | 0.6%                        | 0.9%  | 0.4%                        | 0%    | 0.5%                  |
| Total  | 100%                        | 100%  | 100%                        | 100%  | 100%                  |

*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 2011, the Guadalajara mini-mill produced 294,320 tons of steel billet and 348,757 tons of finished product, operating at 84% 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, |           |            |
|---|--------------------------|-----------|------------|
|   | 2009                     | 2010      | 2011       |
| Steel sales (thousands of tons)                                   | 344                      | 393       | 383        |
| Average finished product price per ton                            | Ps. 9,073                | Ps. 9,069 | Ps. 10,809 |
| Average scrap cost per ton  | 3,129                    | 4,072     | 4,983      |
| Average manufacturing conversion cost per ton of finished product | 2,922                    | 2,892     | 3,143      |
| Average manufacturing conversion cost per ton of billet           | 1,583                    | 1,610     | 1,707      |

*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 2011, the Mexicali mini-mill produced approximately 257,558 tons of billet, of which the Guadalajara mini-mill used 51,035 tons. In 2011, the Mexicali mini-mill produced 184,793 tons of finished products. In 2011 we operated the Mexicali mini-mill at 60% capacity for billet production and at 74% 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 2011, 45% of the products produced at the Mexicali mini-mill were rebar, 27% were angles, 8% were hot rolled bars (round, square and hexagonal rods) and the remaining 20% were other products, principally channels and flat bars.

#### Mexicali Mini-Mill

|   | Years ended December 31, |           |            |
|---|--------------------------|-----------|------------|
|   | 2009                     | 2010      | 2010       |
| Steel sales (thousands of tons)                                   | 200                      | 177       | 180        |
| Average finished product price per ton                            | Ps. 7,812                | Ps. 9,090 | Ps. 10,072 |
| Average scrap cost per ton  | 2,999                    | 3,895     | 5,028      |
| Average manufacturing conversion cost per ton of finished product | 2,204                    | 2,172     | 2,564      |
| Average manufacturing conversion cost per ton of billet           | 1,456                    | 1,584     | 1,700      |

*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 2011, the Apizaco mini-mill produced 451,113 tons of steel billet and 366,878 tons of finished products. In 2011 we operated the



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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

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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 70,000 tons. In 2011, the Cholula facility produced 65,499 tons of finished products, at 94% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2011, 10% of the products we produced at the Apizaco and Cholula facilities were rebar, 54% were hot rolled bars (round, square and hexagonals) and the remaining 36% were other products, flat merchant bar and cold finished products.

#### Apizaco Mini-Mill and Cholula Facility

|   | Years ended December 31, |            |            |
|---|--------------------------|------------|------------|
|   | 2009                     | 2010       | 2011       |
| Steel sales (thousands of tons)                                   | 347                      | 284        | 343        |
| Average finished product price per ton                            | Ps. 8,510                | Ps. 10,651 | Ps. 11,942 |
| Average scrap cost per ton  | 3,111                    | 3,660      | 4,725      |
| Average manufacturing conversion cost per ton of finished product | 2,856                    | 3,755      | 3,360      |
| Average manufacturing conversion cost per ton of Billet           | 1,714                    | 2,105      | 2,090      |

*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, 2011, these facilities had an annual installed capacity of 860,000 tons of billet and 620,000 tons of finished product. In 2011, the San Luis facilities produced 495,935 tons of steel billet and 500,729 tons of finished product operating at 58% capacity for billet production and 81% capacity for finished product production. Our San Luis facilities mainly produces rebar, light structurals and wire rod. In 2011, 80% of the products produced at the San Luis facilities were rebar, 7% wire rod, and the remaining 13% 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, |           |            |
|---|--------------------------|-----------|------------|
|   | 2009                     | 2010      | 2011       |
| Steel sales (thousands of tons)                                   | 513                      | 542       | 503        |
| Average finished product price per ton                            | Ps. 7,264                | Ps. 8,164 | Ps. 10,133 |
| Average scrap cost per ton  | 3,115                    | 4,287     | 4,935      |
| Average manufacturing conversion cost per ton of finished product | 1,874                    | 1,952     | 2,166      |
| Average manufacturing conversion cost per ton of Billet           | 1,382                    | 1,511     | 1,630      |

#### 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, 2011, these facilities had an annual installed capacity of 2,647,000 tons of billet and 1,927,800 tons of finished *product*. In 2011, Republic facilities produced 996,106 tons of steel billet, of which 71,454 tons were sold as semi-finished. The remainder went to the Lorain, Ohio and Lackawanna, New York facilities for further processing. For the same period, Republic facilities produced 779,194 tons of hot-rolled bar, of which 99,575 tons were used by the cold finish facilities. Republic facilities produced 260,094 tons of cold finish bars.

During this period, 74.8% of the products shipped from Republic facilities were hot-rolled bars, 11.6% were cold-finished bars, and 13.6% were other semi-finished trade products.

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

|  | Years ended December 31, |            |            |
|--|--------------------------|------------|------------|
|  | 2009                     | 2010       | 2011       |
| Steel sales (thousands of tons)  | 636                      | 845        | 880        |
| Average finished product price per ton   | Ps. 12,373               | Ps. 14,146 | Ps. 16,050 |
| Average scrap cost per ton   | 3,494                    | 4,944      | 5,678      |
| Average iron ore pellet cost per ton   | 0                        | 0          | 0          |
| Average manufacturing conversion cost per ton of finished product <sup>(1)</sup> | 11,906                   | 6,240      | 6,367      |
| Average manufacturing conversion cost per ton of billet <sup>(1)</sup>           | 3,975                    | 3,641      | 3,835      |

(1) Manufacturing conversion cost is defined as all production costs excluding the cost of scrap and related yield loss. *Lorain, Ohio.* The Lorain facility mainly produces SBQ steel and operates an integrated steel mill. We operate one 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, 2011, an annual installed capacity of 1,264,000 tons of steel billet and 838,000 tons of finished *product*. During 2011, the Lorain facility operated at 35% of capacity for 9-10" rolling mill and 56% of capacity for 20" mill finishing and shipping production, and it produced 375,853 tons of finished products. The facility did not produce any steel billets in 2011.

*Canton, Ohio.* Our Canton facility mainly produces SBQ steel and includes two 200-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 2011, the Canton facility had annual installed capacity of 1,383,000 tons of steel billet. In 2011, this facility produced 996,106 tons of blooms, billets and other semi-finished trade product and was operated at 72% 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 22 stand rolling mill capable of producing rounds, squares, and hexagons in both cut length and coils. This facility produces hot rolled bar sizes that range from .562" 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, 2011, the Lackawanna facility had annual installed capacity of 599,000 tons of hot rolled bars. In 2011, this facility produced 403,341 tons of hot rolled bars and was operated at 67.4% 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, 2011, an annual installed capacity of 125,000 tons of finished product. During 2011, the Massillon facility was operated at 62% capacity of finished product and produced 77,384 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

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December 31, 2011, the Gary facility had annual installed capacity of 71,000 tons of cold finished bars. In 2011, this facility produced 34,655 tons of cold finished bars and was operated at 49% 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, 2011, the Solon and Memphis facilities had installed capacities of 163,000, and 73,000 tons, respectively, for wire products. For the period February 4, 2011 through December 31, 2011, the Solon facility produced and shipped 119,841 tons of wire products and was operated at 73% capacity of finished product. No wire products were produced at the Memphis facility during 2011.

*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, 2011, the Hamilton facility had annual installed capacity of 59,000 tons of cold finished bars. In 2011, this facility produced 28,214 tons of cold finished bars and was operated at 48% 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

| <b>Location</b>                  | <b>Product (%)</b>   | <b>Equipment</b>   | <b>2011 Annual Production Volume (tons)</b> | <b>Finished Product Annual Installed Capacity (tons)</b> |
|----------------------------------|--|--|---|--|
| Guadalajara                      | Structurals (43%); Light structurals (34%); SBQ (17%), Rebar (6%)  | electric arc furnace with continuous caster rolling mill and bar processing lines  | 348,757                                     | 480,000  |
| Mexicali                         | Structurals (17%); Rebar (45%); Light structurals (38%)  | electric arc furnace with continuous caster and bar rolling mills  | 184,793                                     | 250,000  |
| Apizaco and Cholula              | SBQ (67%); Rebar (10%); Light structurals (23%)  | electric arc furnace with vacuum tank degasser, continuous caster, bar rolling mills, cold drawn and bar turning equipment | 366,878                                     | 480,000  |
| Aceros DM, San Luis Potosí       | Rebar (71%), Light structurals (3%), Wire rod (10%), Electro-Welded wire mesh (6%), Electro-Welded wire mesh panel (10%) | three electric arc furnaces, two continuous casters, two reheating furnaces, rebar rolling mill and wire rod rolling mills | 345,332                                     | 400,000  |
| Aceros San Luis, San Luis Potosí | Rebar (100%)   | electric arc furnace, continuous caster, reheating furnace and rebar rolling mill  | 155,397                                     | 220,000  |



| <b>Location</b>                                    | <b>Product (%)</b>                              | <b>Equipment</b>   | <b>2011 Annual Production Volume (tons)</b> | <b>Finished Product Annual Installed Capacity (tons)</b> |
|--|---|--|---|--|
| Lorain(1)  | SBQ (100%)                                      | blast furnace, vacuum tank degasser, continuous caster, bar and wire rod rolling mills | 375,853                                     | 838,000  |
| Canton(2)  | SBQ (100%)                                      | electric arc furnace, vacuum tank degasser, continuous caster                          | 996,106                                     | 1,383,000  |
| Lackawanna   | SBQ (100%)                                      | reheat furnace, bar and wire rod rolling mills   | 403,341                                     | 599,000  |
| Massillon  | SBQ (100%)                                      | cold drawn bar turning and heat treating equipment                                     | 77,384                                      | 125,000  |
| Gary   | SBQ (100%)                                      | cold drawn bar turning and heat treating equipment                                     | 34,655                                      | 71,000   |
| Solon and Memphis (acquired in February, 2011) (3) | Cold Heading Quality (CHQ) wire products (100%) | machinery and equipment to clean and coat, draw, and anneal wire                       | 119,841                                     | 236,000  |
| Hamilton   | SBQ (100%)                                      | cold drawn bar turning and heat treating equipment                                     | 28,214                                      | 59,000   |

(1) Production capacity is for rolling only.

(2) Production capacity is for billets only.

(3) The installed capacity is considerate for ten months.

#### 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 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.



We have prepared our financial statements in accordance with MFRS, which differ in certain significant respects from U.S. GAAP. See Note 25 to our consolidated financial statements included elsewhere herein for the years ended December 31, 2009, 2010 and 2011 for a summary of the principal differences between MFRS and U.S. GAAP as they relate to us and a reconciliation to U.S. GAAP of net income and stockholders' equity, a statement of changes in stockholders' equity and a statement of cash flows under U.S. GAAP. Our consolidated financial statements and all other financial information contained herein with respect to the year ended December 31 2007 are presented in constant pesos with purchasing power as of December 31, 2007, unless otherwise noted. Beginning January 1, 2008, as a result of the adoption of the MFRS NIF B-10, "Effects of Inflation", we have ceased recognition of inflation because cumulative inflation in Mexico, as published by the Mexican Central Bank (Banco de Mexico), from 2005 to 2007 was 11.6%, and from 2008 to 2011 was 19.6%. However, the financial information for prior periods was presented in Mexican pesos with purchasing power as of December 31, 2007, the last date on which we recognized the effects of inflation in our financial statements.

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, as 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, as compared to 2009, was of 34%. Our net revenue from sales decreased in 2011, as 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, as compared to 2010, was 16%.

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 2009, 2010 and 2011 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, 2009 - 2011

|                               | Year ended December 31, |        |        |
|-------------------------------|-------------------------|--------|--------|
|                               | 2009                    | 2010   | 2011   |
| Shipments (thousands of tons) | 2,040                   | 2,241  | 2,289  |
| Guadalajara and Mexicali      | 544                     | 570    | 563    |
| Apizaco and Cholula           | 347                     | 284    | 343    |
| San Luis facilities           | 513                     | 542    | 503    |
| Republic facilities           | 636                     | 845    | 880    |
| Net sales (Ps. millions)      | 19,232                  | 24,576 | 29,270 |
| Guadalajara and Mexicali      | 4,686                   | 5,173  | 5,953  |
| Apizaco and Cholula           | 2,956                   | 3,025  | 4,096  |
| San Luis facilities           | 3,725                   | 4,425  | 5,097  |
| Republic facilities           | 7,865                   | 11,953 | 14,124 |
| Cost of sales (Ps. millions)  | 18,980                  | 22,250 | 25,624 |
| Guadalajara and Mexicali      | 3,352                   | 3,601  | 4,878  |
| Apizaco and Cholula           | 2,300                   | 2,309  | 3,067  |
| San Luis facilities           | 3,303                   | 3,802  | 4,005  |
| Republic facilities           | 10,025                  | 12,538 | 13,674 |
| Average price per ton (Ps.)   | 9,427                   | 10,967 | 12,787 |
| Guadalajara and Mexicali      | 8,614                   | 9,075  | 10,574 |
| Apizaco and Cholula           | 8,519                   | 10,651 | 11,942 |
| San Luis facilities           | 7,261                   | 8,164  | 10,133 |
| Republic facilities           | 12,366                  | 14,146 | 16,050 |
| Average cost per ton (Ps.)    | 9,303                   | 9,929  | 11,194 |
| Guadalajara and Mexicali      | 6,162                   | 6,318  | 8,664  |
| Apizaco and Cholula           | 6,628                   | 8,130  | 8,942  |
| San Luis facilities           | 6,439                   | 7,015  | 7,962  |
| Republic facilities           | 15,761                  | 14,838 | 15,539 |

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 2011 and increased 5.5% in 2010. The U.S. GDP increased 1.7% in 2011 and increased 3% in 2010. 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% as compared to 2009. The average steel price increased approximately 17% in 2011 as compared to 2010.

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 and 2011, imports to Mexico increased as market conditions improved.

Steel imports to the United States accounted for an estimated 22% of the domestic U.S. steel market in 2011 and an estimated 21% in 2010. 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 decreased approximately 24% in 2009, increased approximately 34% in 2010 and increased approximately 21% in 2011; and prices of ferroalloys decreased approximately 43% in 2009, increased approximately 22% in 2010 and 10% in 2011. As with other raw materials, iron ore and coke prices fluctuate significantly. However, in 2009, 2010 and 2011 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 and increased significantly in 2008 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 during the fourth quarter of 2008 in response to the financial crisis, they have remained highly volatile. Prices for electricity increased approximately 17% in 2009, 8% in 2010 and 11% in 2011; and prices for natural gas decreased approximately 10% in 2009, 18% in 2010 and 14% in 2011.

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 3.6% for 2009, 4.4% for 2010 and 3.8% for 2011. 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. 12.99 per US\$1.00 at April 30, 2012.

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 MFRS B-5 Segment: 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, 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                       | 12,032,028                           | 13,624,635    | (32,051 )                   | 25,624,612 |
| Gross profit                        | 3,142,894                            | 502,992       | —                           | 3,645,886  |
| General and administrative expenses | 722,591                              | 331,561       | —                           | 1,054,152  |
| Operating (loss) income             | 2,420,303                            | 171,431       | —                           | 2,591,734  |
| Other expense, net                  | (103,670 )                           | (10,036 )     | —                           | (113,706 ) |
| Financial income (expenses), net    | 16,587                               | (14,177 )     | —                           | 2,410      |
| Exchange gain, net                  | 581,630                              | —             | —                           | 581,630    |
| Income (loss) before income tax     | 2,914,850                            | 147,218       | —                           | 3,062,068  |
| Income tax                          | 143,034                              | (33,197 )     | —                           | 109,837    |
| Net income (loss)                   | 2,771,816                            | 180,415       | —                           | 2,952,231  |

| Other Data                                      | Mexico     | United States | Operations between Segments | Total      |
|---|------------|---------------|-----------------------------|------------|
| Total Assets                                    | 23,497,561 | 9,098,293     | (1,326,388)                 | 31,269,466 |
| Depreciation and Amortization                   | 777,117    | 223,981       | —                           | 1,001,098  |
| Additions of property, plant and equipment, net | 267,720    | 164,280       | —                           | 432,000    |
| Total liabilities                               | 3,485,345  | 4,841,686     | (1,326,388)                 | 7,000,643  |

For the year ended December 31, 2010

| Mexico | United States | Operations between Segments | Total |
|--------|---------------|-----------------------------|-------|
|--------|---------------|-----------------------------|-------|

(in thousands of pesos)

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|               |            |            |   |            |
|---------------|------------|------------|---|------------|
| Net Sales     | 12,623,536 | 11,952,900 | — | 24,576,436 |
| Cost of Sales | 10,328,758 | 11,920,745 | — | 22,249,503 |
| Gross profit  | 2,294,778  | 32,155     | — | 2,326,933  |

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For the year ended December 31, 2010

|                                     | Mexico                  | United States | Operations between Segments | Total      |
|-------------------------------------|-------------------------|---------------|-----------------------------|------------|
|                                     | (in thousands of pesos) |               |                             |            |
| General and administrative expenses | 803,684                 | 348,284       | —                           | 1,151,968  |
| Operating (loss) income             | 1,491,094               | (316,129)     | —                           | 1,174,965  |
| Other expense, net                  | (124,126 )              | (61,952 )     | —                           | (186,078 ) |
| Financial income (expenses), net    | 16,449                  | (16,706 )     | —                           | (257 )     |
| Exchange loss, net                  | (207,240 )              | —             | —                           | (207,240 ) |
| Income (loss) before income tax     | 1,176,177               | (394,787)     | —                           | 781,390    |
| Income tax                          | (31,785 )               | 144,221       | —                           | 112,436    |
| Net income (loss)                   | 1,207,962               | (539,008)     | —                           | 668,954    |

| Other Data                                      | Mexico     | United States | Operations between Segments | Total      |
|---|------------|---------------|-----------------------------|------------|
| Total Assets                                    | 20,506,648 | 7,830,653     | (988,333)                   | 27,348,968 |
| Depreciation and Amortization                   | 859,601    | 238,607       | —                           | 1,098,208  |
| Additions of property, plant and equipment, net | 434,910    | 61,451        | —                           | 496,361    |
| Total liabilities                               | 3,479,167  | 4,239,709     | (988,333)                   | 6,730,543  |

For the year ended December 31, 2009

|                                     | Mexico                  | United States | Operations between Segments | Total        |
|-------------------------------------|-------------------------|---------------|-----------------------------|--------------|
|                                     | (in thousands of pesos) |               |                             |              |
| Net Sales                           | 11,366,780              | 7,864,749     | —                           | 19,231,529   |
| Cost of Sales                       | 8,951,396               | 10,028,087    | —                           | 18,979,483   |
| Gross profit (loss)                 | 2,415,384               | (2,163,338 )  | —                           | 252,046      |
| General and administrative expenses | 582,226                 | 521,859       | —                           | 1,104,085    |
| Operating (loss) income             | 1,833,158               | (2,685,197 )  | —                           | (852,039 )   |
| Other (expense) income, net         | 70,102                  | (40,111 )     | —                           | 29,991       |
| Impairment of intangible assets     | (2,368,000 )            | —             | —                           | (2,368,000 ) |
| Financial income (expenses), net    | 21,726                  | (39,595 )     | —                           | (17,869 )    |
| Exchange loss, net                  | (78,429 )               | —             | —                           | (78,429 )    |
| Income (loss) before income tax     | (521,443 )              | (2,764,903 )  | —                           | (3,286,346 ) |
| Income tax                          | (1,065,363 )            | (999,789 )    | —                           | (2,065,152 ) |
| Net income (loss)                   | 543,920                 | (1,765,114 )  | —                           | (1,221,194 ) |

| Other Data                                      | Mexico                  | United States | Operations between Segments | Total      |
|---|-------------------------|---------------|-----------------------------|------------|
|   | (in thousands of pesos) |               |                             |            |
| Total Assets                                    | 19,540,570              | 8,663,405     | (1,298,164)                 | 26,905,811 |
| Depreciation and Amortization                   | 783,414                 | 264,468       | —                           | 1,047,882  |
| Additions of property, plant and equipment, net | 176,249                 | 86,958        | —                           | 263,207    |

|                   |           |           |             |           |
|-------------------|-----------|-----------|-------------|-----------|
| Total liabilities | 3,596,802 | 4,528,620 | (1,298,164) | 6,827,258 |
|-------------------|-----------|-----------|-------------|-----------|

Our net sales by country or region during 2009, 2010 and 2011 are as follows:

|                         | Sales                  |            |            |
|-------------------------|------------------------|------------|------------|
|                         | 2009                   | 2010       | 2011       |
|                         | (in thousand of Pesos) |            |            |
| Mexico                  | 10,685,259             | 10,799,739 | 14,399,682 |
| USA                     | 7,829,024              | 13,078,357 | 13,709,807 |
| Canada                  | 502,286                | 470,643    | 766,318    |
| Latin America           | 135,965                | 221,192    | 356,932    |
| Other (Europe and Asia) | 78,995                 | 6,505      | 37,759     |
| Total                   | 19,231,529             | 24,576,436 | 29,270,498 |

#### Comparison of Years Ended December 31, 2010 and 2011

##### Net Sales

Net sales increased 19%, to Ps. 29,270 million in 2011 compared to Ps. 24,576 million in 2010. This increase resulted principally from (i) the combination of higher sales of SBQ; (ii) a 2% increase in shipments of finished steel products; and (iii) a 17% increase in the average price per ton of steel products. Total sales outside of Mexico increased 8%, to Ps. 14,871 million in 2011 compared with Ps. 13,777 million in the same period of 2010. Total sales in Mexico increased 33%, from Ps. 10,799 million in 2010 to Ps. 14,399 million in 2011.

Shipments of finished steel products increased 2%, to 2.289 million tons in 2011, as compared to 2.241 million tons in 2010. Total sales volume outside of Mexico of finished steel products was 1.014 million tons in 2011, as compared to 1.016 million tons in 2010, while total Mexican sales increased 4%, from 1.225 million tons in 2010, as compared to 1.275 million tons in 2011.

The average price of steel products increased 17% in 2011 compared to 2010, 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 15%, from Ps. 22,250 million in 2010 to Ps. 25,624 million in 2011, which increase is mainly attributable to (i) an 11% increase in the average cost of raw materials used to produce finished steel products; (ii) higher SBQ sales; and (iii) a 2% increase in shipments. Cost of sales as a percentage of net sales was 88% in 2011, as compared to 91% in 2010. 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.\$1.9 and U.S.\$1.8 per hour in 2011 and 2010, respectively, compared to U.S.\$46 and U.S.\$47 per hour for 2011 and 2010, 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 increased 57%, to Ps. 3,646 million in 2011 as compared to Ps. 2,326 million in 2010. This increase attributable to (i) an increase in volumes shipped; and (ii) the use of a more efficient better blend of steel components. As a percentage of net sales, our gross profit was 12% in 2011, as compared to 9% in 2010.

General and Administrative Expenses

Our general and administrative expenses (including depreciation and amortization) decreased 9%, to Ps. 1,054 million in 2011, as compared to Ps. 1,152 million in 2010. In 2010 and 2011, our general and administrative

expenses included Ps. 359 million of amortization of the tangible and intangible assets registered in connection with the acquisition of Grupo San.

Operating expenses as a percentage of net sales were 4% in 2011, as compared to 5% in 2010, mainly attributable to a decrease of Ps. 98 million, or 18%, in depreciation and amortization expense, to Ps. 455 million in 2011, from Ps. 553 million in 2010.

#### Operating Income (Loss)

Operating income was Ps. 2,592 million in 2011, as compared to Ps. 1,174 million in 2010. Operating income represented 9% of our net sales in 2011, as compared to 5% of our net sales in 2010. The increase in operating income is mainly attributable to (i) an increase in shipments; (ii) an increase in sales of SBQ; and (iii) an increase in average sales prices per ton.

#### Other (Expense) Income, Net

We recorded other expenses, net of Ps. 114 million in 2011, reflecting (i) an expense of Ps. 49 million related to the cancellation of account balances from previous years; (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.

We recorded other expenses, net of Ps. 186 million in 2010. This amount reflected (i) an expense of Ps. 117 million related to the acquisition of Lipa Capital, LLC; (ii) an expense relating to an adjustment for depreciation of Ps. 28 million corresponding to previous years; and (iii) other expenses related to other financial operations of Ps. 41 million.

#### Comprehensive Financing (Income) Cost

We recorded a comprehensive financing income of Ps. 584 million in 2011, as compared to Ps. 207 million in 2010. Financial income or expense reflects the sum of interest expense (net) and foreign exchange (net). We recorded a foreign exchange gain of approximately Ps. 582 million in 2011, as compared to a foreign exchange loss of approximately Ps. 207 million in 2010, mainly attributable to (i) the decrease of 13% in the value of the peso versus the dollar in 2011 and (ii) a 5% increase in the value of the peso versus the U.S. dollar in 2010. Our interest gain, net was Ps. 2 million in 2011, as compared to an interest expense, net of Ps. 257 thousand in 2010.

#### Income Tax

In 2011 we recorded an income tax provision of Ps. 110 million, which included an income tax benefit of Ps. 87 million and an income tax provision for deferred income taxes of Ps. 197 million. In 2010 we recorded an income tax provision of Ps. 112 million which included an income tax benefit for deferred income taxes of Ps. 47 million.

Our effective income tax rates for 2011 and 2010 were 3.6% and 14.4%, respectively.

On December 7, 2009, a tax reform bill was approved and published in Mexico for the 2010 fiscal year, which reforms and amends certain tax regulations. This reform came into effect as of January 1, 2010 and enacts an income tax rate increase of: 30% for 2010, 2011 and 2012; 29% for 2013; and 28% for 2014 and thereafter.

The Flat-Rate Business Tax (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 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 exercise were determined based on the specific rules of each tax.



### Net Income (Loss)

We recorded net income of Ps. 2,952 million in 2011, as compared to net income of Ps. 669 million in 2010. This increase is mainly attributable to (i) an increase in shipments, (ii) an increase in sales of SBQ, (iii) an increase in average sales prices per ton and (iv) an increase in comprehensive financing income.

### Comparison of Years Ended December 31, 2009 and 2010

#### Net Sales

Net sales increased 28%, to Ps. 24,576 million in 2010 as compared to Ps. 19,232 million in 2009. This increase was mainly attributable to (i) an increase in shipments and (ii) an increase in the average price of steel products. Total sales outside of Mexico increased 61%, to Ps. 13,777 million in 2010 as compared to Ps. 8,546 millions in 2009. Total sales in Mexico increased 1%, from Ps. 10,685 million in 2009, to Ps. 10,799 million in 2010.

Shipments of finished steel products increased 10%, to 2.241 million tons in 2010, as compared to 2.040 million tons in 2009. Total sales outside of Mexico of finished steel products increased 35%, to 1.016 million tons in 2010, as compared to 755 thousand tons in 2009, while total Mexican sales decreased 5%, from 1.285 million tons in 2009 to 1.225 million tons in 2010.

The average price of steel products increased 16% in 2010 compared to 2009, as a result of higher prices prevailing in worldwide steel markets.

#### Cost of Sales

Our cost of sales increased 17%, from Ps. 18,980 million in 2009 to Ps. 22,250 million in 2010. Cost of sales as a percentage of net sales was 91% in 2010, as compared to 99% in 2009. The increase in the cost of sales in 2010 is mainly attributable to (i) an increase of 9% in the average cost of raw materials used to produce steel products resulting from increased scrap metal and certain other raw material prices, (ii) a 10% increase in shipments, and (iii) higher (direct) cost of sales at our Republic facilities, mainly a result of higher labor costs in the U.S. operations and the higher raw materials costs associated with the production of SBQ steel. Average hourly wages at our Mexican operations in 2010 and 2009 were approximately U.S.\$1.8 and U.S.\$2.5 per hour, respectively, while average hourly wages in our U.S. operations in 2010 and 2009 were more than U.S.\$47 and U.S.\$53 per hour, respectively. 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 increased 823%, to Ps. 2,326 million in 2010 as compared to Ps. 252 million in 2009, which increase was primarily due to (i) an increase of 16% in the average price per ton of steel products, and (ii) an increase of 10% in sales volume. As a percentage of net sales, our gross profit was 9% in 2010, as compared to 1% in 2009.

#### General and Administrative Expenses

Our general and administrative expenses (including depreciation and amortization) increased 4 %, to Ps. 1,152 million in 2010, from Ps. 1,104 million in 2009. In 2009 and 2010, our general and administrative expenses included Ps. 359 million of amortization of the tangible and intangible assets registered in connection with the acquisition of Grupo San.

Operating expenses as a percentage of net sales represented 5% in 2010, as compared to 6% in 2009, mainly attributable to (i) increased operations at our Republic facilities, which has higher operational expenses as

compared to our other facilities; and (ii) an increase of Ps. 46 million, or 9%, in depreciation and amortization expenses, to Ps. 553 million in 2010 from Ps. 507 million in 2009.

#### Operating Income (Loss)

Operating income was Ps. 1,174 million in 2010, as compared to an operating loss of Ps. 852 million in 2009. Operating income represented 5% of our net sales in 2010. Operating income in 2010 was principally driven by (i) a 16% increase in the average price per ton of steel products and (ii) a 10% increase in shipments.

#### Other (Expense) Income, Net

We recorded other expenses, net of Ps. 186 million in 2010, reflecting (i) an expense of Ps. 117 million related to the acquisition of Lipa Capital, LLC; (ii) an expense relating to an adjustment for depreciation of Ps. 28 million corresponding to previous years; and (iii) other expenses related to other financial operations of Ps. 41 million.

We recorded other income, net, of Ps. 30 million in 2009, reflecting (i) an expense of Ps. 7 million for employee profit sharing; and (ii) other income of Ps. 37 million from returns of tax from investment in new projects.

#### *Impairment of Intangible Assets*

In 2009, we recognized an impairment of Ps. 2,368 million, which diminished the value of the goodwill of Grupo San and the trademark "San 42" in an amount of Ps. 2,352 million and Ps. 16 million, respectively.

#### Comprehensive Financing (Income) Cost

We recorded a comprehensive financing cost of Ps. 207 million in 2010, as compared to a comprehensive financing cost of Ps. 97 million in 2009. Financial income or expense reflects the sum of interest expense (net) and foreign exchange (net). We recorded a foreign exchange loss of approximately Ps. 207 million in 2010, as compared to a foreign exchange loss of Ps. 79 million in 2009, reflecting 5% and 4% increases, respectively, in the value of the peso versus the U.S. dollar in 2010 and 2009, respectively. Our interest expense, net was Ps. 257 thousand in 2010, as compared to our interest expense, net of Ps. 18 million in 2009.

#### Income Tax

In 2010 we recorded an income tax provision of Ps. 112 million, which included an income tax benefit for deferred income taxes of Ps. 47 million. In 2009, we recorded an income tax benefit of Ps. 2,065 million, attributable to the loss before taxes incurred by the company and the reversal of the additional tax liability from other tax transactions of Ps. 1,143 million.

Our effective income tax rates for 2010 and 2009 were 14.4%, and (62.8%) respectively. The effective income tax rate for 2009 increased as a result of the income tax benefits recorded by the company attributable to the loss before taxes and the reversal of the additional tax liability from other tax transactions, as discussed above.

On December 7, 2009, a tax reform bill was approved and published in Mexico for the 2010 fiscal year, which reforms and amends certain tax regulations. This reform came into effect as of January 1, 2010 and enacts an income tax rate increase of: 30% for 2010, 2011 and 2012; 29% for 2013; and 28% for 2014 and thereafter.

The Flat-Rate Business Tax (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 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 exercise were determined based on the specific rules of each tax.

## Net Income (Loss)

We recorded net income of Ps. 669 million in 2010, as compared to a net loss of Ps. 1,221 million in 2009. We attribute the income in 2010 to (i) a 16% increase in the average price per ton of steel products and (ii) a 10% increase in sales volumes. We attribute the loss in 2009 to the impact of lower sales due to the economic recession, particularly in the automotive and construction industries and the impairment of assets.

## Critical Accounting Policies

The discussion in this section is based upon our financial statements, which have been prepared in accordance with MFRS. 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 deferred income tax assets, including those for net operating loss (NOL) carry forwards, whether the probability of not recovering all or a portion of them was more likely than not. 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, and records an allowance for the deferred tax asset amount that it does not expect to recover in the future. 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 flow 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 estimate 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.

Under U.S. GAAP, if the carrying amount of the reporting units exceeds its related fair value, we should apply a “second step” process by means of which the fair value of such reporting unit should be allocated to the fair value of our net assets in order to determine the reporting unit’s “implied” goodwill. The resulting impairment loss under U.S. GAAP is the difference between the carrying amount of the related goodwill as of the valuation date and the implied goodwill amount. As of December 31, 2009, the implied goodwill under the second step process was Ps. 1,916 million, resulting in a U.S. GAAP reconciliation adjustment of Ps. 102 million. Additionally, we reconcile the aggregate fair value of the reporting units to our market capitalization. Our market capitalization as of December 31, 2009 indicates an implied control premium of approximately 25%. This implied control premium is consistent with recent observed control premiums. Assumptions used in the analysis considered the current market conditions in developing short- and long-term growth expectations. In 2010, we recorded and expense of Ps. 102 million.

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, 2010 and 2011 there was not impairment charge to other intangible assets, while in 2009 there was an impairment charge related to other intangible assets of Ps. 16 million.

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 assumptions used in the valuation model. As of December 31, 2010 and 2011, there was no impairment charge related to the San Luis facilities.

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.

As of December 31, 2010, the main key assumptions used in the valuation models of San Luis reporting unit are as follows:

discount rate:

11.8%; and

sales: we estimate sales will start a recovery in the years 2011, 2012, 2013 and 2014. After 2014, no sales increases in volume terms are considered in the valuation model.

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.

#### New Accounting Pronouncements

##### Adoption of International Financial Reporting Standards (IFRS)

The Mexican Securities Commission (CNBV) has established the requirement that certain listed companies must disclose their financial information to the public, through the Mexican Stock Exchange (BMV), and that, beginning in 2012, must prepare their financial information in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

The Financial Statements to be issued by the Company for the year ending December 31, 2012 will be its first annual financial statements comply with IFRS. The transition date is January 1, 2012 and therefore, the year ended December 31, 2011 will be the comparative period covered by the standard of adoption IFRS 1, "Initial Adoption of International Financial Reporting Standards". According to IFRS 1 the Company will apply the relevant mandatory exceptions and certain optional exemption to retrospective application of IFRS.

**Mandatory exceptions** - The Company will apply the following mandatory exceptions with respect to the retrospective application of IFRS:

**Calculation of Estimates** - Estimates on the date of transition are consistent with the estimates on such date under MFRS, unless there is evidence of error in such estimates.

**Hedge accounting** – The Company will apply hedge accounting only if the hedging relationship meets the criteria set out under IFRS at the transition date.

**Non-controlling interest** – The Company will apply prospectively certain recognition and presentation requirements related to non-controlling interest, from the date of transition.

In addition, the Company believes that the mandatory exception "Disposal and transfer of assets and liabilities" will have no effect on its financial statements as of the date of transition to IFRS.

**Optional Exemptions** - The Company has elected the following optional exemptions to retrospective application of IFRS:

**Business combinations** – The Company will apply the exemption to business combinations, but only to the extent that such business combinations occur after the transition date.

**Deemed Cost** - We will use the revalued amount under MFRS at the transition date as the cost incurred for the item of property, plant and equipment.

**Employee benefits** – We will recognize all cumulative actuarial gains and losses at the transition date.



Cumulative differences for the effect of conversion - the exemption will apply cumulative differences for the effect of conversion from MFRS to IFRS, effective at the transition date.

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**Borrowing Costs** - The Company will apply the transitional provisions of IAS 23, Borrowing Costs. Therefore, the Company designated the transition date as the starting date for capitalization of borrowing costs relating to qualifying assets, and will not retroactively restate the capitalization recorded pursuant to MFRS.

**Main Differences** - The following summarizes the main differences that we have identified with respect to the transition from MFRS to IFRS and an estimate of significant impacts:

**Effects of inflation** - Under IFRS, the effects of inflation are recognized in the financial statements when the economy of the currency used by the company is considered to be experiencing hyperinflation. The Mexican economy ceased to be hyperinflationary as from 1999 and, consequently, inflationary effects that were recognized by the company until December 31, 2007 under MFRS will be reversed, which is expected to lead to an increase in retained earnings of approximately Ps. 1,364,782 on the date of transition, which correspond primarily to the effects of inflation recognized in contributed capital.

**Components** - According to IFRS, the company will determine the significant components of property, plant and equipment, and consequently readjust their useful lives and the corresponding effect thereof on the accumulated depreciation, which is expected to represent a decrease to retained earnings of approximately Ps. 164,906 on the date of transition.

**Employee Benefits** - Under IFRS, provisions for severance labor are recognized until the company has a demonstrable commitment to end the relationship with the employee or has made an offer encouraging voluntary redundancy which will remove a liability recognized under MFRS of Ps. 10,750 on the transition date. Additionally, provisions for retirement are recalculated to recognize the cost of past service, which will entail the recognition of an additional liability of Ps. 24,550.

**Deferred taxes** - Under IFRS, deferred taxes will be recalculated based upon the adjusted book values of assets and liabilities under IFRS, which will result in an increase to retained earnings of approximately Ps. 79,582 on the transition date.

**Other differences in presentation and disclosures in the financial statements** - Generally, the disclosure requirements of IFRS are broader than those of MFRS, which can result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. In addition, there may be differences in presentation.

**Stockholders' equity** - changes previously described will increase stockholders' equity and retained earnings as of the date of transition as shown below (in thousands of pesos):

|  | Impact in<br>Equity | Impact in<br>Retained<br>Earnings |
|--|---------------------|-----------------------------------|
| Employee benefits (actuarial gains and losses) | Ps.(3,520 )         | Ps.(3,520 )                       |
| Translation effect in foreign subsidiaries     | —                   | 406,513                           |
| Inflation effects on stockholders' accounts    | —                   | 1,364,782                         |
| Components and parts                           | (164,906)           | (164,906 )                        |
| Employee benefits (providing compensation)     | 10,750              | 10,750                            |
| Employee benefits (past service cost)          | (24,550 )           | (24,550 )                         |
| Deferred taxes                                 | 79,582              | 79,582                            |
| Total adjustment (decrease) increase           | Ps.(102,644)        | Ps.1,668,651                      |

The information presented above has been prepared in accordance with the standards and interpretations issued and outstanding or issued and adopted as of the date of preparation of our consolidated financial statements for the year

ended December 31, 2011. The standards and interpretations that are applicable to December 31, 2012, including those that will be applicable on an optional basis, are not known with certainty. Additionally, the accounting policies selected by the company may be modified as a result of changes in economic or industry trends.

In addition, IASB has issued amendments to IFRS, which were enacted but not yet effective:

|                       |  |
|-----------------------|--|
| Amendments to IFRS 7  | Disclosure - Transfers of financial assets       |
| IFRS 9 (amended 2010) | Financial Instruments                            |
| IFRS 10               | Consolidated Financial Statements                |
| IFRS 11               | Joint Arrangements                               |
| IFRS 12               | Disclosure of investments in other entities      |
| IFRS 13               | Fair value measurements                          |
| Amendments to IAS 1   | Presentation of other comprehensive income items |
| Amendments to IAS 12  | Deferred tax - recovery of underlying assets     |
| IAS 27 (revised 2011) | Financial Statements                             |
| IAS 28 (revised 2011) | Investments in associates                        |

The company believes that adoption of these accounting pronouncements will not represent a significant effect on financial reporting.

#### 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 to 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, 2009, 2010 and 2011, 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, 2011 and 2010, Republic had U.S.\$50 million and U.S.\$48.3 million, respectively, outstanding under this line of credit. See Note 6 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, 2009, we had cash and cash equivalents of Ps. 1,948 million, as of December 31, 2010 we had cash and cash equivalents of Ps. 3,385 million and as of December 31, 2011 we had cash and cash equivalents of Ps. 6,537 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, for debt repayments, to acquire businesses and, to a significantly lesser degree, capital expenditure programs. The following is a summary of cash flows for the three years ended December 31, 2009, 2010 and 2011:

#### Principal Cash Flows

|   | Years ended December<br>31, |        |        |
|---|-----------------------------|--------|--------|
|   | 2009                        | 2010   | 2011   |
|   | (in millions of pesos)      |        |        |
| Funds provided by operating activities        | 1,159                       | 2,344  | 2,954  |
| Funds used in investing activities            | (256 )                      | (693 ) | (466 ) |
| Funds provided (used) by financing activities | 469                         | (126 ) | 26     |

Our net funds provided by operations were Ps. 2,954 million in 2011, Ps. 2,344 million in 2010, and Ps. 1,159 million in 2009. The increase of Ps 610 million in the net funds provided by operation between 2011 and 2010 originated mainly from the net income 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. 466 million in 2011, Ps. 693 million in 2010 and Ps. 256 million in 2009.

Our net funds provided by financing activities in 2011 were Ps. 26 million, as compared to Ps. 126 million used by financing activities in 2010. In 2009, net funds provided by financing activities were Ps. 469 million.

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 13 to the consolidated financial statements, certain futures contracts that we entered to fix the price of our natural gas purchases.

As of December 31, 2011, we have the following commitments for capital expenditures:

On September 27, 2011 we entered into an agreement with SMS Concast Ag., (“Concast”) providing for our acquisition from Concast of the melt shop equipment to be used by our subsidiary GV do Brasil Indústria e Comércio de Aço Ltda., with an annual production capacity of 520,000 tons of billet for the production of wire and rebar, with an arc furnace of 65 tons. The purchase price was \$15 million Euros, to be paid in dollars at a fixed exchange rate of 1.3764 dollars per euro in accordance with the following payment schedule:

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- Down payment of 15% of the purchase price, fifteen days after the signing (Ps. 42,070 to December, 31, 2011)
- 15% due three months from signing,
- 15% due six months from signing,

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- 15% due eight months from signing,
- 10% due 10 months from contract signature and

The remaining 30% through an irrevocable letter of credit, on behalf of the vendor, for a minimum term of 18 months, payable in installments of 10% of the value of the contract, beginning at the date of substantial receipt of the equipment.

The vendor has provided a warranty bond for the amount of 10% of the contract for a period of 24 months after the major shipment of the equipment.

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:

- 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.
- 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.

Republic leases certain equipment, office space and computer equipment under non-cancelable operating leases. The leases expire at various dates through 2017. During the years ended December 31, 2011, 2010 and 2009, rental expense relating to operating leases amounted to \$5.4 million, \$4.8 million and \$5.9 million, respectively. At December 31, 2011, total future minimum lease payments under non-cancelable operating leases are \$0.8, \$0.4, \$0.3 and \$0.4 million for 2012, 2013, 2014 and 2015, respectively and \$0.3 million each in the years 2016 and 2017. There are no obligations after 2017.

#### 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”. 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 2012 net sales increased 4% compared to the fourth quarter 2011. Sales in tons of finished steel increased 5% in the first quarter 2012 compared with the fourth quarter 2011. Prices of finished products sold in the first quarter 2012 decreased approximately 2% compared to the fourth quarter 2011.

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, 2011:

|   | Maturity            |       |       |        |       |
|---|---------------------|-------|-------|--------|-------|
|   | Less                |       |       | In     |       |
|   | than                | 1– 3  | 4– 5  | excess | Total |
|   | 1                   | years | years | of 5   |       |
|   | year                |       |       | years  |       |
|   | (millions of pesos) |       |       |        |       |
| Short-term debt obligations of related parties <sup>(1)</sup> | 706                 | —     | —     | —      | 706   |
| Short-term debt obligations                                   | 4                   | —     | —     | —      | 4     |
| Long-term contractual obligations                             | —                   | —     | —     | —      | —     |
| Total   | 710                 | —     | —     | —      | 710   |

Ps. 701 million correspond to a note payable to Industrias CH, Tuberías Procarsa, Pytsa Industrial de México and (1)Procarsa Tube and Pipe denominated in U.S. dollars, for an indefinite term and bearing annual interest at a rate of 0.25%; Ps. 5 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 2011, 2010 and 2009, the expenses for operating leases were U.S.\$5.4 million, U.S.\$4.8 million and U.S.\$5.9 million, respectively. As of December 31, 2011, total future minimum lease payments under non-cancelable operating leases are U.S.\$0.8 million in 2012, U.S.\$0.4 million in 2013, U.S.\$0.3 million in 2014, U.S.\$0.4 million in 2015 and U.S.\$0.3 million each in the years 2016 and 2017. At December 31, 2011 there are no additional obligations after 2017.

**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 2011 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
- the exercise of our general powers in order to comply with our corporate purpose.

Meetings of the board of directors will be validly convened and held if a majority of our members are present.

Resolutions at the meetings will be valid if approved by a majority of the members of the board of directors, unless our by-laws require a higher number. The chairman has a tie-breaking vote. Notwithstanding the board's authority, our shareholders pursuant to decisions validly taken at a shareholders' meeting at all times may override the board.

## Duty of Care and Duty of Loyalty

The Mexican Securities Market Law imposes a duty of care and a duty of loyalty on directors. The duty of care requires our directors to act in good faith and in the best interests of the company. In carrying out this duty, our directors are required to obtain the necessary information from the executive officers, the external auditors or any other person to act in the best interests of the company. Our directors are liable for damages and losses caused to us and our subsidiaries as a result of violating their duty of care.

The duty of loyalty requires our directors to preserve the confidentiality of information received in connection with the performance of their duties and to abstain from discussing or voting on matters in which they have a conflict of interest. In addition, the duty of loyalty is violated if a shareholder or group of shareholders is knowingly favored or if, without the express approval of the board of directors, a director takes advantage of a corporate opportunity. The duty of loyalty is also violated, among other things, by (i) failing to disclose to the audit and corporate practices committee or the external auditors any irregularities that the director encounters in the performance of his or her duties or (ii) disclosing information that is false or misleading or omitting to record any transaction in our records that could affect our financial statements. Directors are liable for damages and losses caused to us and our subsidiaries for violations of this duty of loyalty. This liability also extends to damages and losses caused as a result of benefits obtained by the director or directors or third parties, as a result of actions of such directors.

Our directors may be subject to criminal penalties of up to 12 years' imprisonment for certain illegal acts involving willful misconduct that result in losses to us. Such acts include the alteration of financial statements and records.

Liability actions for damages and losses resulting from the violation of the duty of care or the duty of loyalty may be exercised solely for our benefit and may be brought by us, or by shareholders representing 5% or more of our capital stock, and criminal actions only may be brought by the Mexican Ministry of Finance, after consulting with the CNBV. As a safe harbor for directors, the liabilities specified above (including criminal liability) will not be applicable if the director acting in good faith (i) complied with applicable law, (ii) made the decision based upon information provided by our executive officers or third-party experts, the capacity and credibility of which could not be subject to reasonable doubt, (iii) selected the most adequate alternative in good faith or if the negative effects of such decision could not have been foreseeable, and (iv) complied with shareholders' resolutions provided the resolutions do not violate applicable law.

The members of the board are liable to our shareholders only for the loss of net worth suffered as a consequence of disloyal acts carried out in excess of their authority or in violation of our by-laws.

In accordance with the Mexican Securities Market Law, supervision of our management is entrusted to our board of directors, which shall act through an audit and corporate practices committee for such purposes, and to our external auditor. The audit and corporate practices committee (together with the board of directors) replaces the statutory auditor (*comisario*) that previously had been required by the Mexican Corporations Law. See Item 6.C. "— Committees" below.

The following table sets forth the names of the members of our board of directors and the year of their initial appointment:

| <b>Name</b>             | <b>Director Since</b> |
|-------------------------|-----------------------|
| Rufino Vigil González   | 2001                  |
| Raúl Arturo Pérez Trejo | 2003                  |
| Sergio Vigil González   | 2011                  |
| Luis García Limón       | 2011                  |
| José Luis Rico Maciel   | 2001                  |

Rodolfo García Gómez de Parada 2001  
Gerardo Arturo Avendaño Guzmán 2001

Biographical Information of our Board of Directors

**Gerardo Arturo Avendaño Guzmán.** Mr. Avendaño was born in 1955. He is an independent director for purposes of Mexican law and has been a member of our board of directors and the Audit Committee since 2001 and is a member of our Audit Committee. Mr. Avendaño is an independent lawyer specializing in civil, mercantile and fiscal litigation.

**Rodolfo García Gómez de Parada.** Mr. García was born in 1953. He has been a member of our board of directors since 2001 and is an independent director for purposes of Mexican law. He has been the tax adviser of Industrias CH since 1978 and our tax adviser since 2001 and is a member of the board of directors of a group of self-service stores and restaurants since 1990.

**Luis García Limón.** Mr. García was born in 1944. He is currently our chief executive officer. From 1982 to 1990 he was general director of Compañía Siderúrgica de Guadalajara, S.A. de C.V. (“CSG”), from 1978 to 1982 he was Operation Director of CSG, from 1974 to 1978 he was general manager of Moly Cop and Pyesa, and from 1969-1974 he was Engineering Manager of CSG. In addition, from 1967 to 1969 Mr. García was the director of electrical installation of a construction company.

**Raúl Arturo Pérez Trejo.** Mr. Pérez was born in 1959. He has been a member of our board of directors since 2003, and is an independent director for purposes of Mexican law, and is the chairman of our Audit Committee. Mr. Pérez has also served since 1992 as the chief financial officer of a group that produces and sells structural steel racks for warehousing and other industrial storage.

**José Luis Rico Maciel.** Mr. Rico was born in 1926. He has been a member of our board of directors since 2001. He also serves as our corporate legal and tax director and is a member of the board of directors of a group of self-service stores and restaurants since 1957.

**Sergio Vigil González.** Mr. Vigil was born in 1962. Since 2001 he has served as chief executive officer of Industrias CH, our controller. Mr. Vigil is a brother of Rufino Vigil González.

**Rufino Vigil González.** Mr. Vigil was born in 1948. He is currently the chairman of our board of directors and has been a member of the board of directors since 2001. Since 1973, Mr. Vigil has been chief executive officer of a steel related products corporation. From 1988 to 1993, Mr. Vigil was a member of the board of directors of a Mexican investment bank and from 1971 to 1973 he was a construction corporation manager. Mr. Vigil is a brother of Sergio Vigil González.

Executive Officers

The following table sets forth the names of our executive officers, their current position with us and the year of their initial appointment to that position.

| Name                    | Position                | Position Held Since |
|-------------------------|-------------------------|---------------------|
| Luis García Limón       | Chief Executive Officer | 1982*               |
| Adolfo Luna Luna        | Chief Financial Officer | 2010                |
| Juan José Acosta Macías | Chief Operating Officer | 2004                |
| Marcos Magaña Rodarte   | Chief Sales Officer     | 2001                |

\* Represents the date as of which Mr. García Limón first held this office with our predecessor, CSG.

***Luis García Limón.*** Mr. García was born in 1944. He is currently our chief executive officer. From 1982 to 1990 he was general director of CSG, from 1978 to 1982 he was Operation Director of CSG, from 1974 to 1978 he was general manager of Moly Cop and Pyesa, and from 1969-1974 he was Engineering Manager of CSG. In addition, from 1967 to 1969 Mr. García was the director of electrical installation of a construction company.

**Adolfo Luna Luna.** Mr. Luna was born in 1955. He is currently our chief financial officer. From 2004 to 2009 he was our chief financial officer of the facility of Tlaxcala. From 2001 to 2004 he was our chief financial officer. Previously, Mr. Luna was our auditor manager from 2000 to 2001.

**Juan José Acosta Macías.** Mr. Acosta was born in 1960. He is currently our chief operating officer. From 1998 to 2004 he was production manager of CSG, he has been working with us since 1983. Prior to working with us, Mr. Acosta worked for Mexicana de Cobre as a supervisor in 1982.

**Marcos Magaña Rodarte.** Mr. Magaña was born in 1965. He is currently our marketing and sales director. Before holding this position, Mr. Magaña was domestic sales manager of CSG from 1997 to 2001, sales manager for the western region of CSG from 1994 to 1996, sales manager of Metálica Las Torres, our subsidiary, from 1992 to 1994 and a salesman for CSG, from 1990 to 1992. Before working with us, Mr. Magaña worked for a bank as executive promoter of sales.

Our chief executive officer and executive officers are required, under the Mexican Securities Market Law, to act for our benefit and not that of a shareholder or group of shareholders. Our chief executive is required, principally, to (i) implement the instructions of our shareholders' meeting and our board of directors, (ii) submit to the board of directors for approval the principal strategies for the business, (iii) submit to the Audit Committee proposals for the systems of internal control, (iv) disclose all material information to the public and (v) maintain adequate accounting and registration systems and mechanisms for internal control. Our chief executive officer and our executive officers will also be subject to liability of the type described above in connection with our directors.

The business address of our directors and executive officers is our principal executive headquarters.

#### B. Compensation

For the years ended December 31, 2011 and 2010, we paid no fees to our seven directors, and the aggregate compensation our executive officers earned was approximately Ps. 31.1 million and Ps. 21 million, respectively. We do not provide pension, retirement or similar benefits to our directors in their capacity as directors. Our executive officers are eligible for retirement and severance benefits required by Mexican law on the same terms as all other employees, and we do not separately set aside, accrue or determine the amount of our costs that is attributable to executive officers.

#### C. Board Practices

None of our directors or executive officers are entitled to benefits upon termination under their service contracts with us, except for what is due them according to the Mexican Federal Labor Law (*Ley Federal del Trabajo*).

#### Committees

Our by-laws provide for an audit and corporate practices committee to assist the board of directors with the management of our business.

#### Audit and Corporate Practices Committee

Our by-laws provide that the audit and corporate practices committee shall be at least three members, all of which must be independent directors. The chairman of the audit and corporate practices committee is elected by our shareholders' meeting, and the board of directors appoints the remaining members.

The audit and corporate practices committee is currently composed of three members. Raúl Arturo Pérez Trejo, the chairman of the audit and corporate practices committee, was elected at our annual ordinary shareholders' meeting held on April 29, 2011, and Gerardo Arturo Avendaño Guzmán and Rodolfo García Gómez de Parada were appointed.



Raúl Arturo Pérez Trejo has been appointed as the “audit committee financial expert.”

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The audit and corporate practices committee is responsible, among others, for (i) supervising our external auditors and analyzing their reports, (ii) analyzing and supervising the preparation of our financial statements, (iii) informing the board of our internal controls and their adequacy, (iv) requesting reports of our board of directors and executive officers whenever it deems appropriate, (v) informing the board of any irregularities that it may encounter, (vi) receiving and analyzing recommendations and observations made by the shareholders, members of the board, executive officers, our external auditors or any third party and taking the necessary actions, (vii) calling shareholders' meetings, (viii) supervising the activities of our chief executive officer, (ix) providing an annual report to the annual shareholders' meeting, (x) providing opinions to our board of directors, (xi) requesting and obtaining opinions from independent third parties and (xii) assisting the board in the preparation of annual reports and other reporting obligations.

The chairman of the audit and corporate practices committee, shall prepare an annual report to the annual shareholders' meeting with respect to the findings of the audit and corporate practices committee, which shall include (i) the status of the internal controls and internal audits and any deviations and deficiencies thereof, taking into consideration the reports of external auditors and independent experts, (ii) the results of any preventive and corrective measures taken based on results of investigations in respect of non-compliance of operating and accounting policies, (iii) the evaluation of external auditors, (iv) the main results from the review of our financial statements and those of our subsidiaries, (v) the description and effects of changes to accounting policies, (vi) the measures adopted as result of observations of shareholders, directors, executive officers and third parties relating to accounting, internal controls, and internal or external audits; (vii) compliance with shareholders' and directors' resolutions; (viii) observations with respect to relevant directors and officers; (ix) the transactions entered into with related parties; and (x) the remuneration paid to directors and officers.

#### D. Employees

As of December 31, 2011, we had 4,686 employees (2,762 were employed at our Mexico facilities, of whom 1,545 were unionized, and 1,924 were employed at Republic facilities, of whom 1,568 were unionized), compared to 4,361 employees as of December 31, 2010, (2,731 were employed at our Mexico facilities, of whom 1,546 were unionized, and 1,630 were employed at Republic facilities, of whom 1,318 were unionized). As of December 31, 2009 we had 4,378 employees (2,738 were employed at our Mexico facilities, of whom 1,413 were unionized, and 1,640 were employed at Republic facilities, of whom 1,345 were unionized).

The unionized employees in each of our Mexican facilities are affiliated with different unions. Salaries and benefits of our Mexican unionized employees are determined annually through collective bargaining agreements. Set forth below is the union affiliation of the employees of each of our Mexican facilities and the expiration date of the current collective bargaining agreements.

*Guadalajara facilities:* Sindicato de Trabajadores en la Industria Siderúrgica y Similares en el Estado de Jalisco. The contract expires on February 13, 2013.

*Mexicali facilities:* Sindicato de Trabajadores de la Industria Procesadora y Comercialización de Metales de Baja California. The contract expires on January 15, 2013.

*Apizaco facilities:* Sindicato Nacional de Trabajadores de Productos Metálicos, Similares y Conexos de la República Mexicana. The contract expires on January 15, 2013.

*Cholula facilities:* Sindicato Industrial "Acción y Fuerza" de Trabajadores Metalúrgicos Fundidores, Mecánicos y Conexos CROM del Estado de Puebla. The contract expires on February 28, 2013.

*San Luis facilities:* At the Aceros San Luis facility: Sindicato de Empresas adherido a la CTM; and at the Aceros DM and Abastecedora Siderúrgica facilities: Sindicato de Trabajadores de la Industria Metal Mecánica, Similares y Conexos del Estado de San Luis Potosí CTM. The contracts expire on January 14, 2013, January 23, 2013 and January 14, 2013, respectively.

We have had good relations with the unions in our Mexican facilities. The collective bargaining agreements are renegotiated every two years, and wages are adjusted every year.

Republic is the only subsidiary of the Group which offers other benefits and pension plans to their employees. Benefit plans to employees with Republic are described below.

#### Collective Bargaining Agreements

Seventy-nine percent of Republic's workers are covered by a collective bargaining agreement with the United Steelworkers (USW), which was originally set to expire August 15, 2012. On March 29, 2012, the USW ratified a new agreement that expires on August 15, 2016. For the Mexican operations, approximately 56% of the employees are under collective bargaining agreements, which expire as described above.

#### Defined Contribution Plans

Republic is required to make a contribution to the VEBA Benefit Trust for every hour worked by eligible employees. This welfare plan makes provision for retiree healthcare benefits, and is not a "qualified" plan under ERISA regulations. The labor agreement requires a contribution, by the company, to the retirement healthcare plan of U.S.\$3.00 for every hour worked, not to be less than U.S.\$2.85 million per quarter, but not to exceed U.S.\$11.4 million per year. For the years ended December 31, 2011, 2010 and 2009, the company recorded expenses of U.S.\$8.5 million U.S.\$11.4 million and U.S.\$11.4 million respectively, related to this welfare plan. Contributions are also made to the SWP Trust, a "qualified" pension benefit plan under ERISA regulations, at a rate of U.S.\$1.68 per hour as defined in the labor agreement. For the years ended December 31, 2011, 2010 and 2009, the company recorded expenses of U.S.\$6.0 million, U.S.\$7.1 million and U.S.\$7.1 million, respectively, related to this pension benefit plan.

On March 29, 2012, the USW and Republic ratified a new collective bargaining agreement, which expires on August 15, 2016. The agreement includes wage and benefit increases, including two lump sum payments payable to active USW employees during 2012, and general wage increases in 2013, 2014, and 2015. Company contributions to fund the Republic Retirement VEBA Benefit Trust (Benefit Trust) were reduced by \$2.0 million per year beginning in 2012. In addition, the quarterly contribution amount was suspended beginning in the fourth quarter of 2011 and continuing through the third quarter of 2012. Contributions to the Benefit Trust will resume during fourth quarter of 2012, at a quarterly rate of approximately \$2.4 million, with an increase to a \$2.6 million quarterly rate beginning in the second quarter of 2013.

Republic has a defined contribution 401K retirement plan that covers substantially all salary and nonunion hourly employees. This plan is designed to provide retirement benefits through company contributions and voluntary deferrals of employees' compensation. Republic funds contributions to this plan each pay period based upon the participants age and service as of January first of each year. The amount of Republic's contribution is equal to the monthly base salary multiplied by the appropriate percentage based on age and years of service. The contribution becomes 100% vested upon completion of three years of vesting service. In addition, employees are permitted to make contributions into a 401K retirement plan through payroll deferrals. Republic provides a 25.0% matching contribution for the first 5.0% of payroll that an employee elects to contribute. Employees are 100.0% vested in both their and Republic's matching 401K contributions. For 2011, 2010 and 2009, Republic recorded expense of U.S.\$2.1 million, U.S.\$2.0 million and U.S.\$1.9 million, respectively.

Employees who are covered by the USW labor agreement are eligible to participate in the defined contribution 401K retirement plan through voluntary deferrals of employees' compensation. There are no company contributions or employer matching contributions relating to these employees.

#### Profit Sharing Plans

The labor agreement includes a profit sharing plan to which Republic is required to contribute 2.5% of its quarterly pre-tax income, as defined in the labor agreement. At the end of the year, the contribution will be based upon annual pre-tax income up to U.S.\$50.0 million multiplied by 2.5%, U.S.\$50.0 million to U.S.\$100.0 million

multiplied by 3.0%, and above U.S.\$100.0 million multiplied by 3.5%, less the previous payouts during the year. Profit sharing earned, accrued and expensed was U.S.\$1.0 million for the year ended December 31, 2011. There was no profit sharing earned, accrued or recorded for the year ended December 31, 2010.

Republic has a profit sharing plan for all salaried and nonunion hourly employees and which is based upon achieving business plan EBITDA objectives. The company paid U.S.\$0.3 million for profit sharing at December 31, 2011 related to 2011 performance. However, the amounts paid in 2011 were discretionary as the financial thresholds of the profit sharing plan had not been reached in any quarter or for the year. No profit sharing was accrued or expensed for the years ended December 31, 2010 and 2009.

#### Incentive Compensation Plans

Republic has various incentive compensation plans that are based on attaining certain Business Plan and other performance targets for the financial calendar year. The objectives are measured on a quarterly basis. Individuals designated as participants in these plans are excluded from the company's regular profit sharing plan. For the years ended December 31, 2011, 2010 and 2009, there were no incentives earned under these plans as the target thresholds for the respective years were not achieved.

#### E. Share Ownership

Industrias CH and its direct wholly-owned subsidiaries currently hold approximately 84% of our series B shares. At December 31, 2011, Rufino Vigil González, the chairman of our board of directors, owned, directly or indirectly, approximately 64% of Industrias CH.

### Item 7. Major Shareholders and Related Party Transactions

#### A. Major Shareholders

As of April 25, 2012, we had 497,709,214 shares of series B common stock outstanding, including 53,406,905 additional series B shares that we sold in a public offering on February 8, 2007. Based on information available to us, we believe that our officers and directors own no series B shares. Accordingly, on an individual basis, and as a group, our directors and executive officers beneficially owned less than one percent of any class of our shares. None of our directors or officers holds any options to purchase series B shares or preferred shares. Prior to June 2002, our capital stock also included series A shares. On June 5, 2002, we converted all of our series A shares to series B shares on a one-for-one basis.

Industrias CH and its direct wholly-owned subsidiaries currently hold approximately 84% of our series B shares. Rufino Vigil González, the chairman of our board of directors, owns, directly or indirectly, approximately 64% of Industrias CH.

Our major shareholders do not have voting rights different from the rights of our other shareholders.

The following table shows the ownership of our series B shares as of April 25, 2012.

| Name of Shareholder   | Number of shares owned | % of shares owned |
|---|------------------------|-------------------|
| Industrias CH, S.A.B. de C.V                                | 275,369,337            | 55.3 %            |
| Tuberías Procarsa, S.A. de C.V. <sup>(1)</sup>              | 99,461,866             | 20.0 %            |
| Proyectos Comerciales el Ninzi, S.A. de C.V. <sup>(2)</sup> | 27,207,654             | 5.5 %             |
| Aceros y Laminados Sigosa, S.A. de C.V. <sup>(1)</sup>      | 4,377,776              | 0.9 %             |

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|  |             |       |
|--|-------------|-------|
| Joist Estructuras S.A. de C.V. <sup>(2)</sup>              | 6,188,406   | 1.2 % |
| Industrial de Herramientas CH, S.A. de C.V. <sup>(2)</sup> | 2,240,628   | 0.5 % |
| Compañía Mexicana de Tubos, S.A. de C.V. <sup>(2)</sup>    | 3,841,082   | 0.8 % |
| Public Investors   | 79,022,465  | 15.8% |
| Total  | 497,709,214 | 100 % |

(1) A subsidiary of Industrias CH.

(2) Companies directly or indirectly owned by members of the Vigil family.

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At March 31, 2012, 487,801,198 series B common shares were held in Mexico by approximately 375 shareholders who were record holders in Mexico and 17 were ADS record holders in the United States. The ADS represent 9,908,016 common shares.

**B. Related Party Transactions**

We have engaged from time to time in a number of transactions with certain of our shareholders and companies that are owned or controlled, directly or indirectly, by our controlling shareholder, Industrias CH. These transactions were made on terms that we believe were not less favorable to us than those obtainable on an arm's length basis. See Note 6 to our consolidated financial statements included elsewhere herein. On July 22, 2005, we and Industrias CH acquired 100% of the stock of Republic through SimRep. We acquired 50.2% (U.S.\$123 million or Ps. 1,403 million) of Republic's stock through our majority owned subsidiary, SimRep, and Industrias CH purchased the remaining 49.8%. We financed our portion of the purchase price principally from a loan that we received through Industrias CH that has since been repaid in full.

We have borrowed various amounts from Industrias CH, primarily to finance acquisitions (including the acquisition of Republic), debt redemptions and bank loan amortization and interest payments, a substantial portion of which borrowings were converted to equity. We have also received various capital contributions from Industrias CH.

From time to time we sell steel products, primarily billet, to Industrias CH and its affiliates. In 2009 these sales totaled Ps. 150 million, in 2010, these sales totaled Ps. 43 million and in 2011 these sales totaled Ps. 31 million. In addition, in 2009, 2010 and 2011 we purchased Ps. 38 million, Ps. 81 million and Ps. 66 million, respectively, of steel products from Industrias CH and its affiliates. We negotiated these prices on an arms-length basis.

We have a services agreement with Industrias CH, by which Industrias CH provides administrative services to us and our subsidiaries. The term of the agreement is indefinite. The payments are paid to Industrias CH on a monthly basis. Under the services, in 2009 we paid Ps. 15 million, in 2010 we paid Ps. 14 million and in 2011 we paid Ps. 14 million.

**C. Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information**

**A. Consolidated Statements and Other Financial Information**

See Item 18. "Financial Statements" and "Index to Financial Statements."

**Legal Proceedings**

**Mexico**

There are currently no material legal or administrative proceedings pending in Mexico against us or any of our subsidiaries which we expect to have a material adverse effect on our financial condition or results of operations, or which we expect to result in material capital expenditures or materially adversely affect our competitive position.

United States

Our operations in the United States and Canada have been the subject of various environmental claims, including those described below. The resolution of any claims against us may result in significant liabilities.

**California Regional Water Control Board, CRWCB**

On August 16, 2011, the California Regional Water Quality Control Board (CRWCB) and the California Environmental Protection Agency (CALEPA) inspected the facilities of Pacific Steel in order to investigate drainage from the facility into street waters. On September 1, 2011, PS received an “Order to Cease & Desist Clean and Abate”(OCDCA) from the CALEPA. On September 15, 2011 the CALEPA conducted a follow-up investigation, and indicated that it was satisfied with the compliance to the OCDCA of PS. At December 31, 2011, the California Regional Water Quality Control Board (CRWCB) has not notified us with respect to the result of its inspection.

Department of Toxic Substances Control, DTSC

In September 2002, the Department of Toxic Substances Control (DTSC) inspected Pacific Steel’s (PS) facilities based on an alleged complaint from neighbors due to PS’s excavating to recover scrap metal on its property and on a neighbor’s property, which PS rents from a third party. In this same month, DTSC issued an enforcement order of imminent and substantial endangerment determination, which alleges that certain soil piles, soil management and metal recovery operations may cause an imminent and substantial danger to human health and the environment. Consequently, DTSC sanctioned PS for violating hazardous waste laws and the State of California Security Code and imposed the obligation to make necessary changes to the location. On July 26, 2004, in an effort to continue with this order, DTSC filed against PS a Complaint for Civil Penalties and Injunctive Relief in San Diego Superior Court. On July 26, 2004, the court issued a judgment, whereby PS was obligated to pay US\$235,000. This payment was made by PS in 2004 and 2005.

On June 6, 2010 the DTSC and the San Diego Department of Environmental Health (DEH) inspected the facilities of PS, in response to a general complaint. On August 10, 2010 DTSC and DEH conducted a second inspection and found seven infractions. The DEH is satisfied with the compliance of PS on those issues. On October 19, 2010 the technical division of the DTSC recommended to the enforcement division of DTSC that it impose significant penalties upon us as a result of such infractions. As of December 31, 2011 PS is awaiting a final decision from DTSC.

In 2011 we suspended soil treatment activities due to their having been ineffective, as we determined as a result of several studies and, once permits were obtained from the Mexican authorities, we imported soils, beginning in November of 2011, for use at a specialized facility in the state of Nuevo León, Mexico. The soil is sent to the specialized facility after the metal content is separated, which metal content is used as raw material at the Mexicali facility.

As consequence of two reports broadcasted on a local TV channel about PS in support to two San Diego Bay environmental groups, the DTSC required on November 22, 2011 that PS implement procedures for the final disposition of the treated soils, given that the soils are considered by DTSC to be hazardous waste. PS is now reviewing the different alternatives for the final disposition of those soils.

Due to the fact that the cleanliness levels have not yet been determined by the DTSC and since the assessment of the entire property has not yet been completed, we are unable to estimate the costs associated with such above-mentioned remediation measures. The company has prepared an estimate, based on prior years’ experience, considering the same processes, volume costs, use of equipment and personnel and assuming that an agreement will be reached with the



DTSC in respect of defining the cleanliness levels. The results range from US\$0.8 million to US\$1.7 million. On such bases, the company created a provision for this contingency at December 31, 2002, of approximately US\$1.7 million. At December 31, 2011 the allowance amounts to US\$ 0.4 million. The obtaining of permits for the remediation of the site from authorities cannot be guaranteed, and we cannot assure you that the corrective measures will not be significantly more costly than expected.

Community Development Commission, CDC

The Community Development Commission of National City, California (CDC) has expressed its intention to develop the site where PS conducts its operations, at market value less the cost of remediation and less certain investigation costs incurred.. Pacific Steel has informed the CDC that the land will not be voluntarily sold unless there is an alternate property where it could relocate its business. The CDC, in accordance with the State of California law, has the power to expropriate in exchange for payment at market value and, in the event that there is no other land available to relocate the business, it would also have to pay PS the land's book value. The CDC made an offer to purchase the land from Pacific Steel for US\$6.9 million, based on a business appraisal. The expropriation process was temporarily suspended through an agreement entered into by both parties in November 2006. This agreement allows Pacific Steel to explore the possibility of finishing the remediation process of the land and to propose an attractive alternative to CDC which would allow the company to remain in the area.

Environmental Liabilities

As is the case with most steel producers in the United States and Canada, we could incur significant costs related to environmental compliance activities and remediation stemming from historical waste management practices or other environmental issues at Republic's facilities. At December 31, 2011 and 2010, we had a reserve to cover probable environmental liabilities totaling U.S.\$3.1 million. The reserve includes incremental direct costs of remediation efforts and post remediation monitoring costs that are expected to be included after corrective actions are complete. As of December 31, 2011, the current and non-current portions, US\$0.4 million and US\$2.7 million, respectively, of the environmental reserve are included in other accrued liabilities and accrued environmental liabilities, respectively, in the accompanying consolidated balance sheets. The company is not otherwise aware of any material environmental remediation liabilities or contingent liabilities relating to environmental matters with respect to the Republic's facilities for which the establishment of an additional reserve would be necessary at this time. To the extent the company incurs any such additional future costs, these costs will most likely be incurred over a number of years. However, future regulatory action regarding historical waste management practices at the company's facilities and future changes in applicable laws and regulations may require the company to incur significant costs that may have a material adverse effect on the company's future financial performance

|      |    |                     |
|------|----|---------------------|
|      | B. | Significant Changes |
| None |    |                     |

**Item 9. The Offer and Listing**

Our series B shares are listed on the Mexican Stock Exchange, and the ADSs are listed on the New York Stock Exchange. On February 20, 2003, we effected a 1 for 20 reverse stock split. On May 30, 2006, we effected a 3 for 1 stock split. To maintain trading prices in the United States, the ADS to share ratio was simultaneously adjusted from one ADS representing one series B share to one ADS representing three Series B shares. The ADSs are evidenced by American depositary receipts, or "ADRs", issued by The Bank of New York as depositary under a Deposit Agreement, dated as of July 8, 1993, as amended, among us, the depositary and the holders from time to time of ADRs.

Share Price Information

The following table sets forth for the periods indicated the high and low sales prices expressed in historical pesos of our series B shares on the Mexican Stock Exchange, and the high and low sales price expressed in U.S. dollars of the ADSs on the New York Stock Exchange.

|               |          |
|---------------|----------|
| Mexican Stock | New York |
| Exchange      | Stock    |

|      |       |       | Exchange |      |
|------|-------|-------|----------|------|
|      | High  | Low   | High     | Low  |
| 2007 | 55.91 | 32.50 | 15.46    | 8.55 |
| 2008 | 63.60 | 15.50 | 18.48    | 3.21 |
| 2009 | 38.64 | 17.52 | 9.24     | 3.94 |

|                                   | Mexican Stock Exchange |       | New York Stock Exchange |      |
|-----------------------------------|------------------------|-------|-------------------------|------|
|                                   | High                   | Low   | High                    | Low  |
| 2010                              | 37.80                  | 28.20 | 9.08                    | 6.49 |
| 2011                              | 35.00                  | 25.16 | 8.85                    | 5.53 |
| 2010                              |                        |       |                         |      |
| First Quarter                     | 37.80                  | 29.10 | 8.95                    | 6.81 |
| Second Quarter                    | 36.91                  | 30.25 | 9.08                    | 6.64 |
| Third Quarter                     | 33.25                  | 28.20 | 7.77                    | 6.49 |
| Fourth Quarter                    | 33.75                  | 28.65 | 8.50                    | 6.89 |
| 2011                              |                        |       |                         |      |
| First Quarter                     | 35.00                  | 29.95 | 8.85                    | 7.13 |
| Second Quarter                    | 33.50                  | 29.20 | 8.80                    | 7.25 |
| Third Quarter                     | 30.41                  | 25.26 | 7.84                    | 5.53 |
| Fourth Quarter                    | 34.09                  | 25.16 | 7.43                    | 5.62 |
| 2012                              |                        |       |                         |      |
| First Quarter                     | 40.99                  | 31.00 | 9.74                    | 6.96 |
| Second Quarter (through April 30) | 44.00                  | 39.01 | 10.50                   | 8.71 |
| 2012                              |                        |       |                         |      |
| January                           | 34.09                  | 31.00 | 7.73                    | 6.96 |
| February                          | 36.00                  | 32.00 | 8.32                    | 7.30 |
| March                             | 40.99                  | 34.51 | 9.74                    | 7.70 |
| April (through April 30)          | 44.00                  | 39.01 | 10.50                   | 8.71 |

#### Trading on the Mexican Stock Exchange

The Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*), located in Mexico City, is the only stock exchange in Mexico. Operating continuously since 1907, the Mexican Stock Exchange is organized as a publicly traded corporation with variable capital stock (*sociedad anónima bursátil de capital variable*). Securities trading on the Mexican Stock Exchange occurs each business day from 8:30 a.m. to 3:00 p.m., Mexico City time.

Since January 1999, all trading on the Mexican Stock Exchange has been effected electronically. The Mexican Stock Exchange may impose a number of measures to promote an orderly and transparent trading price of securities, including the operation of a system of automatic suspension of trading in shares of a particular issuer when price fluctuation exceeds certain limits. The Mexican Stock Exchange may also suspend trading in shares of a particular issuer as a result of:

- non-disclosure of material events; or
- changes in the offer or demand, volume traded, or prevailing share price that are inconsistent with the shares' historical performance and cannot be explained through publicly available information.

The Mexican Stock Exchange may reinstate trading in suspended shares when it deems that the material events have been adequately disclosed to public investors or when it deems that the issuer has adequately explained the reasons for the changes in offer and demand, volume traded, or prevailing share price. Under current regulations, the Mexican Stock Exchange may consider the measures adopted by the other stock exchanges in order to suspend and/or resume

trading in an issuer's shares in cases where the relevant securities are simultaneously traded on a stock exchange outside of Mexico.

Settlement on the Mexican Stock Exchange is effected two business days after a share transaction. Deferred settlement is not permitted without the approval of the CNBV, even where mutually agreed. Most securities traded on the Mexican Stock Exchange are on deposit with the INDEVAL, a privately owned securities depository that acts

as a clearinghouse, depository, and custodian, as well as a settlement, transfer, and registration agent for Mexican Stock Exchange transactions, eliminating the need for physical transfer of securities.

Although the Mexican Securities Market Law provides for the existence of an over-the-counter market, no such market for securities in Mexico has developed.

## Item 10. Additional Information

### A. Share Capital

Not applicable.

### B. Memorandum and Articles of Association

Our principal objects and purposes, as expressed in the Second Clause of our by-laws, are to engage in the control of companies dedicated to the manufacture, processing and distribution of diversified special bar quality (“SBQ”) steel and structural products.

The Mexican Securities Market Law imposes a duty of care and a duty of loyalty on directors. The duty of care, which generally requires that directors: (i) obtain the information reasonably necessary to make decisions; (ii) request from officers and auditors information that is relevant to a decision to be made; (iii) postpone board of directors meetings when a director is not present, has not arrived on time or has not been provided with the same information as other directors; (iv) deliberate and vote, including if requested with the presence only of the other directors and the secretary of the board. Directors will be subject to liability when damage is caused to the issuer by any of the following: (i) failure to attend board, shareholders’ or committee meetings, which failure prevents such meeting from being duly held; (ii) failure to reveal relevant information to the board of directors or to an applicable committee, subject to legal or contractual limitations on disclosure of such information; or (iii) failure to comply with the duties imposed by the Mexican Securities Market Law or the issuer’s by-laws. Failure of directors to act with due care makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries, which may be limited in the company’s by-laws or by resolution of the shareholders’ meeting, except in the case of bad faith, willful misconduct or illegal acts. Liability for breach of the duty of care may also be covered by indemnification provisions and director and executive officer insurance policies.

The duty of loyalty, which primarily consists of maintaining the confidentiality of information received in connection with the performance of the director’s duties, and abstaining from discussing or voting on matters where the director has a conflict of interest. Directors will have breached their duty of loyalty in the following cases: (i) if without justification they utilize their position to gain benefits for themselves or third parties, including an individual shareholder or group of shareholders; (ii) if they vote on or participate in deliberations concerning an issue on which they have a conflict of interest; (iii) if they do not reveal the conflicts of interests they have; (iv) if they deliberately favor an individual shareholder or group of shareholders to the detriment of others; (v) if they approve related party transactions without observing the related guidelines under the Mexican Securities Market Law; (vi) if they utilize property of the issuer for their own benefit or that of third parties in contravention of relevant policies; (vii) if they make undue use of privileged information; or (viii) if, for themselves or third parties, they take advantage of a corporate opportunity. A violation of the duty of loyalty makes the relevant directors jointly and severally liable for damages and losses caused to the issuer and its subsidiaries, and in every case require removal from their positions. Unlike the duty of care, liability for breach of the duty of loyalty may not be limited by the company’s by-laws, by resolution of the shareholders’ meeting or otherwise, nor may indemnification provisions or insurance policies cover such liability.

Our directors may be subject to criminal penalties of up to 12 years’ imprisonment for certain illegal acts involving willful misconduct that result in losses to us, which include, among others, altering financial statements or records. In terms of the General Law of Commercial Companies and our by-laws, only the shareholders’ meetings can determinate

compensation for the directors. Our directors cannot individually exercise any of our borrowing

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powers. We do not have any retirement plan. Shareholders, or a group of shareholders, that control 10% of our shares can name a director and (in that director's absence) an alternate director.

#### Voting Rights and Shareholders' Meetings

Each series B share entitles its holder to one vote at any meeting of our shareholders. Each series L share would entitle its holder to one vote at any meeting at which holders of series L shares are entitled to vote. Holders of series L shares would be entitled to vote only on the following matters:

- our transformation from one type of company to another;  
to elect one member of our board of directors pursuant to the provisions of our by-laws and the Securities Market Law;
- any merger or corporate spin-off in which we are not the surviving entity;
- our dissolution or liquidation;
- cancellation of the registration of our shares with the National Registry of Securities; and  
any action that would prejudice the rights of holders of series L shares and not prejudice the other classes of shares
- similarly. A resolution on any such action requires the affirmative vote of a majority of all outstanding series L shares.

Shareholders may vote by proxy duly appointed in writing. Under Mexican law, holders of shares of any series are also entitled to vote as a class on any action that would prejudice the rights of holders of shares of such series but not rights of holders of shares of other series, and a holder of shares of such series would be entitled to judicial relief against any such action taken without such a vote. Our board of directors or other party calling for shareholder action initially would determine whether an action requires a class vote on these grounds. A negative determination would be subject to judicial challenge by an affected shareholder, and a court ultimately would determine the necessity for a class vote. There are no other procedures for determining whether a proposed shareholder action requires a class vote, and Mexican law does not provide extensive guidance on the criteria to be applied in making such a determination.

Under Mexican law and our by-laws, we may hold three types of shareholders' meetings: ordinary, extraordinary and special. Ordinary shareholders' meetings are those called to discuss any issue not reserved for extraordinary shareholders' meeting. An annual ordinary shareholders' meeting must be convened and held within the first four months following the end of each fiscal year to discuss, among other things, the board of director's report on our financial statements, the chief executive officer's report on our operations during the preceding year, a report on fulfillment of our tax obligations of the last fiscal year and the Audit Committee's report with respect to the preceding year, the appointment of members of the board of directors and the chairman of the Audit Committee, declaration of dividends and the determination of compensation for members of the board of directors and for members of the Audit Committee. Under the Mexican Securities Market Law, our ordinary shareholders' meeting, in addition to those matters described above, will have to approve any transaction representing 20% or more of our consolidated assets, executed in a single or a series of transactions, during any fiscal year.

Extraordinary shareholders' meetings are those called to consider any of the following matters:

- voluntary dissolution of the company;
- an increase or decrease in a company's minimum fixed capital;
- change in corporate purpose or nationality;
- any transformation, merger or spin-off involving the company;



- any stock redemption or issuance of preferred stock or bonds;
  - the cancellation of the listing of our shares with the National Securities Registry or on any stock exchange;
  - any other amendment to our by-laws; and
  - any other matters for which applicable Mexican law or our by-laws specifically require an extraordinary meeting.
- Special shareholders' meetings are those that shareholders of the same series or class call and hold to consider any matter particularly affecting the relevant series or class of shares.

Shareholders' meetings are required to be held in our corporate domicile, which is Guadalajara, Jalisco. Calls for shareholders' meetings must be made by the chairman or the secretary of the board of directors or the chairman of our Audit Committee. Any shareholder or group of shareholders representing at least 10% of our capital stock has the right to request that the chairman of the board of directors or the chairman of the Audit Committee call a shareholders' meeting to discuss the matters indicated in the relevant request. If the chairman of the board of directors or the chairman of the Audit Committee fails to call a meeting within 15 calendar days following receipt of the request, the shareholder or group of shareholders representing at least 10% of our capital stock may request that the call be made by a competent court.

Calls for shareholders' meetings must be published in the official gazette of the state of Jalisco or any major newspaper located in the City of Guadalajara, Jalisco at least 15 calendar days prior to the date of the meeting. Each call must set forth the place, date and time of the meeting and the matters to be addressed. Calls must be signed by whomever makes them, provided that calls made by the board of directors or the Audit Committee must be signed by the chairman, the secretary or a special delegate appointed by the board of directors or the Audit Committee as appropriate, for that purpose. Shareholders' meetings will be validly held and convened without the need of a prior call or publication whenever all the shares representing our capital are duly represented.

To be admitted to any shareholders' meeting, shareholders must: (i) be registered in our share registry; and (ii) at least 24 hours prior to the commencement of the meeting submit (a) an admission ticket issued by us for that purpose, and (b) a certificate of deposit of the relevant stock certificates issued by the Secretary or by a securities deposit institution, a Mexican or foreign bank or securities dealer in accordance with the Mexican Securities Market Law. Shareholders may be represented at any shareholders' meeting by one or more attorneys-in-fact, and these representatives may not be one of our directors. Representation at shareholders' meetings may be substantiated pursuant to general or special powers of attorney or by a proxy executed before two witnesses.

At or prior to the time of the publication of any call for a shareholders' meeting, we will provide copies of the publication to the depository for distribution to the holders of ADSs. Holders of ADSs are entitled to instruct the depository as to the exercise of voting rights pertaining to the Series B shares. See "Description of American Depository Receipts — Voting Rights."

#### Quorum

Ordinary meetings are regarded as legally convened pursuant to a first call when shares representing more than 50% of our capital are present or duly represented. Resolutions at ordinary meetings of shareholders are valid when approved by a majority of the shares present at the meeting approves them. Any number of shares represented at an ordinary meeting of shareholders convened pursuant to a second or subsequent call constitutes a quorum. Resolutions at ordinary meetings of shareholders convened pursuant to a second or subsequent call are valid when a majority of the shares present at the meeting approves them.

Extraordinary shareholders' meetings are regarded as legally convened pursuant to a first call when shares representing at least 75% of our capital are present or duly represented, and extraordinary shareholders' meetings convened pursuant to a second or subsequent call are regarded as legally convened when shares representing 50% of



our capital are present or duly represented. Resolutions at extraordinary meetings of shareholders are valid when approved by 50% of our capital. Special meetings of holders of series L shares are governed by the same rules applicable to extraordinary general meeting of holders of series B shares. The quorum for an extraordinary general meeting at which holders of series L shares may not vote is 75% of the series B shares, and the quorum for an extraordinary general meeting at which holders of L shares are entitled to vote is 75% of the outstanding capital stock. Whether on first, second or subsequent call, actions at an extraordinary general meeting generally may be taken by a majority vote of the series B shares outstanding and, on matters which holders of series L shares are entitled to vote, a majority vote of all the outstanding capital stock.

Our by-laws also establish that a delisting of our shares requires the vote of holders of 95% of our capital stock.

#### No Right of Redemption

The Mexican Securities Market Law and our by-laws provide that our shareholders do not have redemption rights for their shares.

#### Registration and Transfer

Our shares are registered with the National Securities Registry, as required under the Mexican Securities Market Law and regulations issued by the CNBV. Our shares are evidenced by share certificates in registered form, and registered dividend coupons may be attached thereto. Our shareholders either may hold their shares directly, in the form of physical certificates, or indirectly, in book-entry form, through institutions that have accounts with INDEVAL.

INDEVAL is the holder of record in respect of all such shares held in book-entry form. INDEVAL will issue certificates on behalf of our shareholders upon request. INDEVAL participants, brokers, banks, other financial entities or other entities approved by the CNBV maintain accounts at INDEVAL. We maintain a stock registry and only those persons listed in such stock registry, and those holding certificates issued by INDEVAL indicating ownership, and any relevant INDEVAL participants, will be recognized as our shareholders.

#### Dividends and Distributions

At the annual general ordinary shareholders' meeting, the board of directors submits our financial statements for the previous fiscal year, together with their report on us, to the series B shareholders for approval. Under our by-laws and Mexican law, our annual net income, based upon our audited financial statements prepared in accordance with MFRS, is applied as follows: (i) five percent of our net earnings must be allocated to a legal reserve fund, until such fund reaches an amount equal to a least 20% of our then current capital stock (which, as of December 31, 2011, was approximately Ps. 4,143 million), (ii) thereafter, a certain percentage of net earnings may be allocated to any general or specific reserve fund, and (iii) the remainder of any net earnings is allocated as determined by the majority of our shareholders and may be distributed as dividends. All shares that are fully paid and outstanding at the time a dividend or other distribution is declared are entitled to share equally in any or other distribution. We will distribute through INDEVAL cash dividends on shares held through INDEVAL. Any cash dividends on shares evidenced by physical certificates will be paid by surrendering to us the relevant dividend coupon registered in the name of its holder.

To the extent that we declare and pay dividends on our shares, owners of ADSs at the time a dividend or other distribution is declared will be entitled to receive any dividends payable in respect of the series B shares underlying their ADSs, subject to the terms of the Deposit Agreement. Cash dividends will be paid to the depositary in pesos, and, except as otherwise described under "Description of American Depositary Receipts—Dividends, Other Distribution and Rights", the depositary will convert them into U.S. dollars and pay them to the holders of ADSs net of currency expenses and applicable fees.

A shareholder's entitlement to uncollected dividends lapses within five years following the stated payment date, in favor of us.

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For additional tender offer and insider trading rules applicable to our securities pursuant to Mexican Law, see “Market Information.”

### Changes in Capital Stock

Increases and reductions of our share capital must be approved at an ordinary or extraordinary shareholders’ meeting, subject to the provisions of our by-laws and the Mexican Corporations Law.

Subject to the individual ownership limitations set forth in our by-laws, in the event of an increase of our capital stock, other than (i) in connection with mergers, (ii) for the conversion of convertible debentures as provided in Section 210 Bis of the Mexican General Law on Negotiable Instruments and Credit Transactions, (iii) for purposes of conducting a public offering of such shares or (iv) for the resale of shares maintained in our treasury as a result of repurchase of shares conducted on the Mexican Stock Exchange, our shareholders will have a preemptive right to subscribe and pay for new stock issued as a result of such increase in proportion to their shareholder interest at that time. This preemptive right must be exercised by any method provided in Section 132 of the Mexican Corporations Law, by subscription and payment of the relevant stock within fifteen business days after the date of publication of the corresponding notice to our shareholders in the in the official gazette of the state of Jalisco or in one of the newspapers of general circulation in Guadalajara, Jalisco, Mexico, provided that if at the corresponding meeting all of our shares are duly represented, the fifteen business day period shall commence on the date of the meeting. Preemptive rights cannot be waived in advance and cannot be traded separately from the corresponding shares that give rise to such right.

Holders of ADSs may exercise preemptive rights in limited circumstances. See “Description of American Depositary Receipts—Dividends, Other Distributions and Rights.” If a holder of series B shares or ADSs were unable or unwilling to exercise its preemptive rights in connection with such a capital increase, such holder’s proportionate share of dividends and other distributions and voting rights would decline. In addition, depending on the series of shares increased and the pattern in which preemptive rights were exercised, such a capital increase might increase or reduce the portion of our capital stock represented by series B shares and ADSs or increase or reduce the proportionate voting rights of such holder.

Our capital stock may be reduced by resolution of a shareholders’ meeting taken pursuant to the rules applicable to capital increases. Our capital stock also may be reduced upon withdrawal of a shareholder as provided in Section 206 of the Mexican Corporations Law, see “—Voting Rights and Shareholders’ Meetings” above, or by repurchase of our own stock in accordance with the Mexican Securities Market Law, see “Share Repurchases” below.

### Share Repurchases

We may choose to acquire our own shares through the Mexican Stock Exchange on the following terms and conditions:

- the acquisition must be carried out through the Mexican Stock Exchange;
- the acquisition must be carried out at market price, unless a public offer or auction has been authorized by the CNBV; the acquisition must be carried out against our net worth (*capital contable*) without adopting a reduction in capital stock or against our capital stock, and the shares so acquired will be held as treasury stock without any requirement to adopt a reduction in capital stock. No shareholder consent is required for such purchases.
- the amount and price paid in all share repurchases must be made public;
- the annual ordinary shareholders meeting must determine the maximum amount of resources to be used in the fiscal year for the repurchase of shares;

we may not be delinquent on payments due on any outstanding debt issued by us that is registered with the National Securities Registry; and

any acquisition of shares must be in conformity with the requirements of Article 54 of the Mexican Securities Market Law, and we must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are listed.

The economic and voting rights corresponding to repurchased shares may not be exercised during the period in which we own such shares, and such shares are not deemed to be outstanding for purposes of calculating any quorum or vote at any shareholders' meeting during such period.

The shares and negotiable instruments representing title to shares belonging to us or, as the case may be, issued but unsubscribed treasury shares, may be placed with the investing public without the need for a shareholders' meeting or board resolution. As such, the provisions of Article 132 of the Mexican Corporations Law do not apply.

#### Ownership of Capital Stock by Subsidiaries

Our subsidiaries may not, directly or indirectly, invest in our shares, except for shares acquired as part of an employee stock option plan and in conformity with the Mexican Securities Market Law.

#### Delisting

Pursuant to the Mexican Securities Market Law, in the event that we decide to cancel the registration of our shares in the National Securities Registry and the listing of our shares on the Mexican Stock Exchange, or if the CNBV orders such cancellation, we will be required to conduct a tender offer for the shares held by minority shareholders and to create a trust with a term of six months, with amounts sufficient to purchase all shares not participating in the tender offer. Under the law, our controlling shareholders will be secondarily liable for these obligations. The price at which the shares must be purchased in the offer must be the greater of (i) the average of the trading price on the Mexican Stock Exchange during the last 30 days on which the shares were quoted prior to the date on which the tender offer is made or (ii) the book value of such shares as determined pursuant to our latest quarterly financial information filed with the CNBV and the Mexican Stock Exchange. If the CNBV orders the cancellation, we must launch the tender offer within 180 days from the date of their request. If we initiate it, under the Mexican Securities Market Law, the cancellation must be approved by 95% of our shareholders.

#### Other Provisions

*Information to Shareholders.* The Mexican Corporations Law establishes that companies, acting through their boards of directors, must annually present a report at a shareholder's meeting that includes:

- a report of the directors on our financial statements, as well as on the policies followed by the directors and on the principal existing projects;
- a report explaining the principal accounting and information policies and criteria followed in the preparation of the financial information;
- a statement of the financial condition of the company at the end of the fiscal year;
  - a statement showing the results of operations of the company during the preceding year, as well as changes in the company's financial condition and capital stock during the preceding year;
- a report of the chief executive officer on the operations of the company during the preceding year;
- a report of the fulfillment of the company's tax obligations of the last fiscal year;

- a report of the Audit Committee with respect to the preceding year; and
- the notes which are required to complete or clarify the above mentioned information.

In addition to the foregoing, our by-laws provide that our board of directors also should prepare the information referred to above with respect to any subsidiary that represents at least 20% of our net worth (based on the financial statements most recently available).

*Shareholders' Conflict of Interest.* Under Mexican law, any shareholder that has a conflict of interest with respect to any transaction must abstain from voting thereon at the relevant shareholders' meeting. A shareholder that votes on a transaction in which its interest conflicts with ours may be liable for damages in the event the relevant transaction would not have been approved without such shareholder's vote.

*Liquidation.* In the event we are liquidated, the surplus assets remaining after payment of all our creditors will be divided among our shareholders in proportion to their respective share holdings. Shares that are only partially paid will participate in the distribution in the proportion that they were paid. The general extraordinary shareholders' meeting at which the liquidation resolution is made, will appoint one or more liquidators.

*Foreign Investment.* Ownership by foreign investors of shares of Mexican enterprises in certain economic sectors is regulated by the Foreign Investment Law and the regulations thereunder. The Ministry of the Economy and the National Commission on Foreign Investment are responsible for the administration of the Foreign Investment Law and Regulations.

Pursuant to the Mexican Foreign Investment Law and Regulations, foreign investors may acquire up to 100% of the capital stock of Mexican companies or entities in the steel industry. In accordance with our bylaws, Mexican and non-Mexican nationals may own all series of our share capital. We have registered any foreign owner of our shares, and the depositary with respect to the ADSs representing our shares, with the National Registry of Foreign Investment (*Registro Nacional de Inversión Extranjera*).

*Forfeiture of Shares.* As required by Mexican law, our by-laws provide that "any alien who at the time of incorporation or at any time thereafter acquires an interest or participation in the capital of the corporation shall be considered, by virtue thereof, as Mexican in respect thereof and shall be deemed to have agreed not to invoke the protection of his own government, under penalty, in case of breach of such agreement, of forfeiture of such interest or participation in favor of the Mexican nation." Under this provision, a non-Mexican shareholder is deemed to have agreed not to invoke the protection of his own government by asking such government to interpose a diplomatic claim against the Mexican government with respect to the shareholder's rights as a shareholder but is not deemed to have waived any other rights it may have, including any rights under the U.S. securities laws, with respect to its investment in us. If the shareholder invokes such governmental protection in violation of this agreement, its shares could be forfeited to the Mexican government. Mexican law requires that such a provision be included in the by-laws of all Mexican corporations unless such by-laws prohibit ownership of shares by non-Mexican persons or entities.

*Duration.* Our existence under our by-laws is indefinite.

#### Certain Differences between Mexican and U.S. Corporate Law

You should be aware that the Mexican Corporations Law and the Mexican Securities Market Law, which apply to us, differ in certain material respects from laws generally applicable to U.S. corporations and their shareholders.

#### Independent Directors

The Mexican Securities Market Law requires that 25% of the directors of Mexican public companies must be independent, but the Audit Committee must be comprised entirely of independent directors. Pursuant to the rules and

regulations of the New York Stock Exchange, 50% of the directors of listed companies must be independent,

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and foreign companies subject to reporting requirements under the U.S. federal securities laws and listed on the New York Stock Exchange must maintain an audit committee comprised entirely of independent directors as defined in the United States federal securities laws.

#### Mergers, Consolidations, and Similar Arrangements

A Mexican company may merge with another company only if a majority of the shares representing its outstanding capital stock approve the merger at a duly convened general extraordinary shareholders' meeting, unless the company's by-laws impose a higher threshold. Dissenting shareholders are not entitled to appraisal rights. Creditors have ninety days to oppose a merger judicially, provided they have a legal interest to oppose the merger.

Under Delaware law, with certain exceptions, a merger, consolidation, or sale of all or substantially all the assets of a corporation must be approved by the board of directors and a majority of the outstanding shares entitled to vote thereon. Under Delaware law, a shareholder of a corporation participating in certain major corporate transactions, under certain circumstances, may be entitled to appraisal rights pursuant to which the shareholder may receive payment in the amount of the fair market value of the shares held by the shareholder (as determined by a court) in lieu of the consideration the shareholder would otherwise receive in the transaction. Delaware law also provides that a parent corporation, by resolution of its board of directors and without any shareholder vote, may merge with any subsidiary of which it owns at least 90% of each class of share capital. Upon any such merger, dissenting shareholders of the subsidiary would have appraisal rights.

#### Anti-Takeover Provisions

Subject to the approval of the CNBV, the Mexican Securities Market Law permits public companies to include anti-takeover provisions in their by-laws that restrict the ability of third parties to acquire control of the company without obtaining approval of the company's board of directors. See "Market Information—Market Regulation—Anti-Takeover Protections."

Under Delaware law, corporations can implement shareholder rights plans and other measures, including staggered terms for directors and super-majority voting requirements, to prevent takeover attempts. Delaware law also prohibits a publicly-held Delaware corporation from engaging in a business combination with an interested shareholder for a period of three years after the date of the transaction in which the shareholder became an interested shareholder unless:

- prior to the date of the transaction in which the shareholder became an interested shareholder, the board of directors of the corporation approves either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owns at least 85% of the voting stock of the corporation, excluding shares held by directors, officers, and employee stock plans; or
- at or after the date of the transaction in which the shareholder became an interested shareholder, the business combination is approved by the board of directors and authorized at a shareholders' meeting by at least 66 2/3% of the voting stock which is not owned by the interested shareholder.

#### Shareholders' Suits

Pursuant to the Mexican Securities Market Law, only a shareholder or group of shareholders holding at least 5% of our outstanding shares may bring a claim against some or all of our directors, secretary of the board of directors or relevant executives for violation of their duty of care or duty of loyalty. In addition, such shareholder or group of shareholders must include in its claim the amount of damages or losses caused to the company and not only the damages or losses caused to the shareholder or group of shareholders bringing the claim, provided that any amount

recovered as indemnification arising from the liability action will be for the benefit of the company, and not for the benefit of the shareholder or group of shareholders. The shareholder or group or shareholders must

demonstrate the direct and immediate link between the damage or loss caused to the company, and the acts alleged to have caused it. There is no requirement for the shareholder or group of shareholders to hold the shares for a certain period of time in order to bring a claim.

If the court determines that the shareholder or group of shareholders that initiated the claim acted in bad faith, such shareholder or group of shareholders will be liable to pay the legal fees and legal proceeding expenses.

The statute of limitations for these actions is five years from the date on which the act or event that caused the damage or loss occurred. These actions must be brought in the federal or local courts in Guadalajara, Jalisco (Mexico) and the court must personally notify the parties that have been sued, and must comply with all other legal formalities in order to satisfy the due process requirements of the Mexican Constitution.

Process must be served on the defendant personally, or, in the defendant's absence, process can be served by a judicial officer on the defendant's domicile whether or not the defendant is present. A method of service that does not comply with these requirements could be considered void. Class action lawsuits are not permitted under Mexican law.

#### Shareholder Proposals

Under Mexican law and our by-laws, holders of at least 10% of our outstanding capital stock are entitled to appoint one member of our board of directors.

Delaware law does not include a provision restricting the manner in which nominations for directors may be made by shareholders or the manner in which business may be brought before a meeting.

#### Calling of Special Shareholders' Meetings

Under Mexican law and our by-laws, the board of directors, the chairman of the board of directors or the chairman of the Audit Committee may call a shareholders' meeting. Any shareholder or group of shareholders with voting rights representing at least 10% of our capital stock may request that the chairman of the board of directors or the Audit Committee call a shareholders' meeting to discuss the matters indicated in the written request. If the chairman of the board of directors or the chairman of the Audit Committee fails to call a meeting within 15 calendar days following date of the written request, the shareholder or group of shareholders may request that a competent court call the meeting. A single shareholder may call a shareholders' meeting if no meeting has been held for two consecutive years or if matters to be dealt with at an ordinary shareholders' meeting have not been considered.

Delaware law permits the board of directors or any person who is authorized under a corporation's certificate of incorporation or by-laws to call a special meeting of shareholders.

#### Cumulative Voting

Under Mexican law, cumulative voting for the election of directors is permitted.

Under Delaware law, cumulative voting for the election of directors is permitted if expressly authorized in the certificate of incorporation.

#### Staggered Board of Directors

Mexican law does not permit companies to have a staggered board of directors, while Delaware law does permit corporations to have a staggered board of directors.

Approval of Corporate Matters by Written Consent

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Mexican law permits shareholders to take action by unanimous written consent of the holders of all shares entitled to vote. These resolutions have the same legal effect as those adopted in a general or special shareholders' meeting. The board of directors may also approve matters by unanimous written consent.

Delaware law permits shareholders to take action by written consent of holders of outstanding shares having more than the minimum number of votes necessary to take the action at a shareholders' meeting at which all voting shares were present and voted.

#### Amendment of Certificate of Incorporation

Under Mexican law, it is not possible to amend a company's certificate of incorporation (*acta constitutiva*). However, the provisions that govern a Mexican company are contained in its by-laws, which may be amended as described below. Under Delaware law, a company's certificate of incorporation generally may be amended by a vote of holders of a majority of the outstanding stock entitled to vote thereon (unless otherwise provided in the certificate of incorporation), subsequent to a resolution of the board of directors proposing such amendment.

#### Amendment of By-laws

Under Mexican law, amending a company's by-laws requires shareholder approval at an extraordinary shareholders' meeting. Mexican law requires that at least 75% of the shares representing a company's outstanding capital stock be present at the meeting in the first call (unless the by-laws require a higher threshold) and that the resolutions be approved by a majority of the shares representing a company's outstanding capital stock.

Under Delaware law, holders of a majority of the outstanding stock entitled to vote and, if so provided in the certificate of incorporation, the directors of the corporation, have the power to adopt, amend, and repeal the by-laws of a corporation.

#### C. Material Contracts

None

#### D. Exchange Control

There are no legislative or legal provisions currently in force in Mexico or arising under our by-laws restricting the payment of dividends to holders of our common stock not resident in Mexico, except for regulations restricting the remittance of dividends and other payments in compliance with United Nations sanctions. There are no limitations, either under the laws of Mexico or in our by-laws, on the right of foreigners to hold or vote on shares of our common stock.

#### E. Taxation

The following summary contains a description of the material anticipated U.S. and Mexican federal income tax consequences of the purchase, ownership and disposition of the series B shares or ADSs by a holder that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise will be subject to U.S. federal income tax on a net income basis in respect of the series B shares or ADSs and that is a "non-Mexican holder" (as defined below) (a "U.S. holder"), but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase the series B shares or ADSs. In particular, the summary deals only with U.S. holders that will hold the series B shares or ADSs as capital assets and use the U.S. dollar as their functional currency and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of our outstanding voting shares. In addition, the summary does not address any U.S. or Mexican state or local tax considerations that may be relevant to U.S. holders that are subject to special tax rules, such as banks, securities dealers, insurance companies, tax-exempt entities, persons that hold ADSs or series B shares as a hedge or as part of a straddle, conversion transaction or other risk reduction transaction for tax purposes or partnerships or pass-through

entities for U.S. federal income tax purposes. If a partnership holds the series B shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities

of the partnership. If a U.S. holder is a partner of a partnership holding our series B shares or ADSs, such U.S. holder should consult its tax advisor.

The summary is based upon the federal income tax laws of the United States and Mexico as in effect on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico and protocol thereto (the "Tax Treaty"), all of which are subject to change, possibly with retroactive effect in the case of U.S. federal income tax law. Prospective investors in the series B shares or ADSs should consult their own tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of the series B shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws and their entitlement to the benefits, if any, afforded by the Tax Treaty.

For purposes of this summary, the term "non-Mexican holder" shall mean a holder that is not a resident of Mexico and that will not hold the series B shares or ADSs or a beneficial interest therein in connection with the conduct of a trade or business through a permanent establishment or fixed base in Mexico.

An individual is a resident of Mexico for tax purposes, if he established his home in Mexico. When the individual in question has a home in another country, the individual will be deemed a resident in Mexico if his "center of vital interests" is located in Mexico. This will be deemed to occur if (i) more than 50% of the aggregate income realized by such individual in the calendar year is from a Mexican source or (ii) the principal center of his professional activities is located in Mexico.

A Mexican national who files a change of tax residence notice with a country or jurisdiction that does not have a comprehensive exchange of information agreement with Mexico and in which his income is subject to a preferred tax regime pursuant to the provisions of the Mexican Income Tax Law, will be considered a Mexican resident for tax purposes during the year the notice is filed and during the following three years. Unless otherwise proven, a Mexican national is deemed a resident of Mexico for tax purposes.

An entity in Mexico is a resident of Mexico if it maintains its principal place of business or its place of effective management in Mexico. If non-residents of Mexico are deemed to have a permanent establishment in Mexico for tax purposes, all income attributable to the permanent establishment will be subject to Mexican taxes, in accordance with applicable Mexican tax law.

In general, for U.S. federal income tax purposes, holders of ADSs will be treated as the beneficial owners of the series B shares represented by those ADSs.

#### Taxation of Dividends

##### Mexican Tax Considerations

Under Mexican Income Tax Law provisions (*Ley del Impuesto Sobre la Renta*), dividends paid to non-Mexican holders with respect to the series B shares represented by the ADSs are not subject to Mexican withholding tax.

Dividends paid from distributable earnings that have not been subject to corporate income tax are subject to a corporate-level dividend tax at a rate of 38.89% for the year ended December 31, 2009 and 42.86% for 2010 and 2011. The corporate-level dividend tax on the distribution of earnings is not final and may be credited against income tax payable during the fiscal year in which the dividend tax was paid and for the following two years. Dividends paid from distributable earnings, after corporate income tax has been paid with respect to these earnings, are not subject to this corporate-level dividend tax. Currently, after corporate tax dividend distributions are not subject to individual withholding taxes for shareholder recipients thereof.

Distributions made by us to our shareholders other than as dividends, including capital reductions, amortization of shares or otherwise, would be subject to taxation in Mexico at the corporate rate of 30% in 2010, or at the rate mentioned above, as the case may be.



## U.S. Federal Income Tax Considerations

The gross amount of any distributions paid with respect to the series B shares represented by the ADSs, to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be taxable as dividends and generally will be includible in the gross income of a U.S. holder as ordinary income on the date on which the distributions are received by the depositary and will not be eligible for the dividends received deduction allowed to certain corporations under the U.S. Internal Revenue Code of 1986, as amended. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2013 with respect to the B shares and ADSs will be subject to taxation at a maximum rate of 15% if the dividends are “qualified dividends.” Dividends paid on the B shares and ADSs will be treated as qualified dividends if (i) the issuer is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules, and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (“PFIC”). The income tax treaty between Mexico and the United States has been approved for the purposes of the qualified dividend rules. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2010 or our 2011 taxable year.

To the extent that a distribution exceeds our current and accumulated earnings and profits, it generally will be treated as a non-taxable return of basis to the extent thereof, and thereafter as capital gain from the sale of series B shares or ADSs. We do not expect to keep earnings and profits in accordance with U.S. federal income tax principles. Therefore, a U.S. holder should expect that a distribution will generally be treated as a dividend (as discussed above).

Distributions, which will be made in pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date they are received by the depositary whether or not they are converted into U.S. dollars. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt. Dividend income generally will constitute foreign source “passive category income” or, in the case of certain U.S. holders, “general category income” for U.S. foreign tax credit purposes.

Distributions of additional series B shares to holders of ADSs with respect to their ADSs that are made as part of a pro rata distribution to all our stockholders generally will not be subject to U.S. federal income tax.

## Taxation of Dispositions of Shares or ADSs

### Mexican Tax Considerations

Gain on the sale or other disposition of ADSs by a U.S. holder will generally not be subject to Mexican tax. Deposits and withdrawals of series B shares in exchange for ADSs will not give rise to Mexican tax or transfer duties.

Gain on the sale of series B shares by a U.S. holder will not be subject to any Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other stock exchange or securities markets approved by the Mexican Ministry of Finance and Public Credit. Gain on sales or other dispositions of series B shares made in other circumstances generally would be subject to Mexican tax at a rate of 25% based on the total amount of the transaction or, subject to certain requirements applicable to the seller, at a rate of 28% for the year ended December 31, 2009 and 30% by 2010, 2011 and 2012 of gains realized from the disposition.

Under the Tax Treaty, a U.S. holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of series B shares, in a transaction that is not carried out through the Mexican Stock Exchange or such other approved securities markets, so long as the holder did not own,

directly or indirectly, 25% or more of our share capital (including ADSs) during the twelve-month period preceding the sale or other disposition, and the value of those shares does not derive mainly from immovable property located in Mexico. Specific formalities apply to claim such as treaty benefits.

## U.S. Federal Income Tax Considerations

Upon the sale or other disposition of the series B shares or ADSs, a U.S. holder generally will recognize U.S. source capital gain or loss in an amount equal to the difference between the amount realized on the sale or other disposition and such U.S. holder's tax basis in the series B shares or ADSs. Gain or loss recognized by a U.S. holder on such sale or other disposition generally will be long-term capital gain or loss if, at the time of the sale or other disposition, the series B shares or ADSs have been held for more than one year. Under current law, long-term capital gain recognized by a U.S. holder that is an individual generally is subject to a maximum federal income tax rate of 15%. The deduction of a capital loss is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of series B shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

A U.S. holder that receives pesos upon sale or other disposition of the series B shares will realize an amount equal to the U.S. dollar value of the pesos upon the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A U.S. holder will have a tax basis in the pesos received equal to the U.S. dollar value of the pesos received translated at the same rate the U.S. holder used to determine the amount realized on its disposal of the series B shares. Any gain or loss realized by a U.S. holder on a subsequent conversion of the pesos generally will be a U.S. source ordinary income or loss.

## Other Mexican Taxes

There are no Mexican inheritance, gift, succession or value added taxes applicable to the ownership, transfer or disposition of the series B shares or ADSs by non-Mexican holders; provided, however, that gratuitous transfers of the series B shares or ADSs may in certain circumstances cause a Mexican federal tax to be imposed upon the recipient. There are no Mexican stamp, issue, registration or similar taxes or duties payable by non-Mexican holders of the series B shares or ADSs.

## U.S. Backup Withholding Tax and Information Reporting Requirements

In general, information reporting requirements will apply to certain payments by a paying agent to a U.S. holder of dividends in respect of the series B shares or ADSs or the proceeds received on the sale or other disposition of the series B shares or ADSs, and a backup withholding tax may apply to such amounts if the U.S. holder fails to provide an accurate taxpayer identification number to the paying agent or fails to establish an exemption or otherwise comply with these provisions. Amounts withheld as backup withholding tax will be creditable against the U.S. holder's U.S. federal income tax liability, provided that the required information is furnished to the U.S. Internal Revenue Service.

### F. Dividends and Paying Agents

Not applicable.

### G. Statements by Experts

Not applicable

### H. Documents on Display

Statements contained in this annual report regarding the contents of any contract or other document are not necessarily complete, and, where the contract or other document is an exhibit to the annual report, each of these statements is qualified in all respects by the provisions of the actual contract or other documents.

We are subject to the informational requirements of the U.S. Securities Exchange Act of 1934, or the Exchange Act. Accordingly, we file reports and other information with the Commission, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy the reports and other information that we file with the Commission at

the public reference facilities of the Commission at 100 F. Street, N.E., Washington D.C. 20549.

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You may obtain information on the operation of the Commission's public reference room by calling the Commission in the United States at 1-800-SEC-0330. In addition, the Commission maintains an internet website at [www.sec.gov](http://www.sec.gov) from which you can electronically access this annual report and the other materials that we file with the Commission.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we are required to file with the Commission, promptly after it is made public or filed, information that we make public in Mexico, file with the Mexican Stock Exchange or the CNBV or distribute to our security holders. As a foreign private issuer, we are exempt from Exchange Act rules regarding proxy statements and short-swing profits.

I. Subsidiary Information

Not applicable.

**Item 11. Quantitative and Qualitative Disclosures About Market Risk**

We are exposed to market risk, which is the potential risk of loss in fair values, cash flows or earnings due to changes in interest rates and foreign currency rates (primarily the peso/dollar exchange rate), as a result of our holdings of financial instrument positions. Our financial instruments include cash and cash equivalents, trade and other accounts receivable, accounts payable, long-term debt securities and related party debt. We do not maintain a trading portfolio. Our borrowings are entirely denominated in U.S. dollars. We do not utilize derivative financial instruments to manage our market risks with respect to our financial instruments. Historically, based on the last ten years of data, inflation in Mexico has been 2% higher than the Mexican peso's devaluation relative to the dollar.

We are exposed to market risk due to fluctuations of the purchase price of natural gas. To limit our exposure, we use derivative financial instruments, which currently consist of natural gas swap contracts. These contracts are recognized on our balance sheet at fair value. The swaps are considered as cash flow hedges since the cash flow exchanges under the swap are highly effective in mitigating exposure to natural gas price fluctuations. The change in fair value of the swaps is recorded as part of comprehensive income in stockholders' equity for those contracts that are designated as accounting hedges until such time as the related item hedged is recorded in income. At that time, the hedging instrument's fair value is recorded in income. For those contracts that are not designated as accounting hedges, the change in fair value is recorded directly into income. We do not believe our market risk with respect to these natural gas futures contracts is material. See Note 13 to the consolidated financial statements.

Market Risk Measurement

We measure our market risk related to our financial instruments based on changes in interest rates and foreign currency rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in fair values, cash flows and earnings based on a hypothetical increase in interest rates and a decline in the peso/dollar exchange rate. We used market rates as of December 31, 2011 on our financial instruments to perform the sensitivity analysis. We believe that these potential changes in market rates are reasonably possible in the near-term (one year or less). Based upon our analysis of the impact of a 100 basis point increase in interest rates and a 10% decline in the peso/dollar exchange rate, we have determined that such increase in interest rates and such decline in the peso/dollar exchange rate would not have a material adverse effect on our earnings. Because there is no active trading market for our debt instruments, we are not able to determine the impact of these changes on the fair value of those debt instruments. The sections below describe our exposure to interest rates and currency rates including the impact of changes in these rates on our earnings.

Interest Rate Exposure

We are exposed to changes in short-term interest rates as we invest in short-term dollar-denominated interest bearing investments. On the liability side, we utilize fixed rate debt. The floating rate debt is exposed to changes in interest expense and cash flows from changes in LIBOR, while the fixed rate debt is mostly exposed to

changes in fair value from changes in medium term interest rates. Based on an immediate 100 basis point rise in interest rates, we estimate that our earnings before taxes would not be significantly affected.

#### Currency Rate Exposure

Our primary foreign currency exchange rate exposure relates to our debt securities as well as our dollar-denominated trade payables. Our principal currency exposure is to changes in the peso/dollar exchange rate. We estimate that a 10% decline in the peso/dollar exchange rate would result in a decrease in our earnings before taxes of approximately Ps. 0.4 million (U.S.\$30 thousand).

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. Additionally, we cannot assure that our actual losses in any particular year will not exceed the amounts indicated above. However, we do believe that these amounts are reasonable based on the financial instrument portfolio at December 31, 2011 and assuming that the hypothetical market rate changes selected by us in our market risk analysis occur during 2012. The sensitivity analysis does not give effect to the impact of inflation on its exposure to increases in interest rates or the decline in the peso/dollar exchange rate.

#### Item 12. Description of Securities Other than Equity Securities

|                                    |    |                            |
|------------------------------------|----|----------------------------|
| Not applicable.                    | A. | Debt Securities            |
| Not applicable                     | B. | Warrants and Rights        |
| Not applicable                     | C. | Other Securities           |
| 12.D.3. American Depositary Shares | D. | American Depositary Shares |

The Bank of New York Mellon serves as the depository for our ADSs. The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

ADS holders are also required to pay additional fees for certain services provided by the depository, as set forth in the table below.

| Depository service   | Fee payable by ADR holders  |
|--|---|
| Issuance and delivery of ADSs, including issuances resulting from a distribution of shares or rights or other property   | Up to US\$ 5.00 per 100 ADSs (or portion thereof)   |
| Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates                        | Up to US\$ 5.00 per 100 ADSs (or portion thereof)   |
| Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS | A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares |

registered holders  
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had been deposited for



|   |   |
|---|---|
|   | issuance of ADSs  |
| Registration for the transfer of shares | Registration or transfer fees that may from time to time be in effect |
| Cash distribution fees                  | US\$.02 or less per ADS   |
| Depository services                     | US\$.02 or less per ADS   |

In addition, holders may be required to pay a fee for the distribution or sale of securities. Such fee (which may be deducted from such proceeds) would be for an amount equal to the lesser of (1) the fee for the issuance of ADSs that would be charged as if the securities were treated as deposited shares and (2) the amount of such proceeds.

#### 12.D.4 Direct And Indirect Payments By The Depository

##### Fees Incurred in Past Annual Period

We did not receive any reimbursement from the depository in 2011 or 2010.

##### Fees to be Paid in the Future

The Bank of New York Mellon, as depository, has agreed to reimburse us for expenses they incur that are related to establishment and maintenance expenses of the ADS program. The depository has agreed to reimburse us for its continuing annual stock exchange listing fees. The depository has also agreed to pay the standard out-of-pocket maintenance costs for the ADSs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depository has agreed to provide additional payments to us based on any applicable performance indicators relating to the ADS facility. There are limits on the amount of expenses for which the depository will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depository collects from investors.

The depository collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depository collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depository may collect its annual fee for depository services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depository may generally refuse to provide fee-attracting services until its fees for those services are paid.

## PART II

### Item 13. Defaults, Dividends Arrearages and Delinquencies

None.

### Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

## Item 15. Controls and Procedures

### A. Disclosure Control and Procedures

Our principal executive officer and our principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were not effective as described in Item 15.B.

### B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Our internal control system is designed to provide reasonable assurance as to the reliability of the published financial statements under applicable generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by BDO, an independent registered public accounting firm, as stated in their report which appears in Item 15.C as required by item 15.B(4) of Form 20-F.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control – Integrated Framework. Based on its assessment and those criteria, our management identified the following material weaknesses in our internal control over financial reporting, and therefore determined that our internal controls over financial reporting were not effective at December 31, 2011.

#### Material Weaknesses

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for the oversight of the company's financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

#### Fiscal Year Ended December 31, 2009

The following material weaknesses with respect to our internal controls over financial reporting were identified by us and our external auditors:

Due to the growth of our operations in Mexico primarily as a result of our acquisition in May 2008 of Aceros DM, 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;

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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. Due to this and the other reasons described above, we failed to undertake a proper supervision of the consolidation process during 2009;

Although, in accordance with MFRS we record revenues when materials have been shipped and the risk is transferred to the customers, we invoiced in Mexico certain materials that were paid for in 2009 but not shipped until 2010. This occurred due to a failure of a manual key control regarding our revenue recognition process; and

In the course of the audit of the consolidated financial statements of SimRep and its subsidiaries, including 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 addition, 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 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

In our assessment of our internal controls over financial reporting for the year ended December 31, 2010, the following material weaknesses were identified by us and our external auditors:

Regarding the entity-level controls and control environment, there are significant deficiencies that together constitute a material weakness, including (i) ineffective controls in the business acquisition process and controls in our patents registry; (ii) insufficient resources and an inadequate delegation of duties resulting in many functions being centralized in just few persons; (iii) lack of up-to-date accounting, human resources and information technology policies and procedures, and inadequate implementation of the foregoing; and (iv) an inadequate implementation and knowledge among employees of our ethical code.

A lack of appropriate accounting resources during 2010 at the corporate office, which affected the operation of key supervision controls of the accounting department which, in turn, affected the financial statement closing process, the deferred income tax process, the U.S. GAAP reconciliation process and the conversion of foreign subsidiaries process. This material weakness resulted in some accounting errors during 2010. The total accounting errors adjusted for this matter were considered material to our consolidated financial statements.

A lack of an appropriate consolidation system to allow management to properly supervise the preparation of consolidated financial information.

At SimRep and its subsidiaries, the structure of the finance department was found to be insufficient to reconcile certain balance sheet accounts and timely review and approve financial close processes including the preparation of its financial statements, resulting in material corrections to the company's consolidated 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 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) 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.

C. Attestation Report of the Independent Registered Public Accounting Firms  
Report of Independent Registered Public Accounting Firm  
To The Board of Directors and Shareholders of Grupo Simec, S.A.B. de C.V.

We have audited Grupo Simec, S.A.B. de C.V.'s internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Grupo Simec, S.A.B. de C.V.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We did not examine the effectiveness of internal control over financial reporting of the subsidiaries included in the combined financial statements of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, wholly owned subsidiaries, which total combined assets represent approximately 10% of the total consolidated assets as of December 31, 2011 and its net combined sales for the year then ended represented approximately a 11% of the total net consolidated sales. The effectiveness of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates internal control over financial reporting was audited by other auditors whose report has been furnished to us and expressed an qualified opinion. Our opinion, insofar as it relates to the effectiveness of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates internal control over financial reporting, is based solely on the report of the other auditors.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States of America). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

(1) Regarding the entity-level controls and control environment, there are significant deficiencies that could affect the effectiveness of the internal controls:

- We noted ineffective controls in the patents registry.

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- Many functions are centralized in just few persons. These issues are attributable to the lack of appropriate resources and an adequate analysis of segregation of duties.
- We noted that the accounting, human resources policies and information technology and procedures have been only partially updated and there is no proper monitoring by the company.
- As part of evaluation the control environment, we noted lack of adequate diffusion of the ethical code.
- The Company has not integrated all the control processes of the entity to an Enterprise Resource Planning (ERP).
- The Company does not have an accounting manual for the entire company, including the instructions on most types of accounting records.
- During the year ended December 31, 2011, the Company does not have evidence of having carried out a training plan for management personnel conducting the preparation of the Financial Information. On the other hand, has no evidence of a training plan for this area.
- Internal Audit has no evidence to report periodically to the Audit Committee for monitoring the remediation plans previously submitted.

The combination of these deficiencies constitute a material weakness, there are a reasonable possibility that material misstatement of the company's annual and interim financial statements will not be prevented or detected on a timely basis.

(2) Lack of appropriate accounting resources during 2011 at the corporate office that affected the operation of key supervision controls of the accounting department that, in turn, affected the financial statement closing process, the deferred income tax process and the conversion of foreign subsidiaries process. This material weakness resulted in some accounting errors during 2011. The total accounting errors adjusted for this matter were considered material to the consolidated financial statements of Grupo Simec, S.A.B. de C.V.

(3) Lack of appropriate consolidation system to allow management to properly supervise the preparation of consolidated financial information. In addition, the financial information of each of the business units that provides a basis for the consolidation does not have enough depth analysis. Consequently the preparation of the figures of the consolidation is complex because there is not enough detail to allow carrying out a clear and precise understanding of the operations contained.

(4) In the subsidiary SimRep Corporation and its subsidiaries are material weaknesses affecting the effectiveness of internal controls that are mentioned below:

- We noted the Company lacks proper controls in place to reconcile certain balance sheet accounts at the detailed level. Specifically, the Company has certain accounts payable debit balances that could not be substantiated resulting in audit adjustments. Our testing of internal controls revealed a financial close control failure due to lack of proper and timely review of monthly financial statements. In addition, our review of the financial statements resulted in several reclassifications to the basic financial statements and adjustments to the footnotes. We also noted the Company did not have appropriate expertise internally to address technical accounting and financial reporting matters. These issues are attributable to the Company's lack of appropriate accounting resources. This material weakness resulted in material corrections to the Company's consolidated financial statements.

These material weaknesses were considered in determining the nature, timing and extent of audit tests applied in our audit of 2011 financial statements and this report does not affect our report dated April 25, 2012 on those financial statements.

In our opinion, Grupo Simec, S.A.B. de C.V. did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the COSO criteria.

The other auditors issued also an adverse opinion of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, noting that significant deficiencies were detected on Corporacion Aceros D.M., 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 the 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), the consolidated balance sheet of Grupo Simec, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010 and the related consolidated statements of operations, changes in stockholders' equity and statement of cash flows for the year then ended and our report dated April 25, 2012 expressed an unqualified opinion thereon. We did not audit the combined financial statements of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, which total combined assets represent approximately 10% of the total consolidated assets as of December 31, 2011 and its net combined sales for the year then ended represented approximately a 11% of the total net consolidated sales. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, is based solely on the report of the other auditors.

Castillo Miranda y Compañía, S.C.

Member of BDO International

C.P.C. Carlos Rivas Ramos

Guadalajara, Jalisco, Mexico

April 25, 2012

D.

#### Changes in Internal Control Over Financial Reporting

Fiscal Year Ended December 31, 2009

On April 29, 2010, our external auditor notified our 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 to be material weaknesses in internal 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."

On April 29, 2010 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.

In response to the notifications from our external auditor described above, our Audit Committee instructed our internal audit department to perform supplementary testing actions and afterwards engaged outside counsel to conduct an

internal investigation concerning these matters. Following the completion of this internal investigation, our outside counsel discussed with our outside auditor the types of remedial measures that would be appropriate to address these material weaknesses in internal controls over financial reporting. After consulting with our outside auditor, our outside counsel reported the findings and conclusions of its internal investigation to our Audit Committee and recommended that the Audit Committee adopt certain remedial measures to address these matters. On September 3, 2010, our Audit Committee adopted the following remedial measures to address material weaknesses in internal controls over financial reporting:

(1) Our chief financial officer reviewed Republic's financial reporting policies and ensured that such policies were consistent with our practices and that such policies complied with U.S. GAAP. In the future, our chief financial officer shall approve any changes to these financial policies. The CFO of Republic and his senior subordinates who handle general accounting and financial reporting matters will report directly to our CFO on all such matters. Republic's CEO shall not give instructions or make suggestions to Republic's CFO or Republic's accounting staff concerning any general accounting or financial reporting matters. Also, Republic's CFO shall report to and collaborate with Republic's CEO on other matters, including cash management and cash forecasting, accounts payable and accounts receivable, payroll, financial forecasting, capital budgeting, tax compliance, supplier and customer relationships, litigation matters, insurance and risk management, fiduciary oversight of 401K and deferred compensation plans, product costing, analysis of cost performance, and various analytical tasks.

(2) Republic's chief executive officer and the general manager of our controlling shareholder, Industrias CH, S.A.B. de C.V. ("Industrias CH") will certify annually that they understand that Republic's accounting staff is obligated to adhere to U.S. GAAP and that they are not permitted to instruct Republic's accounting personnel about the accounting treatment of any matter. In the event that any member of Republic's accounting staff is instructed by anyone to engage in any conduct that the staff member believes does not comply with U.S. GAAP, that staff member is required to notify Republic's CFO of such an event; Republic's CFO in turn is required to notify our CFO. In the event that Republic's CFO makes such a notification to our CFO, Republic's CFO will send the relevant documentation and information to our CFO, who will analyze it (with the assistance of a third party consultant as necessary) and make a final written determination as to the matter, provided that if the matter involves an amount of U.S.\$500,000 or more, that determination by our CFO must also be approved by our CEO and our Audit and Corporate Practices Committee.

(3) Our senior manager in Sarbanes Oxley compliance reviewed Republic's testing of internal control, including testing related to information technology.

(4) Republic has hired a professional to oversee testing of internal controls for purposes of the Sarbanes-Oxley Act of 2002, including those related to information technology. Also, a member of our audit team shall perform an on-site review of Republic's internal controls at least twice a year.

(5) We have retained a third party consultant to evaluate what additional resources are needed by Republic's accounting department. In their assessment the third party shall consider specific areas of expertise and levels of experience within Republic's accounting department. We may require Republic to hire additional resources as appropriate.

(6) Republic is in the process of reforming and strengthening its whistleblower procedures in order to enable members of Republic's accounting staff to anonymously report problems directly to our internal audit department, and once such process is finished, Republic will provide training to Republic's accounting staff on these procedures.

As a result of our evaluation on the effectiveness of our internal controls in Mexico for the year ended December 31, 2009 and the material weakness and deficiencies identified during that period, we conducted an analysis of functions and workloads in our finance department and we implemented the additional following changes, which have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting:

We have revised access levels for all users of our main information systems at our Mexican operations to secure such information systems and monitor the changes to that system. We are also currently reviewing other systems that complement our main system.

We have started implementing what we believe is an improved system for the preparation of our consolidated reports. This consolidation process is carried out through a semi-automated consolidation of the electronic Excel sheets, instead of a completely manual consolidation of the electronic Excel sheets as had been the practice in the past. We have segregated functions and procedures relating to our calculation of deferred taxes by hiring an external consultant to perform this function.

Our CFO conducted an analysis of functions and workloads in the finance departments of all of our Mexican subsidiaries in order to improve internal controls over financial reporting in the most efficient way possible. As a result, we distributed certain time-consuming finance processes to personnel at our Mexican subsidiaries as the workload in the subsidiaries may have been reduced due to decreased operations in the subsidiaries.

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 to the notification, our Audit Committee engaged outside counsel to perform an internal investigation as SimRep.

Following the completion of its internal investigation of SimRep, our outside counsel discussed with our independent auditor the types of remedial measures that would be appropriate to address the material weakness in internal control over financial reporting. After consulting with our independent auditor, our outside counsel reported the findings and conclusions of its internal investigation to our Audit Committee and recommended that the Audit Committee adopt certain remedial measures to address these matters.

On April 25, 2012, our Audit Committee adopted the following remedial measures to address the material weaknesses in internal controls over financial reporting at SimRep that are described above in Item 15(B), which measures are reasonably likely to materially affect our internal control over financial reporting:

1. Republic will improve internal controls with respect to the valuation and accounting for obsolete inventory, including the adoption of a written policy with specific procedures for accounting and defined criteria for determining valuation, including the establishment of clear direct instructions as to the requirements for periodic reporting to Grupo Simec. Republic will also designate a responsible point-person with authority to execute write-downs. Simec will communicate to the Republic management team that the CEO fully supports, and expects compliance with, the newly adopted policy and process.
2. Republic management will communicate a clear commitment throughout the organization to timely and accurate financial reporting, including providing sufficient accounting staff who are adequately trained, improving written accounting policies, and establishing a climate among management that is supportive of timely revenue and expense recognition in accordance with U.S. GAAP requirements.
3. Republic will improve the accounting and financial reporting expertise of senior financial executives, including adding additional senior accounting and financial reporting expertise to assure compliance with U.S. GAAP, and requiring Republic’s CFO to follow the directives of Grupo Simec’s CFO on accounting and financial reporting matters.
4. Republic’s CEO and CFO will provide quarterly written certifications of compliance confirming that the CEO will not provide any direct or indirect input on any general accounting and financial reporting matters.
5. Grupo Simec’s Internal Auditor or CFO will visit Republic on a quarterly or other periodic basis to perform inquiries and procedures to reasonably ensure compliance with directives from Grupo Simec company, timely resolution of accounting matters, and ensuring lack of CEO influence over accounting matters.
6. Grupo Simec will open a clear direct line of communication from Republic’s CFO to Grupo Simec’s CFO on all significant accounting matters. Such communications will not be dependent on Republic CEO’s involvement, approval or consent.
7. Grupo Simec will open a clear and direct line of communication from Republic’s Controller to Grupo Simec’s CFO on any accounting matter the Controller believes is appropriate. Such communication will not be dependent on Republic’s CEO’s or CFO’s involvement, approval or consent.
8. Republic will add a full-time internal auditor to help design, implement and monitor the continuing effectiveness of internal controls.
9. Republic will monitor compliance by performing quarterly financial reviews to ensure timelier reporting and resolution of accounting issues or concerns. Such review will include inquiry of operational and accounting personnel as to their understanding that there should be no direct or indirect input by the CEO on any general accounting or financial reporting matters.

10. Republic will improve its current whistleblower procedures in order to enable members of Republic's accounting staff to report problems anonymously, establish a confidential procedure for reporting accounting concerns, provide training to staff on these procedures, and communicate to all employees the importance of anonymity of the complaints.

In addition, as a result of our evaluation on the effectiveness of our internal controls at Grupo Simec (Mexican operations) for the year ended December 31, 2011 and the material weakness and deficiencies identified during that period, we will implement the following changes, which are reasonably likely to materially affect our internal controls over financial reporting:

We will (i) review and reform our entity level controls which relate to the implementation of our ethical code, (ii) review and update our policies and procedures, (iii) provide formal training to our finance personnel related to the preparation of financial statements, (iv) carry out formal follow-up procedures with respect to the remediation plans, (v) review and update our accounting manual and (vi) reform our internal control related to our patent registry.

We will conduct an analysis of functions and workloads in the finance departments of all of our Mexican subsidiaries in order to improve internal controls over financial reporting to avoid the errors found with respect to our financial statement closing process, the deferred income tax process and the conversion of foreign subsidiaries process. We will also reform our training program in order to avoid similar errors in the future.

In our subsidiary Corporación Aceros DM, S.A. de C.V. we will perform (i) periodic physical inventories of our fixed assets; (ii) review the analysis of the segregation of duties and proper authorization of personnel access to main information systems; (iii) obtain evidence of reconciliation of physical and accounting information of the raw material inventory; (iv) obtain evidence of review of interim financial statements; and (v) review and update our documentation related to the responsibilities and authority of key financial roles and communicate adequately.

#### **Item 16. Reserved**

##### **Item 16A. Audit Committee Financial Expert**

Our board of directors has determined that it has at least one "audit committee financial expert", as defined in Item 16.A of Form 20-F, serving on the Audit Committee. Raul Arturo Pérez Trejo is the director whom the board of directors has determined to be an audit committee financial expert. Holders of ADSs should understand that this designation is a disclosure requirement of the SEC related to Mr. Pérez's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose on Mr. Pérez any duties, obligations or liability that are greater than those which are generally imposed on him as a member of the Audit Committee and board of directors, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or board of directors. Mr. Pérez is "independent" as such term is defined in the listing standards of the New York Stock Exchange.

##### **Item 16B. Code of Ethics**

In 2002, we adopted a code of ethics that applies to all of our employees and directors, including our principal executive officer, principal financial officer and principal accounting officer. In 2010 and 2011, we did not amend our code of ethics in any manner, nor did we grant any waiver from any provision of the code of ethics to any person. We will provide to any person without charge, upon written or oral request, a copy of such code of ethics. Requests should be directed to: Grupo Simec, S.A.B. de C.V., Attention: Adolfo Luna Luna, telephone number: 011-52-33-3770-6700.

Item 16C. Principal Accountant Fees and Services

Our Audit Committee has engaged BDO, as the independent auditors of our consolidated financial statements, as of and for the years ending December 31, 2011 and 2010. The Audit Committee has also engaged BDO USA, LLP to audit the consolidated financial statements of SimRep and subsidiaries located in the United States. The audit of Aceros DM and subsidiaries and affiliates, located in San Luis Potosí, S.L.P. Mexico, continue to be audited by Moore Stephens.

*Audit Fees.* We paid fees to BDO in connection with the audit of our annual consolidated financial statements for 2011, included in our annual report on Form 20-F in the amount of Ps. 11.2 million and Ps. 2.9 million to Moore Stephens for the audit corresponding to Aceros DM and subsidiaries and affiliates. We paid fees to BDO in connection with the audit of our annual consolidated financial statements for 2010, included in our annual report on Form 20-F in the amount of Ps. 9.6 million and Ps. 2.7 million to Moore Stephens for the audit corresponding to Aceros DM and subsidiaries and affiliates.

*Audit Related Fees.* We paid fees to Galaz, Yamazaki, Ruiz Urquiza, S.C. Member of Deloitte Touche Tohmatsu Limited in the amount of Ps. 0.85 million in 2010, for consulting services relating to the implementation of IFRS. In 2011, we did not incur in any expenses associated with audit related fees.

*Tax Fees.* We paid fees to Ernst & Young in the amount of Ps. 0.2 million, in 2009, associated with tax compliance and tax consultation. In 2011 and 2010, we did not incur in any expenses associated with tax compliance.

*Other Fees.* We paid no fees in 2010 and 2011 other than those set forth above to BDO or Moore Stephens.

*Pre-Approval Policies.* Our Audit Committee has adopted a formal policy on auditor independence requiring it to approve all professional services rendered by our independent auditor prior to the commencement of the specified services. The Audit Committee will consider annually and, if appropriate, approve the provision of audit services by our independent auditor and consider and, if appropriate, pre-approve the provision of certain defined audit and non-audit services. The Audit Committee also will consider on a case-by-case basis and, if appropriate, approve specific engagements that are not otherwise pre-approved. Any proposed engagement that does not fit within the definition of a pre-approved service may be presented to the Audit Committee for consideration at its next regular meeting or, if earlier consideration is required, to the Audit Committee for action by written consent.

The Audit Committee approved all of the services incurred in 2009, 2010 and 2011, described as “Audit Fees,” “Audit Related Fees”, “Tax Fees”, and “Other Fees,” in accordance with our policy on auditor independence.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F. Change in Registrant’s Certifying Accountant

Not applicable.

Item 16G. Corporate Governance



Our following corporate governance practices differ from the New York Stock Exchange standards in the following ways:

*Board of Directors Composition, Nomination and Board Meetings.* Pursuant to the Mexican Securities Market Law, our board of directors must be composed of a maximum of 21 members, of which at least 25% must be independent. The board of directors is elected by the shareholders at the annual meeting, for a one year term with the

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option to be reelected, as determined by the shareholders. One alternate director may be appointed for each director, provided that independent alternates are appointed for the independent directors. In accordance with Mexican law, our shareholders determine directors' independence during the annual shareholders meeting, but this independence determination may be challenged by the CNBV. Our board of directors meets at least quarterly and resolutions are binding if adopted by a majority of the directors present at a meeting.

*Nominating and Compensation Committees.* In compliance with Mexican laws, we do not have a nominating or compensation committee. Members of our board of directors are appointed by a majority of shareholders present at our annual shareholders meeting. We do have a corporate practice committee, made up of three independent directors, that assists the board in determining executive compensation. Shareholders, at our annual shareholders meeting, or the board of directors, make the final determination about executive compensation. Shareholders' approval must be acquired for the adoption and amendment of any equity compensation plans.

*Audit Committee and Auditors.* Our Audit Committee is governed by: (i) our by-laws and (ii) Mexican law. Our Audit Committee is made up of at least three independent directors, appointed by the board of directors. Our shareholders appoint and/or remove the chairman of the Audit Committee at the annual shareholders meeting. In accordance with Mexican law, the Audit Committee must provide an opinion regarding any transaction with a related party, outside of the ordinary course of business. Such transactions must also be approved by the board of directors.

Under Mexican law, we must be audited by an independent public accountant that has received a "quality control review," as defined by the general rules issued by the CNBV. These general rules require accounting firms rendering external audit services, to fulfill higher independence standards, as well as issuing and following quality control internal policies and manuals in accordance with the rules issued by the Mexican Institute of Public Accountants (*Instituto Mexicano de Contadores Públicos, A.C.*).

*Quorum Requirements and Shareholders' Approval.* In compliance with Mexican law, shareholders representing 50% of our capital stock must be present to conduct business at the first call for ordinary shareholders meetings, dealing with general matters. If a quorum is not reached, there is no minimum quorum requirement for a second or subsequent call. Resolutions approved at ordinary shareholders' meetings are valid when approved by a majority of the shares present. On the other hand, shareholders representing 75% of our capital stock must be present to conduct business at the first call for extraordinary shareholders meeting dealing with modifications to the our by-laws. If a quorum is not reached, shareholders representing 50% of our capital stock must be present at the meeting in a second or subsequent call. Resolutions at extraordinary shareholders meetings are valid if approved by shares representing more than 50% of our capital stock. However, resolutions regarding the (i) quorum requirements, (ii) minority shareholders' rights, (iii) merger, spin-off and conversion are valid if approved by at least 75% of our capital stock. Furthermore, resolutions regarding our registration with the National Securities Registry (*Registro Nacional de Valores*) are valid if approved by at least 95% of our capital stock. Class II Series "L" Shares, representative of our capital stock with limited economic and corporate rights, are not taken into account when determining the quorum at the general shareholders' meeting.

*Code of Conduct and Ethics.* In compliance with Mexican law, we have a code conduct and ethics for our directors or executive officers. Also, our directors' and executive officers' conduct is subject to the applicable provisions of the Mexican Securities Market Law and the regulations issued by the CNBV

PART III

**Item 17. Financial Statements**

See "Item 18—Financial Statements."

**Item 18. Financial Statements**

See our Consolidated Financial Statements beginning at page F-1.

**Item 19. Exhibits**

Pursuant to the rules and regulations of the SEC, we have filed certain agreements as exhibits to this annual report on Form 20-F. Documents filed as exhibits to this annual report:

| Exhibit Number | Item  |
|----------------|---|
| 1.1            | Amended and Restated by-laws ( <i>estatutos sociales</i> ) of the registrant, together with an English translation.*  |
| 4.1            | Stock Purchase Agreement by and Among PAV Republic, Inc., The Shareholders of PAV Republic, Inc., SimRep Corporation and Industrias C.H., S.A. de C.V.*   |
| 4.2            | 2007-2008 Rounds Supply Agreement by and Between Republic, Inc. and United States Steel Corporation.*   |
| 4.3            | Stock Purchase Agreement, dated as of February 21, 2008, among the Sellers (as defined therein) and Grupo Simec, S.A.B. de C.V. relating to the acquisition of 100% of the shares of Grupo San.** |
| 8.1            | List of subsidiaries, their jurisdiction of incorporation and names under which they do business.   |
| 12.1           | Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 12.2           | Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 13.1           | Certifications of chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.  |

\* Previously filed with the SEC as an exhibit and incorporated by reference from our Registration Statement on Form F-1, File No. 333-138239.

\*\* Previously filed with the SEC as an exhibit and incorporated by reference from our Annual Report on Form 20-F, filed on July 1, 2008.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

**GRUPO SIMEC, S.A.B. DE C.V.**

By: /s/ Luis García Limón

Luis García Limón

*Chief Executive Officer*

By: /s/ Adolfo Luna Luna

Adolfo Luna Luna

*Chief Financial Officer*

Dated: May 15, 2012

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## **Report of Independent Registered Public Accounting Firm**

### **The Board of Directors and Stockholders of Grupo Simec, S.A.B. de C.V. and Subsidiaries**

We have audited the accompanying consolidated balance sheets of Grupo Simec, S.A.B. de C.V. and subsidiaries (the "Company") (subsidiary of Industrias CH, S.A.B. de C.V.) as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. In connection with our audit of the financial statements, we have also audited the financial statement schedules listed in the accompanying index. These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audit. We did not audit the combined financial statements of Corporacion Aceros D.M., S.A. de C.V. and subsidiaries and affiliates as of December 31, 2011 and 2010, acquired by the Company on May 31, 2008, which total combined assets represent approximately 10% and 15% of the total consolidated assets at those dates, respectively and its net combined sales for the years then ended represented approximately a 11% and 18% of the total net consolidated sales, respectively. Those statements were audited by other auditors whose reports has been furnished to us, and our opinion, insofar as it relates to the amounts included for Corporacion Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, is based solely on the reports of the other auditors.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grupo Simec, S.A.B. de C.V. and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations, the changes in stockholders' equity and cash flows for the years then ended, in conformity with Mexican financial reporting standards, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 25 to the consolidated financial statements).

Also, in our opinion, the financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Grupo Simec, S.A.B. de C.V.'s internal control over financial reporting as of December 31, 2011, based on

criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). We did not examine the effectiveness of internal control over financial reporting of the subsidiaries included in the combined financial statements of Corporacion Aceros D.M., S.A. de C.V. and its subsidiaries and affiliates. The effectiveness of Corporacion Aceros D.M., S.A. de C.V. and subsidiaries and affiliates internal control over financial reporting was audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the effectiveness of Corporacion Aceros D.M., S.A. de C.V. and subsidiaries and affiliates internal control over financial reporting, is based solely on the report of the other auditors. Our report dated April 25, 2012 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

Castillo Miranda y Compania, S.C.

/s/ Carlos Rivas Ramos C.P.C.  
Carlos Rivas Ramos

Guadalajara, Jalisco, Mexico

April 25, 2012

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## **Report of Independent Registered Public Accounting Firm**

### **The Board of Directors and Stockholders of Grupo Simec, S.A.B. de C.V. and Subsidiaries**

We have audited the accompanying consolidated statements of income, changes in stockholders' equity and cash flow of Grupo Simec S.A.B. de C.V. and Subsidiaries (the "Company") for the year ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the combined financial statements of Corporacion Aceros D.M., S.A. de C.V. and affiliates, which statements reflect total combined revenues of Ps. 3,724,960 (thousand), for the year ended December 31, 2009. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Corporacion Aceros D.M., S.A. de C.V. and affiliates, is based solely on the report of the other auditors.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Grupo Simec S.A.B. de C.V. and Subsidiaries for the year ended December 31, 2009 in conformity with Mexican financial reporting standards, which differ in certain respects from accounting principles generally accepted in the United States of America (see Note 25 to the consolidated financial statements).

As disclosed in Note 11, during 2009, the Company adopted MFRS C-8, Intangible Assets. The application of this standard was prospective in nature.

Mancera, S.C.

A Member Practice of

Ernst & Young Global



/s/ Alejandro Cecena

C.P.C. Alejandro Cecena

Guadalajara, Jalisco, Mexico  
September 17, 2010

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**Corporacion Aceros D.M., S.A. de C.V. and Affiliates**

**1: Audit Report on the Combined Financial Statements for the years ended as of December 31, 2011, 2010**

We have audited the accompanying Combined Balance Sheets of **Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates** as of December 31, 2011, 2010 and 2009, as well as the related Combined Income Statements, Statements of Changes in Stockholders' Equity and Cash Flows Statements, for the years then ended. These financial statements are responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the accompanying combined financial statements present fairly, in all material respects, the financial position of Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates, as of December 31, 2011, 2010 and 2009, and the results of their operations, the changes in stockholders' equity, and the cash flows for the years then ended, in conformity with Mexican Financial Reporting Standards, which differ in certain respects from U.S. generally accepted accounting principles (See Note 20 to the consolidated financial statements).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States of America), Corporación Aceros D.M., S.A. de C.V. and subsidiaries and affiliates internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 23, 2012, expressed an adverse opinion on the effectiveness of internal control over financial reporting.

San Luis Potosí, S.L.P., April 23, 2012

/s/ Marcelo de los Santos Anaya  
Marcelo de los Santos Anaya, C.P.A.  
Professional Identity Card 1649173  
A.G.A.F.F. Register 10374

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**GRUPO SIMEC, S.A.B. DE C.V. AND SUBSIDIARIES**

## Consolidated Balance Sheets

December 31, 2011 and 2010

(In thousands of Mexican pesos)

|  | 2011           | 2010                  |
|--|----------------|-----------------------|
| Assets   |                |                       |
| Current assets:  | 6,537,088      | <b>3,384,917</b>      |
| Cash and cash equivalents (Note 4-c)                   |                |                       |
|  | <b>Ps.</b>     | <b>Ps.</b>            |
| Accounts receivable:                                   |                |                       |
| Trade  | 3,296,377      | <b>2,702,587</b>      |
| Related parties (Note 6)                               | 169,018        | <b>126,145</b>        |
| Recoverable taxes (Note 7)                             | 500,688        | <b>677,982</b>        |
| Other receivables                                      | 8,283          | <b>53,358</b>         |
|  | 3,974,366      | <b>3,560,072</b>      |
| Less: allowance for doubtful accounts                  | 264,698        | <b>237,379</b>        |
| Total accounts receivable, net                         | 3,709,668      | <b>3,322,693</b>      |
|  | 5,760,120      | <b>5,218,304</b>      |
| <b>Inventories, net (Note 8)</b>                       |                |                       |
| Prepaid expenses (Nota 9)                              | 193,985        | <b>262,708</b>        |
| Total current assets                                   | 16,200,861     | <b>12,188,622</b>     |
| Non-current inventories (Note 4-f)                     | 1,792,040      | <b>1,605,968</b>      |
| Property, plant and equipment, net (Note 10)           | 9,475,562      | <b>9,453,237</b>      |
| Intangible and other non-current assets, net (Note 11) | 3,801,003      | <b>4,101,141</b>      |
| Total assets   | Ps. 31,269,466 | <b>Ps. 27,348,968</b> |

**Liabilities and stockholders' equity****Current liabilities:**

|  |           |                  |
|--|-----------|------------------|
| Short-term debt (Note 12)                  | Ps. 4,225 | <b>Ps. 3,732</b> |
| Accounts payable to suppliers              | 2,294,701 | <b>2,162,801</b> |
| Related parties (Note 6)                   | 706,385   | <b>629,676</b>   |
| Derivative financial instruments (Note 13) | 35,456    | <b>79,708</b>    |

|  |                |                      |
|--|----------------|----------------------|
| Taxes payable  | 246,247        | <b>434,220</b>       |
| Other Liabilities and accrued expenses                     | 535,743        | <b>588,469</b>       |
| Total current liabilities                                  | 3,822,757      | <b>3,898,606</b>     |
|  | 57,814         | <b>45,333</b>        |
| <b>Long-term liabilities:</b>                              |                |                      |
| <b>Employee benefits (Note 14)</b>                         |                |                      |
| Deferred income taxes (Note 18)                            | 3,071,885      | <b>2,735,601</b>     |
| Other long-term liabilities (Note 20-b)                    | 48,187         | <b>51,003</b>        |
|  | 3,177,886      | <b>2,831,937</b>     |
| <b>Total long-term liabilities</b>                         |                |                      |
| Total liabilities  | 7,000,643      | <b>6,730,543</b>     |
| <br><b>Contingencies and commitments (Note 20)</b>         |                |                      |
|  | 4,142,696      | <b>4,142,696</b>     |
| <b>Stockholders' equity (Note 16):</b>                     |                |                      |
| <b>Capital stock</b>                                       |                |                      |
| Additional paid-in capital                                 | 4,208,204      | <b>4,208,204</b>     |
| Retained earnings  | 12,942,705     | <b>10,080,278</b>    |
| Translation effect in foreign subsidiaries, net (Note 4-b) | 824,805        | <b>406,513</b>       |
| Fair value of derivative financial instruments Note 13)    | (25,445 )      | <b>(63,349 )</b>     |
| Total controlling interest                                 | 22,092,965     | <b>18,774,342</b>    |
| Non-controlling interest (Note 17)                         | 2,175,858      | <b>1,844,083</b>     |
| Total stockholders' equity                                 | 24,268,823     | <b>20,618,425</b>    |
| Total liabilities and stockholders' equity                 | Ps. 31,269,466 | <b>Ps.27,348,968</b> |

See accompanying notes to consolidated financial statements.

**GRUPO SIMEC, S.A.B. DE C.V. AND SUBSIDIARIES**

## Consolidated Statements of Income

Years ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos, except share and earnings per share figures)

|  | <b>2011</b>    | <b>2010</b>    | <b>2009</b>      |
|--|----------------|----------------|------------------|
| Net sales  | Ps. 29,270,498 | Ps. 24,576,436 | Ps 19,231,529    |
| Cost of sales (Note 4-f)   | 25,624,612     | 22,249,503     | 18,979,483       |
| Gross profit   | 3,645,886      | 2,326,933      | 252,046          |
| Selling, general and administrative expenses (Note 4-f)              | 1,054,152      | 1,151,968      | 1,104,085        |
| Operating income (loss)  | 2,591,734      | 1,174,965      | (852,039 )       |
| Other (expenses) income, net (Note 3-m)                              | (113,706 )     | (186,078 )     | 29,991           |
| Impairment of intangible assets (Note 11)                            |                |                | (2,368,000 )     |
| Comprehensive financing cost:  |                |                |                  |
| Interest income (expense) gain, net                                  | 2,410          | (257 )         | (17,869 )        |
| Foreign exchange gain (loss), net (Note 4-b)                         | 581,630        | (207,240 )     | (78,429 )        |
| Comprehensive financial result, net                                  | 584,040        | (207,497 )     | (96,298 )        |
| Income (loss) before income taxes                                    | 3,062,068      | 781,390        | (3,286,346 )     |
| Income taxes (Note 18):  |                |                |                  |
| Current  | (86,837 )      | 159,107        | (641,742 )       |
| Deferred   | 196,674        | (46,671 )      | (1,423,410 )     |
| Total income taxes   | 109,837        | 112,436        | (2,065,152 )     |
| Net income (loss)  | Ps. 2,952,231  | Ps. 668,954    | Ps. (1,221,194 ) |
| Net income (loss) attributed to:                                     |                |                |                  |
| Non-controlling interest (Note 17)                                   | Ps. 89,804     | Ps. (267,547 ) | Ps. (877,449 )   |
| Controlling interest   | 2,862,427      | 936,501        | (343,745 )       |
|  | Ps. 2,952,231  | Ps. 668,954    | Ps. (1,221,194 ) |
| Controlling earnings per share (in thousands):                       |                |                |                  |
| Weighted average shares outstanding (Note 16)                        | 497,709        | 497,709        | 497,709          |
| Income (loss) per share (controlling interest)<br>(pesos) (Note 4-v) | 5.75           | 1.88           | (0.69 )          |

See accompanying notes to consolidated financial statements.

**GRUPO SIMEC, S.A.B. DE C.V. AND SUBSIDIARIES**

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos)

|  | <b>Capital<br/>stock</b> | <b>Additional<br/>paid-in<br/>capital</b> | <b>Retained<br/>earnings</b> | <b>Translation<br/>effect in<br/>foreign<br/>subsidiaries</b> |
|--|--------------------------|---|------------------------------|---|
| Balances at December 31, 2008 originally reported          | Ps. 4,142,696            | Ps. 4,208,204                             | Ps. 9,507,958                | Ps. 595,165   |
| Accounting changes in inventories valuation (See Note 4-f) |                          |   | 88,879                       |   |
| Balances at December 31, 2008                              | 4,142,696                | 4,208,204                                 | 9,596,837                    | 595,165   |
| Comprehensive income:                                      |                          |   |                              |   |
| Net loss for the year                                      |                          |   | (343,745)                    |   |
| Translation effect in foreign subsidiaries                 |                          |   |                              | (79,507)  |
| Effect of market value of swaps net of deferred taxes      |                          |   |                              |   |
| Effect of the adoption of the new MFRS C-8 (Note 11)       |                          |   | (109,315)                    |   |
| Balances at December 31, 2009                              | 4,142,696                | 4,208,204                                 | 9,143,777                    | 515,658   |
| Comprehensive income:                                      |                          |   |                              |   |
| Net income for the year                                    | -                        |   | 936,501                      | -   |
| Translation effect in foreign subsidiaries                 | -                        | -   | -                            | (109,145)   |
| Effect of market value of swaps net of deferred taxes      | -                        | -   | -                            | -   |
| Balances at December 31, 2010                              | 4,142,696                | 4,208,204                                 | 10,080,278                   | 406,513   |
| Comprehensive income:                                      |                          |   |                              |   |
| Net income for the year                                    | -                        |   | 2,862,427                    | -   |
| Translation effect in foreign subsidiaries                 | -                        | -   | -                            | 418,292   |
| Effect of market value of swaps net of deferred taxes      | -                        | -   | -                            | -   |
| Balances at December 31, 2011                              | Ps. 4,142,696            | Ps. 4,208,204                             | Ps. 12,942,705               | Ps. 824,805   |

|  | <b>Fair value<br/>of derivative<br/>financial<br/>instruments</b> | <b>Total<br/>controlling<br/>interest</b> | <b>Non-controlling<br/>interest</b> | <b>Total<br/>stockholders'<br/>equity</b> | <b>Comprehensive<br/>income</b> |
|--|---|---|-------------------------------------|---|---------------------------------|
| Balances at December 31, 2008 originally reported          | Ps. (270,868)   | Ps. 18,183,155                            | Ps. 3,122,342                       | Ps. 21,305,497                            |                                 |
| Accounting changes in inventories valuation (See Note 4-f) |   | 88,879                                    | 53,861                              | 142,740                                   |                                 |
| Balances at December 31, 2008                              | (270,868)   | 18,272,034                                | 3,176,203                           | 21,448,237                                |                                 |
| Comprehensive income:                                      |   |   |                                     |   |                                 |
| Net loss for the year                                      |   | (343,745)                                 | (877,449)                           | (1,221,194)                               | Ps. (1,221,194)                 |
| Translation effect in foreign subsidiaries                 |   | (79,507)                                  | (78,810)                            | (158,317)                                 | (158,317)                       |
| Effect of market value of swaps net of deferred taxes      | 119,141   | 119,141                                   |                                     | 119,141                                   | 119,141                         |
| Effect of the adoption of the new MFRS C-8 (Note 11)       |   | (109,315)                                 |                                     | (109,315)                                 |                                 |
| Balances at December 31, 2009                              | (151,727)   | 17,858,608                                | 2,219,944                           | 20,078,552                                | Ps. (1,260,370)                 |
| Comprehensive income:                                      |   |   |                                     |   |                                 |
| Net income (loss) for the year                             | -   | 936,501                                   | (267,547)                           | 668,954                                   | Ps. 668,954                     |
| Translation effect in foreign subsidiaries                 | -   | (109,145)                                 | (107,800)                           | (216,945)                                 | (216,945)                       |
| Effect of market value of swaps net of deferred taxes      | 88,378  | 88,378                                    | (514)                               | 87,864                                    | 87,864                          |
| Balances at December 31, 2010                              | (63,349)  | 18,774,342                                | 1,844,083                           | 20,618,425                                | Ps. 539,873                     |
| Comprehensive income:                                      |   |   |                                     |   |                                 |
| Net income (loss) for the year                             |   | 2,862,427                                 | 89,804                              | 2,952,231                                 | Ps. 2,952,231                   |
| Translation effect in foreign subsidiaries                 |   | 418,292                                   | 245,858                             | 664,150                                   | 664,150                         |
| Effect of market value of swaps net of deferred taxes      | 37,904  | 37,904                                    | (3,887)                             | 34,017                                    | 34,017                          |
| Balances at December 31, 2011                              | Ps. (25,445)  | Ps. 22,092,965                            | Ps. 2,175,858                       | Ps. 24,268,823                            | Ps. 3,650,398                   |

See accompanying notes to consolidated financial statements.



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**GRUPO SIMEC, S.A.B. DE C.V. AND SUBSIDIARIES**

## Consolidated Statement of Cash Flows

Years ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos)

|   | <b>2011</b>   | <b>2010</b>      | <b>2009</b>      |
|---|---------------|------------------|------------------|
| Operating activities:   |               |                  |                  |
| Income (loss) before income taxes                                 | 3,062,068     | 781,390          | (3,286,346)      |
|   | <b>Ps.</b>    | <b>Ps.</b>       | <b>Ps.</b>       |
| Charges (credits) to results not requiring cash:                  |               |                  |                  |
| Depreciation and amortization                                     | 1,001,098     | 1,098,208        | 1,047,882        |
| Impairment of intangible assets                                   | —             | —                | 2,368,000        |
| Provision for employee benefits                                   | 12,481        | 12,193           | 35,708           |
| Unrealized foreign exchange (gain) loss                           | (664,023 )    | <b>117,453</b>   | -                |
| Cancellation of other assets (Note 3-m)                           |               | <b>117,457</b>   | -                |
| Allowance for doubtful accounts                                   | 7,578         | (115,036 )       | 129,865          |
| Allowance for inventories   | 118,705       |                  | —                |
| Accrued interest  | (2,410 )      | 1,858            | 17,680           |
|   | 3,535,497     | 2,013,523        | 312,789          |
| Changes in:   |               |                  |                  |
| Trade receivable, net   | (431,775 )    | (336,840 )       | 630,548          |
| Related parties receivables                                       | (42,873 )     | (62,897 )        | 48,764           |
| Inventories, net  | <b>15,095</b> | <b>(176,173)</b> | <b>2,103,460</b> |
| Recoverable taxes, other accounts receivable and prepaid expenses | 407,890       | 330,641          | <b>79,464</b>    |
| Accounts payable to suppliers                                     | (45,518 )     | 331,836          | (1,338,235)      |
| Related parties payable   | (182,811 )    | 102,993          | (98,413 )        |
| Taxes and other accounts payable                                  | (294,309 )    | (182,379 )       | (361,591 )       |
| Income tax recoverable (paid)                                     | (6,922 )      | 323,374          | (217,285 )       |
| Resources provided by operating activities                        | 2,954,274     | 2,344,078        | 1,159,501        |
| Investing activities:   |               |                  |                  |
| Investment in shares (Note 3-m)                                   | —             | (187,433 )       | —                |
| Acquisition of property, plant and equipment                      | (432,000 )    | (496,361 )       | (263,207 )       |
| Increase in other noncurrent assets                               | (34,200 )     | (8,794 )         | 818              |

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|  |                     |                     |                     |
|--|---------------------|---------------------|---------------------|
| Proceeds from sale of machinery and equipment                    |                     |                     | 6,114               |
| Resources used in investing activities                           | (466,200 )          | (692,588 )          | (256,275 )          |
| Financing activities:  |                     |                     |                     |
| Financial debt payment   | —                   | (8,656 )            | (8,800 )            |
| Loans received from related parties                              | 74,963              | 323,720             | 1,189,850           |
| Payments to related parties                                      | (51,225 )           | (442,688 )          | (709,219 )          |
| Interest collected (paid)  | 2,410               | 1,204               | (2,494 )            |
| Resources provided by (used in ) financing activities            | 26,148              | (126,420 )          | 469,337             |
| Net increase in cash and cash equivalents                        | <b>2,514,222</b>    | <b>1,525,070</b>    | <b>1,372,563</b>    |
| Effect of exchange rate fluctuation on cash and cash equivalents | 637,949             | (89,053 )           | (404 )              |
| Cash and cash equivalents at beginning of year                   | 3,384,917           | 1,948,900           | 576,741             |
| Cash and cash equivalents at end of year                         | <b>Ps.6,537,088</b> | <b>Ps.3,384,917</b> | <b>Ps 1,948,900</b> |

See accompanying notes to consolidated financial statements.

## **GRUPO SIMEC, S.A.B. DE C.V. AND SUBSIDIARIES**

Notes to the Consolidated Financial Statements  
December 31, 2011, 2010 and 2010

(In thousands of Mexican pesos, except where other currency is indicated)

### **1. Compliance with Mexican Financial Reporting Standards**

The accompanying consolidated financial statements have been prepared in accordance with Mexican Financial Reporting Standards (hereinafter referred as “MFRS” or “Mexican Accounting Bulletin”), issued by the Mexican Financial Reporting Standards Board (*Consejo Mexicano de Normas de Información Financiera, A.C.* (Spanish initials CINIF)).

### **2. Activity of the Company**

The principal activities of Grupo Simec, S.A.B. de C.V. and its subsidiaries (the Company) are the manufacturing,, processing and distribution of special bar quality (“SBQ”), and structural steel in Mexico, United States of America (USA) and Canada. The Company is a subsidiary of Industrias CH, S.A.B. de C.V. (ICH).

### **3. Basis of consolidation and significant transactions**

The consolidated financial statements include the assets, liabilities, and results of Grupo Simec, S.A.B. de C. V. and its subsidiaries, each of which the Company owns more than 50% of the capital stock. All significant intercompany balances and transactions have been eliminated in consolidation.

At December 31, 2011 and 2010 the subsidiaries of Grupo, Simec, S. A. B. de C. V. included in the consolidation are as follows.

| <b>Subsidiaries established in Mexico:</b>                           | <b>Percentage of equity owned</b> | <b>Main activity</b>              |
|--|-----------------------------------|-----------------------------------|
| Compañía Siderúrgica de Guadalajara, S.A. de C.V.                    | <b>99.99%</b>                     | <b>Leasing</b>                    |
| Arrendadora Norte de Matamoros S.A. de C.V. (1)                      | <b>100.00%</b>                    | <b>Leasing</b>                    |
| Arrendadora Simec, S.A. de C.V.                                      | <b>100.00%</b>                    | <b>Leasing</b>                    |
| Simec International, S.A. de C.V.                                    | <b>100.00%</b>                    | <b>Producer</b>                   |
| Compañía Siderúrgica del Pacífico, S.A. de C.V.                      | <b>99.99%</b>                     | <b>Leasing</b>                    |
| Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V.      | <b>100.00%</b>                    | <b>Service provider</b>           |
| Industrias del Acero y del Alambre, S.A. de C.V.                     | <b>99.99%</b>                     | <b>Trading</b>                    |
| Procesadora Mexicali, S.A. de C.V.                                   | <b>99.99%</b>                     | <b>Purchase and sale of scrap</b> |
| Servicios Simec, S.A. de C.V.  | <b>100.00%</b>                    | <b>Service provider</b>           |
| Sistemas de Transporte de Baja California, S.A. de C.V.              | <b>100.00%</b>                    | <b>Freight</b>                    |
| Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.        | <b>100.00%</b>                    | <b>Service provider</b>           |
| Operadora de Metales, S.A. de C.V.                                   | <b>100.00%</b>                    | <b>Service provider</b>           |
| Administradora de Servicios Siderúrgicos de Tlaxcala, S.A., de C.V.  | <b>100.00%</b>                    | <b>Service provider</b>           |
| Comercializadora Simec, S.A. de C.V.                                 | <b>100.00%</b>                    | <b>Trading</b>                    |
| CSG Comercial, S.A. de C.V.  | <b>99.95%</b>                     | <b>Trading</b>                    |
| Corporativos G&DL, S.A. de C.V.(2)                                   | <b>100.00%</b>                    | <b>Service provider</b>           |
| Comercializadora de Productos de Acero de Tlaxcala, S.A. de C.V.     | <b>99.95%</b>                     | <b>Trading</b>                    |
| Siderúrgica de Baja California, S.A. de C.V.                         | <b>99.95%</b>                     | <b>Trading</b>                    |
| Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V. | <b>100.00%</b>                    | <b>Service provider</b>           |
| Productos Siderúrgicos de Tlaxcala, S.A. de C.V.                     | <b>100.00%</b>                    | <b>Trading</b>                    |
| Comercializadora MSAN, S.A. de C.V.                                  | <b>100.00%</b>                    | <b>Trading</b>                    |
| Simec International 2, Inc (3)                                       | <b>99.99%</b>                     | <b>Producer</b>                   |
| Simec International 3, Inc. (3)                                      | <b>99.99%</b>                     | <b>Producer</b>                   |
| Corporación Aceros DM, S. A. de C. V. and Subsidiaries (4)           | <b>100.00%</b>                    | <b>Producer</b>                   |
| Simec International 4, Inc. (3) y (4)                                | <b>99.99%</b>                     | <b>Producer</b>                   |
| Simec International 5, Inc. (3) y (4)                                | <b>99.99%</b>                     | <b>Producer</b>                   |
| Acero Transportes San, S. A. de C. V. (4)                            | <b>100.00%</b>                    | <b>Freight</b>                    |
| Simec Acero, S.A. de C.V.  | <b>100.00%</b>                    | <b>Trading</b>                    |
| Corporacion ASL, S. A. de C. V. (2)                                  | <b>99.99%</b>                     | <b>Leasing</b>                    |
| Simec International 6, S. A. de C. V. (2)                            | <b>100.00%</b>                    | <b>Producer</b>                   |
| Simec International 7, S. A. de C. V. (2)                            | <b>99.99%</b>                     | <b>Producer</b>                   |

**Subsidiaries established in foreign countries:**

|   |                |                                   |
|---|----------------|-----------------------------------|
| SimRep Corporation and Subsidiaries (5) (6) y (7) | <b>50.22%</b>  | <b>Production and sale</b>        |
| Pacific Steel, Inc. (6)                           | <b>100.00%</b> | <b>Purchase and sale of scrap</b> |
| Pacific Steel Projects, Inc. (6)                  | <b>100.00%</b> | <b>Investment projects</b>        |
| Simec Steel, Inc. (6)                             | <b>100.00%</b> | <b>Treasury</b>                   |
| Simec USA, Corp. (6)                              | <b>100.00%</b> | <b>Trading</b>                    |
| Undershaft Investments, NV. (8)                   | <b>100.00%</b> | <b>Holding</b>                    |
| GV do Brasil Industria e Comercio de Aco LTDA (9) | <b>100.00%</b> | <b>Production and sale</b>        |

(1) Company sold on May 2011.

(2) Entities incorporated in 2010.

(3) Entities that changed their address and fiscal authority, to the state of California, USA in 2011. Since the change, the main activity of these entities is the acquisition of new business or projects.

This Subsidiaries are located in San Luis Potosi, in Mexico, which were acquired by Grupo Simec, S.A.B. de C.V. (4) in 2008. For the purpose of these Notes to Consolidated Financial Statements, these companies are named as "Grupo San".

(5) The parent Company ICH it's the owner of 49.78% of capital stock of this subsidiary.

(6) Companies established in the United States of America, except for one facility that is established in Canada.

(7) SimRep does not have important transaction or assets, except for the investment on Republic Steel. Before September 2011 the name of this subsidiary was Republic Engineered Products, Inc.

(8) Subsidiary established in Curacao.

(9) Subsidiary established in Brazil. (See paragraph k, below)

## Significant transactions

In February 2011, Republic, through two of its wholly owned subsidiaries (Solon Wire Processing LLC, formerly REP Acquisition LLC, and the newly formed Republic Memphis LLC) acquired certain land, plants, machinery and equipment from BCS Industries LLC and affiliates (“Bluff City Steel”) for cash of US\$ 2.5 million and the essential a) forgiveness of US\$ 6.0 million of net receivables due from Bluff City Steel to Republic. Prior to the acquisition, Bluff City Steel was a vendor to the Company that performed certain production processes. The Company made the acquisition to make these processes part of its internal production process.

In November 2011, Republic entered into an agreement with an unrelated third-party (“purchaser”) for the factoring of specific accounts receivable in order to reduce the amount of working capital required to fund such receivables. b) 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 equivalent to 80% of the value of receivables. The maximum amount of outstanding advances related to the assigned receivables is US\$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 Consolidated Statements of Income.

The purchaser shall have no recourse against Republic if payments are not received due to insolvency of an account debtor within 120 days of the invoice date. However, while the facility calls for the sale, assignment, transfer and conveyance of all rights, title and interests in the selected accounts receivable, the purchaser may put and charge-back any receivable not paid to the purchaser within 90 days of purchase for any reason besides insolvency of the account debtor. As collateral for the repayment of advances for receivables sold, the purchaser has a priority security interest in all accounts receivable of Republic (as defined by the Uniform Commercial Code).

For the year ended December 31, 2011, the Company sold a face amount of US\$11.0 million of accounts receivable to the purchaser. Discount fees incurred pursuant to this agreement were approximately US\$0.2 million for the year ended December 31, 2011. There was US\$ 0.9 million of accounts receivable factored which had not been collected by the purchaser at December 31, 2011, and therefore was subject to charge-back to the Company.

On May 20 and October 3, 2011 in Extraordinary Shareholders Meetings, Simec International 2, S.A. de C.V., c) 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 in Incorporated Companies in accordance with the laws and regulations of the State of California, USA.

On May 31, 2011 Grupo Simec S.A.B. de C.V. (Simec) sold their share capital in Arrendadora Norte de d)Matamoros, S.A. de C.V. to Perfiles Comerciales Sigosa, S.A. de C.V. (a subsidiary of ICH) in Ps. 42.5 million. This amount was paid in cash.

On May 2, 2011 in Extraordinary Shareholders Meetings of Acero Transportes, S.A. de C.V. and Acero Transportes e) San, S.A. de C.V. (subsidiaries of Grupo San), it was authorized the merger of the two subsidiaries. Acero Transportes, S.A. de C.V. was merged into Acero Transportes San, S.A. de C.V. using the financial statements of April 30, 2011.

On September 1, 2011 in Extraordinary Shareholders Meetings of Procesadora Industrial San, S.A. de C.V. and f) Malla San, S.A. de C.V. (subsidiaries of Grupo San), it was authorized the merger of the two subsidiaries. Procesadora Industrial San, S.A. de C.V. merged into Malla San, S.A. de C.V. using the financial statements of July 31, 2011.

On December 30, 2011 Simec International 7, S.A. de C.V. sold to Corporación ASL, S.A. de C.V. all the shares held in on Corporación Aceros DM, S.A de C.V., totalling 627,305,446 shares (99.9% of the common stock) with a value of Ps. 3,200 million, with a down payment of Ps. 63 million and the remaining of Ps. 3,137 million will be g)paid with a security with a due date on April 30, 2012. This transaction generate a tax loss of Ps.7,860 million. According with actual Mexican Tax Law (Ley de Impuesto Sobre la Renta) this amount only its deductible against future gains related to shares sales. On January 30, 2012 Simec International 7, S.A. de C.V. filed a demand against the actual law which limit the deduction of this tax loss related to shares sales.

On May 31, 2010 in the Extraordinary Shareholders Meeting of Arrendadora Simec, S.A. de C.V., it was authorized h)to split certain assets, liabilities and equity to a newly formed entity, Corporacion ASL, S.A. de C.V. This new Company assumed the operation of Arrendadora Simec, S.A. de C.V.



i) On June 28, 2010, Simec International 6, S.A. de C.V. was incorporated. The activity of this new company is the production of steel and started operations in November of 2010.

j) On June 30, 2010, in the Extraordinary Shareholders Meeting of Simec International, S.A. de C.V., it was authorized to split certain assets and equity, to a newly incorporated entity, Simec International 7, S.A. de C.V. The asset transferred was the investment in the shares of Corporacion Aceros DM, S.A. de C.V.

k) On September 3, 2010 a Brazilian entity GV do Brazil Industria e Comercio de Aco LTDA, was incorporated. On August 5, 2011 that company acquired 1,300,000 square meters of land on Pindamonhangaba, Sao Paulo State, Brazil, in the amount of US\$8 million, where is going to be built a new steel facility that it is in the process of construction and it will start operations approximately on August, 2013. Grupo Simec as holding of 100% of the shares of GV do Brazil, its acquiring the machinery and will transfer it to the subsidiary as a contribution of common stock, when those assets are shipped. The budget for the project will be US\$ 236 million (Integrated for US\$ 171 million and \$ 65 million as foreign investment incentives granted by the Brazil Government. The facility will have a production capacity of 520,000 tons of billet and 400,000 tons of finish goods of rebar and wire in the beginning, this production will be marketed to the construction sector and the company will have approximately 800 workers.

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

m) On November 2, 2010, the Company acquired 100% of the shares of Lipa Capital, LLC. (Lipa Capital) from Sbg Partners, LLC., owner of the intellectual property of interest to the Company. The total cost of this acquisition amounted to Ps. 187,433 (US\$ 15.2 million) and the equity amounted to Ps. 69, 976. This acquisition resulted in the recording of an intangible asset of Ps. 117,457 related to a patent of the acquired entity. This intangible asset was subsequently written off and expensed in the consolidated income statement for the year ended December 31, 2010 because the Company ultimately concluded that such patent would not be generating additional cash flows. This amount is part of other expenses included in the consolidated statement of income. The Company transferred Lipa Capital's jurisdiction from the United States of America to the United Mexican States on December 7, 2010 and merged it with Simec International 6, S.A. de C.V., on December 9, 2010.

**4. Summary of significant accounting policies.**

The significant accounting policies followed by the Company are summarized below:

**a. Recognition of the effects of inflation on the financial information**

According with the MFRS B-10, the effects in the inflation are recognized only when the economic environment has been qualified as inflationary (cumulative inflation equal or more to 26% in the last three years previous).

Since the accumulated inflation in the previous three years of the financial statements attached hereto was lower than 26%, the economic environment has been qualified as non-inflationary, therefore, the financial statements for years 2011, 2010 and 2009 attached hereto are presented in nominal pesos, except for the non-monetary items acquired before 2008, which include their restatement to constant pesos as of December 31, 2007. Accumulated inflation in the last three years prior to 2011 and 2010 rose to 15.2% and 14.5%, respectively.

The application of Bulletin B-10 "Recognition of Inflation Effects in Financial Information" was effective until December

31, 2007, therefore the amounts of capital stock, additional paid in capital and retained earnings were restated in Mexican pesos with purchasing power at December 31, 2007, applying factors derived from the Mexican National Consumer Price Index (NCPI). See note 4-h.

**b. Foreign currency translation**

Transactions in foreign currencies are recorded at the exchange rates prevailing at the celebration and liquidation dates. The assets and liabilities in foreign currencies are translated at the exchange rates prevailing at the date of the consolidated balance sheet. The exchange gains or losses incurred in connection with those assets or liabilities are included in the consolidated statements of income, as part of the comprehensive financing cost. Note 5 shows the consolidated position in foreign currencies at the end of each year and the exchange rates used in the translation.

The functional and reporting currency of the Company is the Mexican peso. The financial statements of foreign subsidiaries were translated to Mexican pesos in accordance with MFRS B-15 “Conversion of foreign currencies”. Under this Standard, the first step to convert financial information from operations abroad is the determination of the functional currency. The functional currency is the currency of the primary economic environment of the foreign operation or, if different, the currency that mainly impacts its cash flows. This rule incorporates the concepts of recording currency that is the currency in which the entity maintains its accounting records, whether for legal or information purposes and the reporting currency, which is the currency chosen by the Company to report its financial information.

The U.S. dollar (US Dollar or US\$) was considered as the functional currency of the U.S. subsidiaries, SimRep Corporation and Subsidiaries and Pacific Steel Inc., and the Brazilian real for GV do Brasil Industria e Comercio de Aco LTDA.; therefore the financial statements of these foreign subsidiaries were translated into Mexican pesos by applying:

The exchange rates at the balance sheet date to all assets and liabilities.

The historical exchange rate for stockholders’ equity accounts, revenues, costs and expenses.

The historical exchange rate for revenues, costs and expenses of the year reported.

The difference resulting from the translation processes, is recognized as accumulative translation adjustment as part of translation effect in foreign subsidiaries in stockholders’ equity.

The Mexican Peso was considered the functional currency of the subsidiaries Simec USA, Corp., Pacific Steel Projects, Inc., Simec Steel, Inc. and Simec International 2, 3, 4 and 5, these last established in the United State of America in 2011, while the U.S. dollar as its recording currency; therefore the financial statements were translated to Mexican pesos as follows:

z Monetary assets and liabilities by applying the exchange rates at the balance sheet date.

z Non-monetary assets and liabilities, as well as stockholders' equity accounts, at the historical exchange rate,

Revenues, costs and expenses at the historical exchange rate. The effect of non-monetary assets and liabilities in the income of the year, such depreciation and cost of sales, are translate at historical exchange rate corresponding to the balance sheet date.

Translation differences were carried directly to the income statement as part of the comprehensive financing cost under the caption foreign exchange gain, net. As of December 31 2011 the gain amounted to Ps. 813,146 (loss in 2010 amounting Ps. 106,768).

**c. Cash and cash equivalents**

Cash consists of deposits in bank accounts that do not generate interest. Cash equivalents consists in temporary investments whose original maturity is less than three months. These investments are valued at cost plus accrued yields. The value so determined is similar to their fair value. As of December 31, 2011 and 2010, those investments amounted to Ps. 5,310,217 and Ps. 2,615,518, respectively.

**d. Derivative financial instruments**

During 2011, 2010 and 2009 the Company used derivative financial instruments for hedging risks associated with natural gas prices, and this commodity its used for the production of goods, for which it conducted studies on historical consumption, future requirement and commitments acquired, thus diminishing its exposure to risks other than its normal operating risks.

The risks associated with changes in natural gas prices occurring naturally as a result of the supply and demand on international markets, are covered through the use of natural gas cash-flow exchange contracts or natural gas swaps to

offset fluctuations in the price of natural gas, whereby the Company receives a floating price and pays a fixed price. Fluctuations in natural gas prices from volumes consumed are recognized as part of the Company's cost of sales.

The derivative financial instruments are presented in the Consolidated Financial Balance sheets at fair value, based on the original agreement. In a monthly basis fair value is recalculated and the related assets or liabilities are restated based on a new estimation. . The Company periodically evaluates the changes in cash flows of the derivative instrument to analyze if the swaps are highly effective for mitigating the exposure to natural gas price fluctuations. As of December 31, 2011, 2010 and 2009, the fair value of derivative instruments that did not qualify as hedging instruments were adjusted through the income statement of the year. For the derivatives that qualified for hedge accounting cash flow their fair value was adjusted through the Stockholders' equity in the caption of comprehensive income, net of the effect of the deferred income tax. See note 13.

A hedge instrument is considered to be highly effective when changes in its fair value or cash flows of the primary position are compensated on a regular or cumulatively basis, by changes in fair value or cash flows of the hedging instrument in a range between 80% and 125%. To the end of 2011, 2010 and 2009 the fair value of derivatives was effective.

**e. Allowances for doubtful accounts**

Allowances for doubtful accounts are maintained to provide for estimated losses resulting from the inability of customers to make required payments. If the financial condition of these customers deteriorates, resulting in their inability to make payments, additional allowances may be required. The Company also records allowances for accounts receivable for customers based on a variety of factors, including pricing adjustments, length of time receivables are past due, and historical experience.

**f. Inventories and cost of sales**

Inventories are recorded at the acquisition cost and production, which do not exceed the market value. The allocation of cost used is the average cost. Cost of sales its determined using that formula.

Before January 1, 2011 the inventories were determined with the direct costing system. In that valuation system, indirect cost of production were not included in the production cost, and are recorded directly in the income statement as operating expense, based on the consideration that the cost should not be affected by the fixed expenses.

From January 1, 2011 the amendment to MFRS C-4 ("inventories") prohibits the use of direct costing to determine the value of inventories, from this date, the indirect cost of production have to be included as part of the production cost ( full absorption cost), therefore, for comparison purposes and according with the MFRS B-1 "Accounting changes and

error corrections”, the financial statement of 2010 and 2009 here included were restructured. . The cumulative effect derived from this change amounted to Ps. 160,675, Ps 96,658 and Ps. 142,740 as of December 31, 2010, 2009 and 2008, respectively, net of the deferred income tax. The effect to the controlling interest amounted to Ps. 101,030, Ps. 68,072 and Ps. 88,879, respectively.

As a result of this adoption, the indirect cost previously presented in the Consolidated Income Statement in the caption Indirect overhead, selling, general and administrative expenses in 2010 and 2009, amounting Ps. 1,809,976 and Ps. 1,673,421 were reclassified to cost of sales.

The Company classifies rollers and spare parts as long-term inventories, which in accordance with historical data and production trends will not be used in the short-term (one year).

As of December 31, 2011 and 2010, the Company has inventory of raw materials (coke) which, due to low production in one facility of Republic, has not been used in the past 3 years, for these reason this inventories are classified in the long term. The amount at this date, included in long-term inventories, totaled Ps.1,651,875 and Ps. 1,450,352 respectively. The inventory balance includes a provision to lower of cost market amounting to Ps. 765,848 and Ps. 671,287 as of December 31, 2011 and 2010, respectively.

**g. Reserve for slow-moving inventory**

The Company follows the practice of providing a reserve for slow-moving inventory, considering the totality of products and raw materials that show impairment or degradation for future use.

**h. Property, plant and equipment**

Property, plant and equipment are recorded at acquisition cost. Assets acquired in 2007 and prior years include a restatement determined by applying factors derived from the NCPI as of December 31, 2007, to the acquisition cost, except machinery and equipment of foreign origin which was updated using the inflation rates in the country of origin and fluctuation in exchange rates in relation to Mexican peso.

Depreciation of property, plant and equipment is computed using the straight-line method, based on the estimated remaining useful lives of the related assets determined by the Company. The mentioned restatement is debited to results of operations as the related asset is depreciated or disposed.

The estimated useful lives of the Company's main assets are the following:

|  | Years    |
|--|----------|
| Buildings                                  | 10 to 65 |
| Machinery and equipment                    | 5 to 40  |
| Transportation equipment                   | 4        |
| Furniture, mixtures and computer equipment | 3 to 10  |

**i. Comprehensive Financing Cost (CFC)**

In the case of assets who require a substantial period of time for its use, comprehensive financing cost is capitalized as incurred during the period of construction and installation of property, plant and equipment during the construction process. The amount of capitalized financing costs results from the application of the financial weighted average capitalization rate to the investment in qualified assets over the period of acquisition. In the case of foreign currency financing, the comprehensive financing cost includes in addition the corresponding exchange gains and losses, net of valuation effects of hedging instruments associated with such loans. The comprehensive financing cost includes (i) the interest cost, (ii) any foreign currency fluctuations, and (iii) the related monetary position. Until December 31, 2007, such costs were restated based on the NCPI factors from the date capitalized through year-end and amortized over the average depreciation period of the related assets.

**j. Leases**

Lease arrangements are classified as capital leases if under the agreement, the ownership of the leased asset is transferred to the lessee upon termination of the lease, the agreement includes an option to purchase the asset at a reduced price, the term of the lease is basically the same as the remaining useful life of the leased asset, or the present value of minimum lease payments is basically the same as the market value of the leased asset, net of any benefit or scrap value.

When the lesser retains the risks or benefits inherent to the ownership of the leased asset, the agreements are classified as operating leases and rent is charged to results of operations.

**k. Intangible assets and goodwill**

Intangible assets and goodwill are recorded at acquisition cost. Those acquired in 2007 and prior years include a restatement determined by applying factors derived from the NCPI as of December 31, 2007, to the acquisition cost. Intangibles assets that have definite life are amortized based on their estimated useful life through the straight-line method by the Company. (see note 11). The restatement referred above is charged to expense as the asset is amortized or disposed. Intangible assets indefinite life and goodwill (generated in the acquisition of Grupo San) are not subject to amortization.

Impairment tests are made on an annual basis on intangible assets with indefinite lives, including goodwill, as well as over those intangibles with finite life whose amortization period exceeds 20 years from the date on which it was available for use.



**I. Impairment of long-lived assets and their disposal**

The Company and its subsidiaries review the book value of their long-lived assets, including the goodwill to detect any impairment evidence that could indicate that their book value could be non-recoverable, in accordance with Bulletin C-15, "Impairment in the Value of Long-Lived Assets and Their Disposal". To determine if an impairment exists, is considered the greater of present value (using a discount rate) of the expected net cash flows that will be yielded during the estimated useful lives of the assets or its fair value. Impairment loss is recorded considering the amount of book value that exceeds the greater of the values mentioned above. When there is an intention of sell assets, these must be presented in the financial statements at lower of historical (or restated value as of December 31, 2007 if the asset was acquired in prior years) or fair value.

**m. Environmental Costs**

Based on information currently available, Republic established a liability for an amount considered appropriate to cover costs of environmental remediation that are probable of being incurred in the future. The amount was determined based on information currently available, current technology, applicable environmental laws and current regulations, and also considered the effects of inflation and other social and economic factors that could have an effect, in accordance with accounting Bulletin C-9, “Liabilities, Provisions, Contingent Assets and Liabilities and Commitments” of MFRS. See note 20

**n. Use of estimates**

The preparation of consolidated financial statements according with the MFRS requires management of the Company to make reasonable estimates that can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and amounts of revenues and expenses reported that arise during the year. Actual results could differ from these estimates.

The Company has made accounting estimates with respect to the valuations for accounts receivable, inventories, long-term assets and useful lives, valuation of derivatives, deferred tax assets and liabilities, benefits to employees, environmental obligations and others.

**o. Accruals and contingencies**

Accruals are recognized whenever (i) has a current obligation (legal or assumed) as a result of a past event, (ii) it is probable that a transfer of assets or the rendering of services will be required to settle such obligation and (iii) the obligation can be reasonably estimated.

Accruals are recognized only when a cash disbursement to settle the contingent obligation is probable.

**p. Employee benefits**

The subsidiaries of the Company that have employees recognize the criteria established in MFRS D-3 “Employee benefits”. This MFRS establishes three types of benefits to employees: direct short and long-term benefits, at the end of the labor relation and upon retirement.

The liabilities due to employee benefits granted by the entity are determined as follows:

<sup>Z</sup> The liabilities for direct short-term benefits are recognized as incurred, based on the current salaries, expressed at their nominal value. As of December 31, 2011, 2010 and 2009 there are no direct long-term benefits.

<sup>Z</sup> The liabilities due to termination benefits of the labor relation before reaching retirement age are determined by considering the present value of the obligation due to benefits defined as of the date of the balance sheet, using for said purpose certain assumptions and hypotheses determined by independent actuaries. The remunerations included in the determination of these liabilities correspond to severance indemnities and seniority premium attributable to death, disability, severance and voluntary retirement before retirement date, all of these determined in accordance with the applicable labor laws. Actuarial gains and losses are immediately recognized in the results of the year. Transition liabilities and the changes to the plan pending amortization as of December 31, 2007 are amortized through the straight-line method in five years.

<sup>z</sup> The liabilities due to post-employment benefits are determined by considering the present value of the obligation due to benefits defined as of the date of the balance sheet. The remunerations included in the determination of these liabilities correspond to seniority premium for retirement. See Note 14.

Actuarial gains and losses, as well as the changes to the plan pending to be amortized are amortized on the basis of the remaining average work life of the workers that are expected to receive the benefits. Transition liabilities as of December 31, 2007 are amortized through the straight-line method in five years.

The liabilities due to the retirement and termination of the labor relation before reaching retirement age, as well as the related net costs are determined according to the unit credit method, based on projected salaries, using for that purpose certain assumptions and hypotheses determined by independent actuaries. See Note 14.

The deferred employee profit sharing (EPS) is recognized on the basis of the assets and liabilities method established in MFRS D-4, "Income taxes", which is determined based on the temporary differences between accounting and tax values of the assets and liabilities of the entity, in those cases where it is likely to realize the liability or benefit that may be originated and there are no signs that this situation will change in such a way that the liabilities or benefits cannot materialize in the future. As of December 31, 2011 and 2010, temporary differences are not material and consequently no provision was recorded.

**q. Comprehensive income**

The amount of the comprehensive income or loss is shown in a single line within the statement of changes in stockholders' equity, which is the result of the total operation of the company in the year and it is represented by the net profit or loss for the year, plus the effects of the translation of foreign entities and the changes in the fair value of derivative financial instruments, according with the MFRS applied

directly in stockholders equity, as well as the effect of minority interest.

**r. Income Statement**

Costs and expenses showed in the statements of income are derived from primary activities of the Company and that represent its main source of revenues. Considering the practices of the industry were operates, the Company considers the best way to present its costs and expenses in the statement of income is by function. This classification shows in generic headings, the types of costs and expenses based on the contribution to the different levels of income or loss of such statements.

Operating income is presented in the consolidated income statement, considering that this disclosure contributes to a better understanding of economic and financial performance of the entity, determined according to the Guidance to Financial Reporting Standards (ONIF-1) issued by the CINIF.

**s. Concentration risk**

Cash amounts in excess of current requirements are deposited in bank institutions with qualified credit ratings, which are located in different geographical regions. Practice of the company is designed not to limit exposure to a single financial institution. The Company uses derivative instruments as mentioned in Note 4-d and these contracts contain the risk that the counterparty does not fully comply with its obligations, which could result in a material loss. The Company sells its products in the domestic market to a large base, which is geographically diverse; consequently, there is no significant concentration in a specific customer or region. In the case of the U.S. market, in 2011 and 2010, the five largest customers of Republic accounted for approximately 24.3% and 23.4%, respectively, of consolidate revenue in the United States.

**t. Revenue recognition**

Revenue is recognized in the period in which the risks and benefits of inventories are transferred to the customer that acquired them, which usually occurs with the delivery of products to customers in fulfilling their orders. Net sales

represent the goods sold at list price, less returns received and discounts.

**u.**

**Income taxes**

The income taxes (Income Tax and/or Business Flat Tax) recorded in the year's results are based on criteria established in MFRS D-4 "Income Taxes". According to that MFRS, the current tax determined on the basis of the tax provisions in force is recorded in the income of the year to which it is attributable. The deferred taxes are determined on the basis of the assets and liabilities method established in mentioned MFRS, which consists of comparing the accounting and tax values of the assets and liabilities of the entity, from which both deductible and accruable temporary differences arise. The respective tax rate is applied to all the resulting temporary differences and they are recognized as a deferred asset or liability. The deferred asset tax, is recorded only when there is a possibility for their recovery.

The Company follows the practice of recognizing the benefits for the amortization of income tax carry forward losses in the year that the amortization occurred except when the losses arise from expenses in excess and it is considered that these carry forward tax losses will be amortized in future years.

The Company applied on a supplementary basis to MFRS, ASC 740-10-25 “Income taxes” Acquired Temporary Differences in Certain Purchases Transactions that are not Account for as Business Combinations of the Generally Accepted Accounting Principles in the USA, for the acquisition of companies with tax losses carry-forward (NOLs). The deferred credit is amortized to result of operations in the same proportion to the realization of the tax benefits that gave rise to the deferred credit.

**v. Earnings (loss) per share**

Income per share is calculated by dividing controlling net income or loss, by the weighted average shares outstanding during each year presented.

**w. Segments Information**

Segment information is presented in accordance with the region and due to the operation business is presented in accordance with the information used by management for decision making purposes. See Note 19.

**5. Foreign Currency Position**

As of December 31, 2011 and 2010 financial statements include foreign currency denominated assets and liabilities as follows:

|                           | (Figures in thousands of dollars) |             |
|---------------------------|-----------------------------------|-------------|
|                           | 2011                              | 2010        |
| Current Assets:           |                                   |             |
| Cash and cash equivalents | US\$423,746                       | US\$239,943 |
| Accounts receivable trade | 135,093                           | 130,446     |
| Other accounts receivable | 29,849                            | 14,464      |
| Total Assets              | 588,688                           | 384,853     |

|   |             |             |
|---|-------------|-------------|
| Current liabilities:                        |             |             |
| Suppliers                                   | 132,197     | 152,589     |
| Related parties                             | 50,567      | 48,524      |
| Other accounts payable and accrued expenses | 47,297      | 22,742      |
|   | 230,061     | 223,855     |
| Long term liabilities                       | 3,444       | 4,128       |
| Total liabilities                           | 233,505     | 227,983     |
| Net assets                                  | US\$355,183 | US\$156,870 |

The exchange rates used to translate U.S. currency amounts were Ps. 13.99 and Ps. 12.36 per U.S. dollar as of December 31, 2011 and 2010, respectively. As of April 24, 2012, issuance date of the financial statements in Mexico, the exchange rate was Ps. 13.21 per one US dollar.

A summary of transactions carried out for the years ended December 31, 2011, 2010 and 2009, in U.S. dollars, excluding transactions of foreign subsidiaries is as follows:

|                              | Thousands of U. S. Dollars |             |             |
|------------------------------|----------------------------|-------------|-------------|
|                              | <b>2011</b>                | <b>2010</b> | <b>2009</b> |
| Sales                        | US\$147,754                | US\$207,271 | US\$81,465  |
| Purchases (raw material)     | 3,655                      | 36,056      | 4,230       |
| Other expenses (spare parts) | 20,111                     | 11,913      | 11,719      |
| Paid interest                |                            | 488         | 2,765       |



The Company has foreign subsidiaries, whose combined assets and liabilities are summarized below:

|                                   | <b>Thousands of U.S. dollars</b> |             |
|-----------------------------------|----------------------------------|-------------|
|                                   | <b>2011</b>                      | <b>2010</b> |
| Monetary current assets           | US\$533,342                      | US\$294,778 |
| Inventories and prepaid expenses  | 281,456                          | 266,972     |
| Short-term liabilities            | (221,699)                        | (219,317)   |
| Working capital                   | 593,099                          | 342,433     |
| <br>                              |                                  |             |
| Property, plant and equipment     | 142,303                          | 146,561     |
| Other assets and deferred charges | 12,032                           | 12,806      |
| Long-term inventory               | 118,072                          | 117,370     |
| Long-term liabilities             | (62,546)                         | (52,172)    |
| Stockholder's equity              | US\$802,960                      | US\$566,998 |

#### 6. Balances and transactions with related parties

Balances with related parties as of December 31, 2011 and 2010 were as follows:

| <u>Accounts receivable:</u>                        | <b>2011</b> | <b>2010</b> |
|--|-------------|-------------|
| Industrias CH, S. A. B. de C. V (1).               | Ps. 104,207 | Ps. 112,952 |
| Compañía Laminadora Vista Hermosa, S.A. de C.V.    | 1,029       | 2,854       |
| Operadora Construalco, S. A. de C. V.              | 483         | 321         |
| Ferrovisa, S.A. de C.V.                            | 11,084      | 9,755       |
| Compañía Manufacturera de Tubos, S.A. de C.V.      | 39,943      | 263         |
| Operadora Industrial de Herramientas, S.A. de C.V. | 1,423       | 0           |
| Joist del Golfo, S.A. de C.V.                      | 7,033       | 0           |
| Perfiles Comerciales Sigosa, S.A. de C.V.          | 3,625       | 0           |
| Others   | 191         | 0           |
| Total  | Ps. 169,018 | Ps. 126,145 |

| <u>Accounts payable:</u>                       |             |             |
|--|-------------|-------------|
| Industrias CH, S. A. B. de C. V. (2)           | Ps. 172,513 | Ps. 154,750 |
| Tuberías Procarsa, S. A. de C. V. (2)          | 416,107     | 366,615     |
| Procarsa Tube and Pipe (2)                     | 41,665      | 13,251      |
| Pytsa Industrial de Mexico, S. A. de C. V. (2) | 71,206      | 62,685      |
| Aceros y Laminados Sigosa, S.A. de C.V. (2)    | 1,825       | 19,099      |
| Perfiles y Comerciales Sigosa, S. A. de C. V.  | 0           | 3,084       |
| Nueva Pytsa Industrial, S.A. de C.V.           | 0           | 7,520       |
| Pytsa Industrial, S.A. de C.V.                 | 2,154       | 1,985       |

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|        |             |             |
|--------|-------------|-------------|
| Others | 915         | 687         |
| Total  | Ps. 706,385 | Ps. 629,676 |

(1) This account receivable with ICH consists in recoverable income tax derived from the fact that some of the companies determine consolidated income tax. See note 18.

As of December 31, 2011 and 2010, the amount payable to these companies is related to loans that are (2)denominated in US dollar. These promissory notes do not specify a maturity date and bear annual interest at 0.25%.

Other accounts receivable and payable are generated by purchase and sale of finished goods as part of the normal operations.

At the years ended December 31, 2011, 2010 and 2009, the significant transactions carried out with related parties are:

|                                      | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--------------------------------------|-------------|-------------|-------------|
| Sales                                | Ps. 30,613  | Ps. 42,927  | Ps. 149,682 |
| Purchases                            | 65,966      | 80,792      | 38,483      |
| Interest expense                     | 1,474       | 1,862       | 3,916       |
| Administrative services expenditures | 14,449      | 14,284      | 15,071      |
| Direct short-term benefits           | 31,120      | 21,024      | 28,900      |

**7. Recoverable taxes**

As of December 31, 2011 and 2010, the amount of recoverable taxes was as follows:

|                   | <b>2011</b> | <b>2010</b> |
|-------------------|-------------|-------------|
| Value Added Tax   | Ps.291,693  | Ps.562,746  |
| Income Taxes      | 181,836     | 81,562      |
| Business Flat Tax | 27,159      | 33,674      |
|                   | Ps.500,688  | Ps.677,982  |

**8. Inventories**

As of December 31, 2011 and 2010 inventories are comprised of the following:

|                                    | <b>2011</b>  | <b>2010</b>  |
|------------------------------------|--------------|--------------|
| Finished goods                     | Ps.2,300,861 | Ps.1,907,746 |
| Work in process                    | 67,318       | 199,215      |
| Billet                             | 1,381,204    | 1,447,574    |
| Raw materials and supplies         | 1,470,682    | 1,215,045    |
| Materials, spare parts and rollers | 640,794      | 363,885      |
|                                    | 5,860,859    | 5,133,465    |
| Less allowance for slow moving     | (130,924)    | (3,808)      |
|                                    | 5,729,935    | 5,129,657    |
| Materials in transit               | 30,185       | 88,647       |
|                                    | Ps.5,760,120 | Ps.5,218,304 |

**9. Prepaid expenses.**

In compliance with the MFRS C-4 "Inventories" and MFRS C-5 "Prepaid expenses" the down payment paid to supplier in 2010 that were originally presented as part of inventories amounting Ps. 166,488 were reclassified to prepaid expenses. The balances of down payment as of December 31, 2011 and 2010 amounted Ps.193,985 and Ps. 262,708, respectively.

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**10. Property, plant and equipment (in millions of pesos)**

|                                       | <b>Buildings and equipment</b> | <b>Machinery and equipment</b> | <b>Transportation equipment</b> | <b>Furniture and computer equipment</b> | <b>Land</b> | <b>Construction in progress</b> | <b>Total</b> |
|---------------------------------------|--------------------------------|--------------------------------|---------------------------------|---|-------------|---------------------------------|--------------|
| <b>Investment:</b>                    |                                |                                |                                 |   |             |                                 |              |
| <b>Amount as of December, 31 2009</b> | Ps. 2,914                      | Ps. 12,974                     | Ps. 105                         | Ps. 127                                 | Ps. 820     | Ps. 359                         | Ps. 17,299   |
| Additions                             | 84                             | 268                            | 2                               | 2                                       |             | 141                             | 497          |
| Disposals                             |                                |                                | (1)                             |   |             |                                 | (1)          |
| Conversion effect                     | (13)                           | (130)                          |                                 | (1)                                     | (5)         | (13)                            | (162)        |
| <b>Amount as of December 31, 2010</b> | 2,985                          | 13,112                         | 106                             | 128                                     | 815         | 487                             | 17,633       |
| Additions                             | 200                            | 93                             | 32                              |   | 137         | -                               | 462          |
| Disposals                             |                                | (31)                           |                                 | (1)                                     | (17)        | -                               | (49)         |
| Transfers                             |                                | 415                            |                                 |   |             | (415)                           | -            |
| Conversion effect                     | 39                             | 347                            |                                 | 3                                       | 13          | 6                               | 408          |
| <b>Amount as of December 31, 2011</b> | Ps. 3,224                      | Ps. 13,936                     | Ps. 138                         | Ps. 130                                 | Ps. 948     | Ps. 78                          | Ps. 18,454   |
| <b>Accumulated depreciación:</b>      |                                |                                |                                 |   |             |                                 |              |
| <b>Amount as of</b>                   | Ps. 743                        | Ps. 6,668                      | Ps. 43                          | Ps. 51                                  | Ps.         | Ps.                             | Ps. 7,505    |
| <b>December 31, 2009</b>              |                                |                                |                                 |   |             |                                 |              |
| Depreciation of the year              | 66                             | 661                            | 2                               | 2                                       |             |                                 | 731          |
| Conversion effect                     | (1)                            | (54)                           |                                 | (1)                                     |             |                                 | (56)         |
| <b>Amount as of</b>                   | 808                            | 7,275                          | 45                              | 52                                      |             |                                 | 8,180        |
| <b>December 31, 2010</b>              |                                |                                |                                 |   |             |                                 |              |
| Depreciation of the year              | 44                             | 600                            | 2                               | 1                                       |             |                                 | 647          |
| Disposals                             |                                | (19)                           |                                 |   |             |                                 | (19)         |
| Conversion Effect                     | 3                              | 166                            |                                 | 1                                       |             |                                 | 170          |
| <b>Amount as of</b>                   | Ps. 855                        | Ps. 8,022                      | Ps. 47                          | Ps. 54                                  | Ps.         | Ps.                             | Ps. 8,978    |
| <b>December 31, 2011</b>              |                                |                                |                                 |   |             |                                 |              |
| <b>Net Value:</b>                     |                                |                                |                                 |   |             |                                 |              |
| December 31, 2009                     | Ps. 2,171                      | Ps. 6,306                      | Ps. 62                          | Ps. 76                                  | Ps. 820     | Ps. 359                         | Ps. 9,794    |
| December 31, 2010                     | Ps. 2,177                      | Ps. 5,837                      | Ps. 61                          | Ps. 76                                  | Ps. 815     | Ps. 487                         | Ps. 9,453    |
| December 31, 2011                     | Ps. 2,369                      | Ps. 5,914                      | Ps. 91                          | Ps. 76                                  | Ps. 948     | Ps. 78                          | Ps. 9,476    |

Constructions in progress are primarily improvements to increase the installed capacity and yield of machinery and equipment. The estimated completion date of these constructions in progress is 2012 and the amount pending to be invested is Ps. 9 approximately.

As of December 31, 2011 and 2010, balances in property, plant and equipment include capitalized comprehensive financial cost as a complement to the acquisition cost amounting Ps. 524.

## 11. Intangible and other noncurrent assets

As of December 31, 2011 and 2010, the item is comprised as follows.

|   | 2011          |                         | 2010          |               | Amortization<br>Period |
|---|---------------|-------------------------|---------------|---------------|------------------------|
|   | Cost          | Accrued<br>amortization | Net value     | Net Value     |                        |
| Recorded trade mark   | Ps. 75,352    |                         | Ps. 75,352    | Ps. 66,489    | *                      |
| Kobe Tech Contract  | 87,818        | Ps. 46,952              | 40,866        | 39,586        | 12                     |
| Customer list   | 46,001        | 14,760                  | 31,241        | 28,694        | 20                     |
| Total Republic (1)  | 209,171       | 61,712                  | 147,459       | 134,769       |                        |
| Customers list  | 2,205,700     | 878,196                 | 1,327,504     | 1,572,5829    |                        |
| Non compete contract  | 394,700       | 353,585                 | 41,115        | 139,790       | 4                      |
| Trademark San 42 (2)  | 329,600       | 0                       | 329,600       | 329,600       | *                      |
| Technological platform  | 8,800         | 6,307                   | 2,493         | 4,253         | 5                      |
| Goodwill Grupo San (2)  | 1,814,160     | 0                       | 1,814,160     | 1,814,160*    |                        |
| Total Grupo San (3)   | 4,752,960     | 1,238,088               | 3,514,872     | 3,860,385     |                        |
|   | 4,962,131     | 1,299,800               | 3,662,331     | 3,995,154     |                        |
| Advance to suppliers of machinery and<br>equipment. See Note 20 | 42,070        |                         | 42,070        |               |                        |
| Other assets  | 96,602        | 0                       | 96,602        | 105,987       |                        |
|   | Ps. 5,100,803 | Ps. 1,299,800           | Ps. 3,801,003 | Ps. 4,101,141 |                        |

\*Intangibles assets with undefined life.

(1)Intangible assets from acquisition of Republic.

(2)In the period ended December 31, 2009, the Company recognized an impairment loss of Ps. 2,368,000, and decreased the value of the trademark San 42 and Goodwill in the amount of Ps. 16,000 and Ps. 2,352,000,

respectively.

(3) Intangible assets from acquisition of Grupo San.

Pursuant to the adoption of the new MFRS C-8 “intangible assets”, in 2009 the preoperative expenses amounting Ps. 151,826 were charged to retained earnings, net of its corresponding deferred income tax liability of Ps. 42,511. The net amount charged to retained earnings was \$ 109,315.

The amortization of these assets recorded in the income statements for the years ended December 31, 2011, 2010 and 2009, amounted Ps. 354,098, Ps. 367,178 and Ps. 365,625, respectively.

**12.**

**Medium Term Notes and Notes Payable**

**Medium Term Notes**

On October 22, 1997 and August 17, 1998, the Company offered to holders of medium-term notes, to exchange their bonds at par, for new bonds denominated senior subordinated notes. The new notes bonds bear semi-annual interest each at an annual rate of 10.5% interest and capital repayments were semiannual from May 15, 2000 and until November 15, 2007. As of December 31, 2011, the amount of new notes not exchanged totaled US\$ 0.3 plus accrued interest. As of December 31, 2011 and 2010 liabilities in pesos for the new notes not exchanged amounted to Ps. 4,225 and Ps. 3,732 respectively.

### 13. Derivative financial instruments

The Company used derivative financial instruments, primarily to offset the exposure to variability in the price of natural gas. Derivative financial instruments used by the Company consist of natural gas swap contracts. These contracts are recognized on the balance sheet at fair value. The swaps from the Mexican operations are highly effective in mitigating the exposure to natural gas fluctuations, therefore those swaps are considered as cash flow hedges, and thus, the fair value of the swap is recorded in comprehensive income in stockholders' equity.

In Mexico, as of December 31, 2011, the Company has contracted natural gas swaps with PEMEX Gas and Basic Petrochemicals (PGBP). In case of Republic the agreements were celebrated with Hess Corporation.

The following table shows the existing natural gas swap as of December 31, 2011:

| Date of Contract                         | Starting Date | Ending Date | Type Swap | Price          |          | Quantity Units | Fair Value |
|--|---------------|-------------|-----------|----------------|----------|----------------|------------|
|  |               |             |           | MMBTU / G. CAL | (US\$) / |                |            |
| 10/09/2008                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 8.33           |          | 22,500 MMBTUs  | 8,447      |
| 29/10/2010                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 4.50           |          | 80,000 MMBTU   | 8,710      |
| 02/09/2008                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 8.47           |          | 4,000 MMBTU    | 1,541      |
| 04/11/2010                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 4.50           |          | 7,500 MMBTU    | 817        |
| 02/09/2008                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 8.47           |          | 6,875 MMBTU    | 2,648      |
| 04/11/2010                               | 01/07/2011    | 30/06/2012  | D.S. Swap | 4.50           |          | 15,000 MMBTU   | 1,633      |
| 22/11/2011                               | 01/01/2012    | 31/01/2012  | Future    | 3.57           |          | 527,000 MMBTU  | 0          |
| 22/11/2011                               | 01/01/2012    | 29/02/2012  | Future    | 3.59           |          | 493,000 MMBTU  | 4,133      |
| 22/11/2011                               | 01/01/2012    | 31/03/2012  | Future    | 3.58           |          | 527,000 MMBTU  | 4,146      |
| 22/11/2011                               | 01/01/2012    | 30/04/2012  | Future    | 3.62           |          | 150,000 MMBTU  | 1,132      |
| 22/11/2011                               | 01/01/2012    | 31/05/2012  | Future    | 3.66           |          | 155,000 MMBTU  | 1,144      |
| 22/11/2011                               | 01/01/2012    | 30/06/2012  | Future    | 3.71           |          | 150,000 MMBTU  | 1,105      |
| Net derivative instruments liability     |               |             |           |                |          |                | 35,456     |
| Net liability booked in accounts payable |               |             |           |                |          |                | 7,306      |



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The following table shows the existing natural gas swap as of December 31, 2010:

| Date of Contract                         | Starting Date              | Ending Date            | Type Swap | Price (US\$) / MMBTU / |                    | Units  | Fair Value |
|--|----------------------------|------------------------|-----------|------------------------|--------------------|--------|------------|
|  |                            |                        |           | G. CAL                 | Quantity           |        |            |
| 25/06/2008                               | 01/07/2008                 | 30/06/2011             | Swap      | 11.45                  | 85,000             | G.CAL. | Ps. 37,578 |
| 25/06/2008                               | 01/07/2008                 | 30/06/2011             | Swap      | 11.45                  | 45,000             | MMBTU  | 19,894     |
| 25/06/2008                               | 01/01/2009                 | 30/06/2011             | Swap      | 11.12                  | 8,000              | MMBTU  | 3,373      |
| 02/09/2008                               | 01/01/2009                 | 30/06/2011             | Swap      | 8.44                   | 4,000              | MMBTU  | 1,025      |
| 02/09/2008                               | 01/07/2011                 | 30/06/2012             | D.S. Swap | 8.47                   | 4,000              | MMBTU  | 2,210      |
| 25/06/2008                               | 01/01/2009                 | 30/06/2011             | Swap      | 11.12                  | 24,000             | MMBTU  | 10,121     |
| 02/09/2008                               | 01/01/2009                 | 30/06/2011             | Swap      | 8.44                   | 1,750              | MMBTU  | 449        |
| 02/09/2008                               | 01/07/2011                 | 30/06/2012             | D.S. Swap | 8.47                   | 6,875              | MMBTU  | 3,799      |
| November and December 2010               | November and December 2010 | January to April, 2012 | Future    | 4.00 to 4.41           | 200,000 to 350,000 | MMBTU  | 1,259      |
| Net derivative instruments liability     |                            |                        |           |                        |                    |        | 79,708     |
| Net liability booked in accounts payable |                            |                        |           |                        |                    |        | 12,067     |
|  |                            |                        |           |                        |                    |        | Ps. 91,775 |

As of December 31, 2011, the Company recognized a liability amounting to Ps. 42,762 and deferred income tax asset amounting to Ps. 13,429. The amount recorded in equity as part of comprehensive income in the year 2011 represented an income amounting to Ps. 34,017, which Ps. 37,904 were related to the controlling interest.

As of December 31, 2010, the Company recognized a liability amounting to Ps. 91,775 and income tax asset deferred amounting to Ps. 27,612. The amount recorded in equity as part of comprehensive income in the year 2010 represented an income amounting to Ps. 87,864, which Ps. 88,378 were related to the controlling interest.

Based on its inventory turnover, the Company believes that the natural gas burned and incorporated in its products during a given month is reflected in the cost of sales of the subsequent month; consequently, the realized effects of this hedge are reclassified from the comprehensive income account to results of operations in the following month. In

the years ended December 31, 2011, 2010 and 2009, the Company recorded an increase of Ps. 205,278, Ps. 298,647 and Ps. 419,200, respectively to its cost of sales resulting from settled transactions.

In the case of Republic, its gas future contracts are also used to cover changes in the cost of natural gas. The contracts are usually no longer than one year.

#### 14. Employee benefits

Determination of the liability for employee benefits as of December 31, 2011, 2010 and 2009 is summarized below:

|  | <b>Post-<br/>employment<br/>benefits</b> | <b>Termination benefits</b> | <b>2011<br/>Total</b> | <b>2010<br/>Total</b> | <b>2009<br/>Total</b> |
|--|--|-----------------------------|-----------------------|-----------------------|-----------------------|
| Projected benefits obligation                        | Ps. 50,093                               | Ps.J9,800                   | Ps.O9,893             | Ps.O5,325             | Ps.O7,688             |
| Net transition liability pending to be amortized     | (16,709)                                 | (2,235)                     | (18,944)              | (26,423)              | (37,751)              |
| Prior service cost and plan amendments               | (3,099)                                  | (36)                        | (3,135)               | (228)                 | (2,616)               |
| Variations in assumptions and experience adjustments | 10                                       | (10)                        | -                     | (3,341)               | (4,181)               |
| Accumulated benefit obligation                       | Ps. 30,295                               | Ps.J7,519                   | Ps.M7,814             | Ps.L5,333             | Ps.K3,140             |

Components of net cost of benefits plan to employees are as follows:

|   | <b>Post-<br/>employment<br/>benefits</b> | <b>Termination<br/>benefits</b> | <b>2011<br/>Total</b> | <b>2010<br/>Total</b> | <b>2009<br/>Total</b> |
|---|--|---------------------------------|-----------------------|-----------------------|-----------------------|
| Service cost  | Ps. 2,659                                | Ps. 3,155                       | Ps.5,814              | Ps.6,554              | Ps.8,098              |
| Financial Cost  | 3,474                                    | 1,926                           | 5,400                 | 5,962                 | 9,609                 |
| Amortization of transition liability                              | 4,662                                    | 1,906                           | 6,568                 | 6,903                 | 1,342                 |
| Amortization of prior service cost and plan amendments            | (994)                                    | 234                             | (760)                 | 52                    | 6,872                 |
| Anticipated reduction of Obligations                              | 117                                      | 2,377                           | 2,494                 | (4,568)               | -                     |
| Variations amortization in assumptions and experience Adjustments | (304)                                    | (1,408)                         | (1,712)               | 3,774                 | 9,787                 |
| Net period cost   | Ps. 9,614                                | Ps. 8,190                       | Ps.17,804             | Ps. 18,677.           | Ps.35,708             |

The most important assumptions used in determining the net period cost of the plans are:

|  | <b>2011</b> | <b>2010</b> | <b>2009</b> |
|--|-------------|-------------|-------------|
| Discount rate                          | <b>7.5%</b> | <b>7.5%</b> | <b>8.0%</b> |
| Actual rate of future salary increases | <b>6.2%</b> | <b>5.5%</b> | <b>5.0%</b> |

As of December 31, 2011, the Mexican subsidiaries with employees did not generate Employees Profit Sharing (EPS). In 2010 and 2009, the expense EPS was Ps. 95 and Ps. 7,261.

## **15. Other employment benefit plans**

Republic is the only subsidiary of the Company which offers additional benefits and pension plans to their employees. Benefit plans to these employees are described below.

### **a) Defined Contribution Plans**

Seventy-nine percent of the Republic's employees are covered by a collective bargaining agreement with the United Steelworkers (USW).

The Company is required to make a contribution to the VEBA Benefit Trust for every hour worked by eligible employees. This welfare plan makes provision for retiree healthcare benefits, and is not a "qualified" plan under ERISA regulations. The labor agreement requires a contribution, by the Company, to the retirement healthcare plan of US\$3.00 for every hour worked, not to be less than US\$2.85 million per quarter, but not to exceed US\$11.4 million per year. For the years ended December 31, 2011, 2010 and 2009, the Company recorded expenses amounting to US\$8.5 million, US\$11.4 million and US\$ 11.4 million, respectively related to this welfare plan. Contributions are also made to the SWP Trust, a "qualified" pension benefit plan under ERISA regulations, at a rate of US\$1.68 per hour as defined in the labor agreement. For the years ended December 31, 2011, 2010 and 2009, the Company recorded expenses amounting to US\$6.0 million, US\$7.1 million and US\$ 7.1 million, respectively, related to this pension benefit plan. The Company recorded combined expenses amounting to US\$14.5 million, US\$18.5 million and US\$ 18.5 million for the years ended December 31, 2011, 2010 and 2009, respectively, related to the funding obligations of the retirement healthcare and pension benefits.

On March 29, 2012, the USW and Republic ratified a new collective bargaining agreement. This collective bargain expires on August 15, 2016. The new labor agreement includes wage and benefit increases including two lump sum payments payable to active USW employees during 2012, and general wage increases in 2013, 2014, and 2015. Company contributions to fund the Republic Retirement VEBA Benefit Trust (Benefit Trust) were reduced by US\$2.0 million per year beginning in 2012. In addition, the quarterly contribution amount was suspended effective the fourth quarter of 2011 and continuing through the third quarter of 2012. Contributions to the Benefit Trust will resume during the fourth quarter 2012 at a quarterly rate of approximately US\$2.4 million with an increase to a US\$2.6 million quarterly rate beginning in the second quarter 2013.

The Company has a defined contribution 401K retirement plan that covers substantially all salaried and nonunion hourly employees. This plan is designed to provide retirement benefits through Company contributions and voluntary deferrals of employees' compensation. The Company funds contributions to this plan each pay period based upon the participants age and service as of January first of each year. The amount of the Company's contribution is equal to the monthly base salary multiplied by the appropriate percentage based on age and years of service. The contribution becomes 100% vested upon completion of three years of vesting service. In addition, employees are permitted to make contributions into a 401(k) retirement plan through payroll deferrals. The Company provides a 25.0% matching contribution for the first 5.0% of payroll that an employee elects to contribute. Employees are 100.0% vested in both their and the Company's matching 401(k) contributions. For years ended December 31, 2011, 2010 and 2009, the Company recorded expense of US\$2.1 million, US\$2.0 million and US\$ 1.9 million, respectively, related to this defined contribution retirement plan.

Employees who are covered by the USW labor agreement are eligible to participate in the defined contribution 401K retirement plan through voluntary deferrals of employees' compensation. There are no Company contributions or employer matching contributions relating to these employees.

**b)**

**Profit Sharing Plans**

The labor agreement includes a profit sharing plan to which the Company is required to contribute 2.5% of its quarterly pre-tax income, as defined in the labor agreement. At the end of the year, the contribution will be based upon annual pre-tax income up to US\$50.0 million multiplied by 2.5%, US\$50.0 million to US\$100.0 million multiplied by 3.0%, and above US\$100.0 million multiplied by 3.5%, less the previous payouts during the year. Profit sharing earned, accrued and expensed was US\$1.0 million for the year ended December 31, 2011. There was no profit sharing earned, accrued or recorded for the years ended December 31, 2010 and 2009.

Republic Steel has a profit sharing plan for all salaried and nonunion hourly employees that is a function of achieving business plan EBITDA objectives. The Company paid US\$0.3 million for profit sharing at December 31, 2011 related to 2011 performance. However, the amounts paid in 2011 were discretionary as the financial thresholds of the profit sharing plan had not been reached in any quarter or for the year. No profit sharing was accrued or expensed for the year ended December 31, 2010 and 2009.

c)

**Incentive Compensation Plans**

The Company has various compensation plans that are based on attaining certain Business Plan and other performance targets for the financial calendar year. The objectives are measured on a quarterly basis. Individuals designated as participants in these plans are excluded from the Company's regular profit sharing plan. For the years ended December 31, 2011, 2010 and 2009, there were no incentives earned under these plans as the target thresholds for the respective years were not achieved.

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**16. Stockholder's equity**

The most significant characteristics of stockholders' equity accounts are described below:

**a. Capital stock structure**

As of December 31, 2011, the capital stock of Grupo Simec, S.A.B. de C.V., is represented by 497,709,214 common shares corresponding to "B" series of free circulation, without nominal value. The minimum fixed capital not subject to withdrawal is Ps. 441,786 (nominal amount).

**b. Legal Reserve**

The Company's net income is subject to the application of 5% to the legal reserve until it represents 20% of the nominal capital stock. The legal reserve is not subject to cash distribution, but may be capitalized and is included in retained earnings. At December 31, 2011, the legal reserve of the Company amounted to Ps. 484,045 (nominal pesos), representing 20% of nominal capital.

**c. Dividends and capital refunds**

Retained earnings are subject to taxes if distributions are paid in cash, except when they are paid from "net tax profit account" or "CUFIN". Also, the capital refunds that proportionally exceed the contributed capital account (CUCA), are considered dividends and subject to tax. As of December 31, 2011, the CUFIN of Grupo Simec, S. A.B. de C.V. and its subsidiaries amounted to Ps. 1,083,964. At that date the balance of the CUCA of Grupo Simec, S. A.B. de C.V. amounted to Ps. 8,568,530.

**d. Comprehensive Income**

Comprehensive income reported on the consolidated statement of changes in stockholders' equity represents the result of all the Company's activities during the year and includes the following captions, which in conformity with Mexican Financial Reporting Standards, were applied directly to stockholders' equity, except for the net (loss) income:

| 2011 | 2010 | 2009 |
|------|------|------|
|------|------|------|



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|  |               |             |                 |
|--|---------------|-------------|-----------------|
| Net income (loss)  | Ps. 2,952,231 | Ps. 668,954 | Ps. (1,221,194) |
| Fair value of derivative financial instruments                   | 48,200        | 124,464     | 159,453         |
| Deferred taxes in fair value of derivative financial instruments | (14,183)      | (36,600)    | (40,312)        |
| Translation effect of foreign subsidiaries, net                  | 664,150       | (216,945)   | (158,317)       |
| Total comprehensive income (loss)                                | 3,650,398     | 539,873     | (1,260,370)     |
| Noncontrolling interest (1)                                      | 331,775       | (375,861)   | (956,259)       |
| Controlling interest   | Ps. 3,318,623 | Ps. 915,734 | Ps (304,111)    |

(1) The non-controlling interest is the due to the investment of Industrias CH, S.A.B. de C.V. (Holding Company) in SimRep Corporation and subsidiaries.

**17.**

**Non-controlling interest**

As mentioned in Note 3, Grupo Simec, S. A. B. de C. V., owns practically 100% of the capital stock of its subsidiaries and 50.22% of SimRep Corporation and subsidiaries. The non-controlling interest represents the equity in this subsidiary owned by minority shareholders, and is presented in the consolidated balance sheet after the controlling interest. The consolidated income statement shows the total consolidated net income or loss and controlling and non-controlling interest portions are presented after the consolidated net income or loss.

**18.**

**Income taxes**

The Company is subject to income tax (IT) and the Business Flat Tax (BFT)

Grupo Simec, S.A.B. de CV and some of its subsidiaries consolidate their taxable income with its parent company ICH. In accordance with the provisions of the Income Tax Law, ICH and each of the subsidiaries determine their taxes individually, and have the obligation to pay the minority portion of those taxes directly to the Mexican Tax Authorities. The majority income tax, for consolidation purposes, is covered by the holding company. Grupo Simec, S.A.B. de C.V. and its subsidiaries calculate and book its provision for taxes on a standalone basis.

BFT was incurred at the rate of 17.5%. The basis of the tax is determined by totaling the revenues collected, less certain deductions paid, including purchases of inventories and investments in fixed assets. The tax incurred may be decreased by certain credits related to wages and salaries, Social Security contributions, investments in fixed assets that were not deducted at the time the Law was enacted, part of the inventories, among others, as well as the income tax effectively paid in the year. On such basis, the BFT will be paid only for the difference between the income tax and the BFT incurred, when the latter is higher.

With the entry into force of the BFT Act, the Act of Asset Tax (IMPAC) was revoked, establishing a new procedure for requesting a refund of recoverable asset tax paid in the previous ten years during which in no instances exceeded 10% of the asset tax paid in 2005, 2006 and 2007. Based on these changes, the Company has determined that the cumulative recoverable IMPAC as of December 31, 2011 for Ps. 106,869 will not be recovered based on the prospective analysis of its results from operations and accordingly this amount has been reserved in its entirety.

In December 2009 some amendments to the Income Tax Act were published effective January 1, 2010. The most significant change is the change in the income tax rate, which for 2010, 2011 and 2012 is 30%, in 2013 the rate will be 29% and from 2014 and thereafter will return to 28%.

Based on financial projections made for the next years, and retrospectively on historical results, the Company has determined that certain subsidiaries of the Group will be subject to IT and others to BFT. The deferred tax for the year was determined based on specific rules for each tax.

The analysis of the income tax charged (credited) to the results of 2011, 2010 and 2009 is as follows:

|  | <b>2011</b> | <b>2010</b> | <b>2009</b>    |
|--|-------------|-------------|----------------|
| Current Income Tax Mexican Subsidiaries  | Ps.(4,548)  | Ps.128,176  | Ps.82,858      |
| Business Flat Tax                        | 5,945       | 2,898       | 100,212        |
| Current Income Tax Foreign Subsidiaries  | (88,234)    | 28,033      | (824,812)      |
| Deferred income Tax Mexican Subsidiaries | (38,627)    | (148,928)   | (1,250,496)    |
| Deferred Business Flat Tax               | 180,465     | 9,501       | -              |
| Deferred Income Tax Foreign Subsidiaries | 54,836      | 92,756      | (172,914)      |
|  | Ps.109,837  | Ps.112,436  | Ps (2,065,152) |

In 2011, 2010 and 2009, the income tax attributable to income before taxes, was different from the amount computed by applying the rate of 30% in 2011 and 2010, and 28% in 2009, to income before these provisions and non-controlling interest, as a result of the items listed below:

|  | <b>2011</b> | <b>2010</b> | <b>2009</b>    |
|--|-------------|-------------|----------------|
| Expected tax expense (benefit)                                 | Ps. 918,620 | Ps. 234,417 | Ps. (920,177)  |
| Increase (decrease) resulting from:                            |             |             |                |
| Net effect of inflation  | (13,729)    | 8,826       | (2,724)        |
| Effect on Republic's effective income tax rate                 | (8,689)     | 16,871      | (152,501)      |
| Effect of NOLs generated during the year (1)                   | 42,492      | 249,282     | (43,414)       |
| BFT paid in excess of income tax and BFT deferred              | 186,410     | 12,399      | 39,353         |
| Benefit of amortization of tax losses and others               | (1,021,174) | (507,726)   | (334,622)      |
| Change in the additional liability from other tax transactions |             |             | (1,142,882)    |
| Amortization of deferred credit                                |             |             | (163,333)      |
| Impairment loss  |             | 35,237      | 663,040        |
| Other, net (including effect of permanent differences)         | 5,907       | 63,130      | (7,892)        |
| Income tax expense (benefit) tax                               | Ps. 109,837 | Ps. 112,436 | Ps (2,065,152) |
| Effective tax rate   | 3.6%        | 14.4%       | (62.8%)        |

(1) According with MFRS D-4 "Income Taxes", those losses generated in a year, as well as carry-forwards, are temporary differences on which it should be recognize a deferred income tax. The Company follows the practice of recognizing the benefit from the amortization of tax loss carry-forwards in income for the period that are amortized, except when the losses come from over-expenditures and is considered that these losses will be amortized in future years. The amounts of Ps. 42,492 and Ps. 249,282 included in the caption "Effect of NOLs generated during the year" correspond to the income tax of the tax losses generated by certain subsidiaries in the years 2011 and 2010, respectively, which were reserved in those years. The amounts of Ps. 1,021,174 and Ps. 507,726 included in the caption "Benefit of amortization of tax losses and others" correspond to the income tax benefit obtained by those companies that amortized tax losses during 2011 and 2010, respectively.

The Company has tax losses that under the Income Tax Law in force, can be amortized against taxable income generated in the next ten years. Tax losses can be updated by following certain procedures set forth in the law.

At 31 December 2011 Grupo Simec, S. A. B. de C. V. and certain subsidiaries have tax losses carry forwards pending to be amortized as follows:

| <b>Year of</b> |                   | <b>Tax Losses</b>    |
|----------------|-------------------|----------------------|
| <b>Origin</b>  | <b>Expiration</b> | <b>Carry Forward</b> |
| 2004           | 2014              | Ps. 226              |
| 2005           | 2015              | 35,564               |
| 2006           | 2016              | 20,669               |
| 2007           | 2017              | 1,459                |
| 2008           | 2018              | 55,965               |
| 2009           | 2019              | 196,627              |
| 2010           | 2020              | 2,407,796            |
| 2011           | 2021              | 8,190,231 (1)        |
|                |                   | Ps. 10,908,537       |

The loss includes \$ 7,859,922, corresponding to tax loss obtained in the sale of shares mentioned in Note 3-g, (1) which, according to the Income Tax Act, can only be deducted against profit on sale of shares that can be generated in the future.

At December, 31, 2011, Republic has US\$ 103.9 million of US Federal Net Operating Losses which expire in 2030 and 2031, approximately US\$ 239 million in US State and Local NOLs which mostly expire in years 2012 through 2026, and approximately US\$ 1.9 million of Canadian Federal NOLs which expire in 2030 and 2031.

Below is a summary of the main temporary differences that comprise deferred tax liabilities included in the financial statement at December 31, 2011 and 2010:

|                                      | <b>2011</b> | <b>2010</b> |
|--------------------------------------|-------------|-------------|
| Deferred tax assets:                 |             |             |
| Allowance for doubtful accounts      | Ps. 63,826  | Ps. 59,154  |
| Accrued expenses                     | 143,404     | 160,787     |
| Advances from customers              | 643         | 25,907      |
| Tax Losses Carry forwards (NOLs) (1) | 3,893,413   | 851,269     |
| Republic tax credits (AMT)           | 26,274      | 133,481     |
| Recoverable asset tax                | 106,869     | 99,610      |
| EPS provision                        | 250         | 39          |

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|   |               |               |
|---|---------------|---------------|
| Derivative financial instruments              | 13,429        | 27,612        |
| Deferred tax assets, net                      | 4,248,108     | 1,357,859     |
| Less:   |               |               |
| Valuation allowance for deferred tax asset    | (3,650,815)   | (747,113)     |
| Deferred tax assets, net                      | 597,293       | 610,746       |
| Deferred tax liabilities:                     |               |               |
| Inventories                                   | 843,836       | 663,095       |
| Property, plant and equipment                 | 2,069,841     | 1,873,599     |
| Intangibles assets from Grupo San acquisition | 510,214       | 613,868       |
| Prepaid expenses                              | 6,888         | 6,133         |
| Others  | 7,033         | 138,751       |
| Total deferred liabilities                    | 3,437,812     | 3,295,446     |
| Deferred tax liabilities, net                 | 2,840,519     | 2,684,700     |
| Deferred business flat tax                    | 231,366       | 50,901        |
|   | Ps. 3,071,885 | Ps. 2,735,601 |

(1) At December 31, 2011 and 2010 the deferred tax asset from tax loss carry forward includes Ps. 619,775 and Ps. 433,722, respectively originated in Federal and Local fiscal losses of Republic.

## 19. Segments Information

The Company segments its information by region, due to the operational structure and the organization of its business. The Company's sales are made mainly in Mexico and the United States of America. The Mexican segment includes the plants in Mexicali, Guadalajara, Tlaxcala and San Luis Potosi. The USA segment includes the six plants from Republic located in the State of Ohio, Indiana, New York and the last one in Ontario, Canada. The plant in Canada represents approximately 3% of the segment's total sales. Both segments are engaged in the manufacturing and sale of long steel products intended primarily for the building and automotive industries.

|  | Year ended December 31, 2011 |                |                                   |                |
|--|------------------------------|----------------|-----------------------------------|----------------|
|  | Mexico                       | USA            | Operations<br>between<br>segments | Total          |
| Net sales                                    | Ps. 15,174,922               | Ps. 14,127,627 | Ps. (32,051)                      | Ps. 29,270,498 |
| Cost of sales                                | 12,032,028                   | 13,624,635     | (32,051)                          | 25,624,612     |
| Gross profit                                 | 3,142,894                    | 502,992        |                                   | 3,645,886      |
| Selling, general and administrative expenses | 722,591                      | 331,561        |                                   | 1,054,152      |
| Operating income                             | 2,420,303                    | 171,431        |                                   | 2,591,734      |
| Other expenses, net                          | 103,670                      | 10,036         |                                   | 113,706        |
| Financial (income) expenses, net             | (16,587)                     | 14,177         |                                   | (2,410)        |
| Foreign exchange income (loss), net          | (581,630)                    |                |                                   | (581,630)      |
| Income before income taxes                   | 2,914,850                    | 147,218        |                                   | 3,062,068      |
| Income taxes (benefit)                       | 143,034                      | (33,197)       |                                   | 109,837        |
| Net income                                   | Ps. 2,771,816                | Ps. 180,415    | Ps.                               | Ps. 2,952,231  |

### Other Data Mexico USA Operations between segments Total

|   |                |               |                 |                |
|---|----------------|---------------|-----------------|----------------|
| Total assets                                    | Ps. 23,497,561 | Ps. 9,098,293 | Ps. (1,326,388) | Ps. 31,269,466 |
| Depreciation and amortization                   | 777,117        | 223,981       |                 | 1,001,098      |
| Additions of property, plant and equipment, net | 267,720        | 164,280       |                 | 432,000        |
| Total liabilities                               | 3,485,345      | 4,841,686     | (1,326,388)     | 7,000,643      |

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**Year ended December 31, 2010**

|  | <b>Mexico</b>  | <b>USA</b>     | <b>Operations<br/>between<br/>segments</b> | <b>Total</b>   |
|--|----------------|----------------|--|----------------|
| Net sales                                    | Ps. 12,623,536 | Ps. 11,952,900 | Ps. -                                      | Ps. 24,576,436 |
| Cost of sales                                | 10,328,758     | 11,920,745     | -  | 22,249,503     |
| Gross profit                                 | 2,294,778      | 32,155         | -  | 2,326,933      |
| Selling, general and administrative expenses | 803,684        | 348,284        | -  | 1,151,968      |
| Operating income (loss)                      | 1,491,094      | (316,129)      | -  | 1,174,965      |
| Other expenses, net                          | 124,126        | 61,952         | -  | 186,078        |
| Financial (income) expenses, net             | (16,449)       | 16,706         | -  | 257            |
| Foreign exchange (loss) income, net          | 207,240        | -              | -  | 207,240        |
| Income (loss) before income taxes            | 1,176,177      | (394,787)      | -  | 781,390        |
| Income taxes (benefit)                       | (31,785)       | 144,221        | -  | 112,436        |
| Net income (loss)                            | Ps. 1,207,962  | Ps. (539,008)  | Ps. -                                      | Ps. 668,954    |

| <b>Other Data</b>                               | <b>Mexico</b>  | <b>USA</b>    | <b>Operations<br/>between<br/>segments</b> | <b>Total</b>   |
|---|----------------|---------------|--|----------------|
| Total assets                                    | Ps. 20,506,648 | Ps. 7,830,653 | Ps. (988,333)                              | Ps. 27,348,968 |
| Depreciation and amortization                   | 859,601        | 238,607       | -  | 1,098,208      |
| Additions of property, plant and equipment, net | 434,910        | 61,451        | -  | 496,361        |
| Total liabilities                               | 3,479,167      | 4,239,709     | (988,333)                                  | 6,730,543      |

**Year ended December 31, 2009**

|  | <b>Mexico</b>  | <b>USA</b>    | <b>Operations<br/>between<br/>segments</b> | <b>Total</b>   |
|--|----------------|---------------|--|----------------|
| Net sales                                    | Ps. 11,366,780 | Ps. 7,864,749 | Ps. -                                      | Ps. 19,231,529 |
| Cost of sales                                | 8,951,396      | 10,028,087    | -  | 18,979,483     |
| Gross profit                                 | 2,415,384      | (2,163,338)   | -  | 252,046        |
| Selling, general and administrative expenses | 582,226        | 521,859       | -  | 1,104,085      |
| Operating income (loss)                      | 1,833,158      | (2,685,197)   | -  | (852,039)      |
| Other income (expenses), net                 | 70,102         | (40,111)      | -  | 29,991         |
| Impairment of intangibles assets             | (2,368,000)    | -             | -  | (2,368,000)    |
| Financial (income) expenses, net             | (21,726)       | 39,595        | -  | 17,869         |

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|                                     |             |                 |       |                 |
|-------------------------------------|-------------|-----------------|-------|-----------------|
| Foreign exchange (loss) income, net | (78,429)    | -               | -     | (78,429)        |
| Income (loss) before income taxes   | (521,443)   | (2,764,903)     | -     | (3,286,346)     |
| Income taxes (benefit)              | (1,065,363) | (999,789)       | -     | (2,065,152)     |
| Net income (loss)                   | Ps. 543,920 | Ps. (1,765,114) | Ps. - | Ps. (1,221,194) |

| <b>Other Data</b>                               | <b>Mexico</b>  | <b>USA</b>    | <b>Operations<br/>between<br/>segments</b> | <b>Total</b>   |
|---|----------------|---------------|--|----------------|
| Total assets                                    | Ps. 19,540,570 | Ps. 8,663,405 | Ps. (1,298,164)                            | Ps. 26,905,811 |
| Depreciation and amortization                   | 783,414        | 264,468       | -  | 1,047,882      |
| Additions of property, plant and equipment, net | 176,249        | 86,958        | -  | 263,207        |
| Total liabilities                               | 3,596,802      | 4,528,620     | (1,298,164)                                | 6,827,258      |

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The Company's net sales to foreign or regional customers during 2011, 2010 and 2009 are as follows:

|                         | <b>2011</b>    | <b>2010</b>    | <b>2009</b>    |
|-------------------------|----------------|----------------|----------------|
| Mexico                  | Ps. 14,399,682 | Ps. 10,799,739 | Ps. 10,685,259 |
| USA                     | 13,709,807     | 13,078,357     | 7,829,024      |
| Canada                  | 766,318        | 470,643        | 502,286        |
| Latin America           | 356,932        | 221,192        | 135,965        |
| Other (Europe and Asia) | 37,759         | 6,505          | 78,995         |
| Total                   | Ps. 29,270,498 | Ps. 24,576,436 | Ps. 19,231,529 |

## **20. Commitments and contingencies**

To December 31, 2011 the company has the following contingencies:

Pacific Steel, Inc. ("Pacific Steel" or "PS"), a subsidiary Company located in National City in San Diego County, (a)California, USA which their main activity is the sale and purchase of scrap has the following contingencies related to environment issues.

### **California Regional Water Control Board, CRWCB**

On August 16, 2011, the California Regional Water Quality Control Board (CRWCB) and the California Environmental Protection Agency (CALEPA) made a inspection to Pacific Steel to verify the conditions of draining into the street waters. On September 1, 2011, PS received the "Order to Cease & Desist Clean and Abate"(OCDCA) from the CALEPA. On September 15, 2011 the CALEPA made a re-inspection visit, the CALEPA was satisfied with the compliance to the OCDCA of PS At December 31, 2011, the California Regional Water Quality Control Board (CRWCB) has not notified the conclusions of their inspection.

### **Department of Toxic Substances Control, DTSC**

In September 2002, the Department of Toxic Substances Control (DTSC) inspected PS facilities based on an alleged complaint from neighbors due to PS' Steel's excavating to recover scrap metal on its property and on a neighbor's

property which it rents from a third party. In this same month, DTSC issued an enforcement order of imminent and substantial endangerment determination to PS, which alleges that certain soil piles, soil management and metal recovery operations may cause an imminent and substantial danger to human health and the environment, Consequently sanctioned to PS for violating hazardous waste laws and the State of California Security Code and imposed the obligation to remediate the site. To give greater enforce this order July 2004, the DTSC, filed suit against PS at the Supreme Court of San Diego. On July 26, 2004, the Court issued a decision in which it was imposed PS to pay Ps. 3,288 (USD \$ 0.2 million), which were paid.

On June 6, 2010 the DTSC and the “San Diego Department of Environmental Health” (DEH) made a inspection to PS, due to a general complaint. On August 10, 2010 this two authorities made a second inspection and found seven different deviations. The DEH is satisfied with the compliance. Nevertheless, on October 19, 2010 the technical area of the DTSC advice the legal area to impose important penalties. At December 31 ,2011 PS have not received the final resolution of the DTSC.

The soil treatment was suspended at the beginning of 2011 due to the ineffective results of the process, determined with several studies. Thus alternative, once the permits of the Mexican authorities were obtained, on November 2011 the Mexicali facility began the process of the lands for disposal in a landfill located on the State of Nuevo León, Mexico, after separation from their metal content, which are used as raw material in the casting process.

As consequence of two reports transmitted on a local TV channel about PS in support to two San Diego Bay environmental groups. The DTSC required on November 22, 2011 to PS a program for the handling and final disposition of the treated soils, due to the fact that the treatment process are now consider hazardous waste. PS is now reviewing the different alternatives for the final disposition of those soils.

Due to the fact that the cleanliness levels have not yet been defined by the Department and since the characterization of all the property has not yet been finished, the allowance for the costs for the different remedy options are still subject to considerable uncertainty.

The Company has prepared an estimate, based on prior years’ experience, considering the same processes, volume costs, use of own equipment and personnel and assuming that an agreement will be reached with the DTSC in respect of defining the cleanliness levels, resulting in the amount that goes from between Ps. 11,000 and Ps. 23,784 (US\$ 0.8 million to US\$1.7 million). The Company on such bases created an allowance for this contingency at December 31, 2011, of Ps. 5,935 (US\$ 0.4 million), which is included in other accounts payables in the Consolidated Financial Statement. We can’t guarantee, that no corrective action are more costly than estimated.

**Community Development Commission, CDC**

The Community Development Commission of National City, California CDC, has announced that it intends to develop the area where the plant is located in PS and is prepared to make a bid for the field of PS, at market price less the cost of remediation environmental and research costs incurred. In this connection, PS has told the CDC that the land voluntarily will not be sold unless there is another area where you can relocate your business. The CDC, in accordance with the laws of the State of California, has the authority to expropriate the land on payment of the price to market value and, if there is no other land available for relocation of the business, you must also PS pay the price to book value. The CDC did bid for the land to PSI for US\$ 6.9 million, supported with a commercial appraisal, and began the process of expropriation, which was temporarily suspended by a contract between the parties in November 2006, giving more time to PS to see if you can complete the process of remediation of land and to propose an attractive alternative to the CDC which will remain in the area.

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As is the case with most steel manufacturers in the United States of America, Republic could incur significant costs related to environmental issues in the future, including those arising from the activities of environmental compliance activities and remediation stemming from historical waste management practices at the facilities in Republic. The undiscounted reserve to cover probable environmental liabilities totaling Ps. 43,370, Ps. 38,300 and Ps. 44,400 (US\$ 3.1 million) was recorded as of December 31, 2011, 2010 and 2009, respectively. The reserve includes incremental direct costs of remediation efforts and post remediation monitoring costs that are expected to be included after corrective actions are complete. As of December 31, 2011, the current and non-current portions amounted to Ps. 5,596 and Ps. 37,774, respectively (US\$ 0.4 million and US\$ 2.7 million, respectively) of the environmental reserve are included in other accrued expenses and accrued environmental liabilities, respectively, in the accompanying Consolidated Balance Sheets. The Company is not aware of any material environmental remediation liabilities or contingent liabilities relating to environmental matters with respect to the Company's facilities for which the establishment of an additional reserve would be necessary at this time. To the extent the Company incurs any such additional future costs, these costs, will most likely be incurred over a number of years. However, future regulatory action regarding historical waste management practices at the Company's facilities and future changes in applicable laws and regulations may require the Company to incur significant costs that may have a material adverse effect on the Company's future financial performance.

The Company is involved in a number of lawsuits and claims that have arisen throughout the normal course of business. The management of the Company and its legal advisors do not expect the final outcome of these matters to have any significant adverse effects on the Company's financial position and results of operations, therefore no liability has been recognized.

(d) The Tax Authority have the right to review, at least, the previous five years and could determine differences in taxes due, plus its updates, surcharges and fines.

At December 31, 2011 the company has the following commitments:

Republic leases certain equipment, office space and computer equipment under non-cancelable operating leases. The leases expire at various dates through 2017. During the years ended December 31, 2011, 2010 and 2009, rental expense relating to operating leases amounted to US\$ 5.4 million, US\$4.8 million and US\$5.9 million, respectively. At December 31, 2011, total future minimum lease payments under non-cancelable operating leases are \$0.8 million in 2012, \$ 0.4 million in 2013, \$ 0.3 million in 2014, \$0.4 million in 2015, and \$ 0.3 million each in the years 2016 and 2017. There are no obligations after 2017.

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On September 27, 2011 Grupo Simec S.A.B de C.V. (Simec) signed a contract with SMS Concast Ag., (“Concast”) for the acquisition of the melt shop equipment for the subsidiary GV do Brasil Industria e Comercio de Aco LTDA with an annual production capacity of 520,000 tons of billet for the production of rebar and wire with an arc furnace of 65 tons. The amount of the transaction is \$15 million of Euros at a fixed exchange rate of 1.3764 dollars per euro. The payments will be done in dollars at the exchange rate agreed in accordance to the contract and the following payment schedule:

Down payment of 15% of the contract, fifteen days after the contract signature (Ps. 42,070 to December, 31, 2011)  
See note 11

- 15% to three months from contract signature,
- 15% to six months from contract signature,
- 15% to eight months from contract signature,
- 10% to 10 months from contract signature and

The remaining 30% through an irrevocable letter of credit on behalf of the vendor, valid for a minimum of 18 months. This letter of credit will be required payments of 10% of the contract value, starting with the last mayor shipment of the equipment, at the reception of the equipments and to the start- up tests.

The vendor gives a Warranty Bond of the 10% of the contract for a period of 24 months after the mayor shipment of the equipment.

On November 18, 2011 Grupo Simec S.A.B. de C.V. (Simec) signed a contract with SMS Meer S. P. A. (“Meer”) for the acquisition of a rolling mill for its brazilian subsidiary with a production capacity of 400,000 tons of wire and rebar. The cost of the rolling mill will be \$19.6 million of Euros at a fixed exchange rate of 1.3482 dollars per euro. The payments will be done in dollars at the exchange rate agreed in accordance to the contract and the following payment schedule:

80% of the contract through an irrevocable letter of credit on behalf of Meer, this letter of credit will be valid for 14 months and will be required for payments in accordance with the shipments done by the vendor.

20% of the contract price shall be paid in US dollar, out of an irrevocable, non-transferable documentary letter of Credit and this shall be contractually correct and operative within 11.5 months from supply contract signature and shall have a minimum validity of 14.5 months and will be payable in two parts:

- a) 10% of the contract once the cold tests are performed, Meer will give a Bank warranty or insurance on behalf of Simec for the same amount and will be valid for 8 months after the last mayor 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 mayor shipment until the signing of the provisional acceptance certificate.



**21.**

**Other Business**

In February 2008, Republic entered into an agreement with Integrys Energy Services (US Energy) which enables Republic Steel to receive payments for allowing reduction of electricity demands during identified time periods. This agreement term is currently on a year-to-year extension as per the original contract, running for a full year term from June 1 through May 31. The Company recognized income from this agreement in June 2011, 2010 and 2009 in the amounts of US\$3.9 million, US\$2.3 million and US\$ 3.0 million, respectively. Income was recognized after the Company fulfilled its performance obligations under the terms of the agreement for the full twelve month period of the annual term. As of December 31, 2011, deferred income related to the term ending May 31, 2012 was recorded in the amount of US\$0.6 million.

During 2009, the Company was awarded US\$ 6.7 million resulting from a settlement with its predecessor owners relating to pre-acquisition contingency indemnification provisions contained in the 2005 purchase agreement. The full amount of this settlement was received and recognized during 2009 as a component of other operating expenses, net.

During 2009, the Company agreed to settle a dispute with a vendor of iron ore pellets by paying US\$ 9.1 million. US\$ 4.5 million was paid during 2009 and US\$ 4.6 million was paid in January of 2010. The full amount of this settlement was expensed during 2009, US\$4.6 million of which was accrued at December 31, 2009.

During 2009, the Company was required to pay back US\$ 2.2 million in settlement of what was determined to be “preference payments” from a customer in bankruptcy. The full amount was expensed and paid during 2009.

**22.**

**Adoption of International Financial Reporting Standards (IFRS)**

The Mexican Securities Commission (CNBV) establish the requirement to listed companies to disclose their financial information to the public through the Mexican Stock Exchange (BMV) to that from 2012 to develop obligatory financial information based on Financial Reporting Standard (IFRS) hereinafter IFRS or IAS, issued by the International Accounting Standard Board (IASB).

The Financial Statements to be issued by the Company for the year ending December 31, 2012 will be its first annual financial statements comply with IFRS. The translation date is January 1, 2012 and therefore, the year ended December 31, 2011 will be the comparative period covered by the standard of adoption IFRS 1, “Initial Adoption of International Financial Reporting Standards”. According to IFRS 1 the Company will apply the relevant mandatory exceptions and certain optional exemption to retrospective application of IFRS.

a)

Mandatory exceptions - The Company will apply the following mandatory exceptions regarding the retrospective application of IFRS as follows:

Calculation of Estimates - Estimates of the date of transition are consistent with the estimates at that date under the MFRS, unless there was evidence of error in these estimates.

Hedge accounting - will apply hedge accounting only if the hedging relationship meets the criteria set out in the IFRS transition date.

Non-controlling interest - will be applied prospectively certain recognition and presentation requirements related to non-controlling, from the date of transition.

In addition, the Company believes that the mandatory exception “Disposal and transfer of assets and liabilities” will have no effect on its financial statements as of the date of transition to IFRS.

Optional Exemptions - The Company has elected the following optional exemptions to retrospective application of IFRS as follows:

Business combinations - the exemption will apply to business combinations.

Deemed Cost - the exemption will apply cost incurred. Therefore, we chose to use the revalued amount under MFRS to the transition date as the cost incurred for the item of property, plant and equipment.

Employee benefits - exemption will apply to benefits to employees. Therefore recognize all cumulative actuarial gains and losses at the transition date.

Cumulative differences for the effect of conversion - the exemption will apply cumulative differences for the translation effect in foreign subsidiaries. Therefore, it is set to zero the conversion effect at the time of transition.

Borrowing Costs - The Company will apply the transitional provisions of IAS 23, Borrowing Costs. Therefore, the Company designated the transition date as the starting date for capitalization of borrowing costs relating to qualifying assets, not retroactively change the capitalization made pursuant to MFRS.

b) Main Differences - The following summarizes the main differences have been identified in the transition from MFRS to IFRS at the date of these consolidated financial statements and an estimate of significant impacts:

Effects of inflation - Under IFRS, the inflationary effects are recognized in the financial statements when the economy of the currency used by the Company qualifies as hyperinflation. The Mexican economy ceased to be hyperinflationary as from 1999 and, consequently, inflationary effects that were recognized by the Company until December 31, 2007 under MFRS will be reversed, an increase to retained earnings of approximately Ps. 1,364,782 to date transition, which correspond primarily to the effects of inflation recognized in contributed capital.

Components - According to IFRS, the Company will determine the significant components of property, plant and equipment, and consequently readjust their useful lives and its corresponding effect on the accumulated depreciation from the date of transition, which represents a decrease to retained earnings of approximately Ps. 164,906 from the date of transition.

Employee Benefits - Under IFRS, provisions for severance labor recognized until the Company has a demonstrable commitment to end the relationship with the employee or has made an offer encouraging voluntary redundancy, therefore, will remove the liability recognized under MFRS than Ps. 10,750 to the transition date. Additionally, provisions for retirement is recalculated to recognize in the corresponding period the cost of past service, therefore, will recognize an additional liability of Ps. 24,550.

Deferred taxes - Under IFRS, deferred taxes will be recalculated with the adjusted book values of assets and liabilities under IFRS, which will result in an increase to retained earnings of approximately Ps. 79,582 to the transition date.

Other differences in presentation and disclosures in the financial statements - Generally, the disclosure requirements of IFRS are broader than those of MFRS, which can result in increased disclosures about accounting policies, significant judgments and estimates, financial instruments and management risks, among others. In addition, there may be differences in presentation.

Stockholders' equity changes previously described will modify stockholders' equity and retained earnings as of the date of transition as shown below:

|  | Impact In:   |                   |
|--|--------------|-------------------|
|  | Equity       | Retained earnings |
| Employee benefits (actuarial gains and losses) | Ps.(3,520)   | Ps.(3,520)        |
| Translations effect in foreign subsidiaries    |              | 406,513           |
| Inflation effects on stockholders' accounts    |              | 1,364,782         |
| Components and parts                           | (164,906)    | (164,906)         |
| Employee benefits (providing compensation)     | 10,750       | 10,750            |
| Employee benefits (past service cost)          | (24,550)     | (24,550)          |
| Deferred taxes                                 | 79,582       | 79,582            |
| Total adjustment                               | Ps.(102,644) | Ps.1,668,651      |

The information presented in this Note has been prepared in accordance with the standards and interpretations issued and outstanding or issued and early adopted the date of preparation of these consolidated financial statements. The standards and interpretations that are applicable to December 31, 2012, including those that will be applicable on an

optional, are not known with certainty at the time of preparation of consolidated financial statements at December 31, 2011 and 2010 attachments. Additionally, the accounting policies selected by the Company may be modified as a result of changes in the economic or industry trends that are observable after the issuance of these consolidated financial statements. The information presented in this Note does not intend to comply with IFRS, as only one set of financial statements comprising the statements of financial position, comprehensive income, changes in stockholders' equity and cash flows, together with comparative information and explanatory notes can provide a fair presentation of the Company's financial position, results of operations, changes in stockholders' and cash flows under IFRS.

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**23. New pronouncements**

They have issued amendments to IFRS and IAS by the IASB, which were enacted but not yet entered into force:

|                       |  |
|-----------------------|--|
| Amendments to IFRS 7  | Disclosure - Transfers of financial assets       |
| IFRS 9 (amended 2010) | Financial Instruments                            |
| IFRS 10               | Consolidated Financial Statements                |
| IFRS 11               | Joint Arrangements                               |
| IFRS 12               | Disclosure of investments in other entities      |
| IFRS 13               | Fair value measurements                          |
| Amendments to IAS 1   | Presentation of other comprehensive income items |
| Amendments to IAS 12  | Deferred tax - recovery of underlying assets     |
| IAS 27 (revised 2011) | Financial Statements                             |
| IAS 28 (revised 2011) | Investments in associates                        |

At the date of this report, the Company believes that adoption of these accounting pronouncements will not represent a significant effect on financial reporting.

**24. Issuance of Financial Statements**

The issuance of the financial statements and accompanying notes that are included, were authorized on April 24, 2011 by Mr. Luis Garcia Limon and Adolfo Luna Luna, Chief Executive Officer and Chief Financial Officer, respectively, which must be also approved by the Company's Board of Directors, Audit Committee and Stockholders at their next meetings.

**25. Differences between Mexican financial reporting standards and United States accounting principles:**

The Company's consolidated financial statements are prepared in accordance with Mexican financial reporting standards (Mexican

GAAP), which differ in certain significant respects from United States generally accepted accounting principles (US GAAP).

As described in Note 4 (a), effective January 1, 2008, the Company ceased to recognize the effects of inflation on its financial statements as required by MFRS B-10. However, as required by such new standard, the financial statement amounts that were previously reported remained unchanged, and the inflation adjustments previously recognized have been maintained in their corresponding caption. This new standard requires that the re-expressed amounts of non-monetary assets as reported at December 31, 2007 become the carrying amounts for those assets effective January 1, 2008. The carrying amounts will also affect net income in future periods. For example, depreciation expense after the adoption of MFRS B-10 will be based on carrying amounts of fixed assets that include inflation adjustments recorded prior to the adoption of MFRS B-10.

The Mexican and U.S. GAAP amounts included in this Note, as they relate to the years ended December 31, 2011 and 2010, are presented in the carrying amounts as required by MFRS B-10, and the effects of inflation that were recorded prior to 2008 have not been included in the reconciliations to U.S. GAAP.

Other significant differences between Mexican GAAP and US GAAP and the effects on consolidated net income and consolidated stockholders' equity are presented below, in thousands of Mexican pesos as of December 31, 2011, with an explanation of the adjustments.

**Reconciliation of net income (loss):**

|  | <b>2011</b>   | <b>2010</b>   | <b>2009</b>     |
|--|---------------|---------------|-----------------|
| Net income as reported under Mexican GAAP  | Ps. 2,952,231 | Ps. 668,954   | Ps. (1,221,194) |
| Depreciation on restatement of machinery and equipment   | (13,393)      | (13,393)      | (5,607)         |
| Deferred income taxes  | 1,579         | 658           | (38,854)        |
| Amortization of gain from monetary position and exchange (loss) capitalized under Mexican GAAP | 7,755         | 7,755         | 7,755           |
| Implied goodwill impairment adjustment difference  |               | (102,000)     | 102,000         |
| Bargain purchase gain, net of tax  | 81,424        |               |                 |
| Amortization of intangible assets proceeding from assets acquired by Republic                  | (2,618)       |               |                 |
|  | 74,747        | (106,980)     | 65,294          |
| Net income (loss) under U.S. GAAP  | Ps. 3,026,978 | Ps. 561,974   | Ps. (1,155,900) |
| Allocation of net income (loss) under U.S. GAAP:   |               |               |                 |
| Non-controlling interest on Mexican GAAP   | Ps. 89,804    | Ps. (267,547) | Ps. (877,449)   |
| U.S. GAAP adjustment on non- controlling interest  | 39,229        |               |                 |
| Non-controlling interest under U.S. GAAP   | 129,033       | (267,547)     | (877,449)       |
| Controlling interest under U.S. GAAP   | 2,897,945     | 829,521       | (278,451)       |
|  | Ps. 3,026,978 | Ps. 561,974   | Ps. (1,155,900) |
| Weighted average shares outstanding  | 497,709,214   | 497,709,214   | 497,709,214     |
| Net earnings (losses) per share (pesos) – controlling interest                                 | Ps. 5.82      | Ps. 1.67      | Ps. (0.56)      |

In 2010 the Company recorded an impairment loss of Ps. 102,000 under U.S. GAAP. Under Mexican GAAP, the goodwill impairment is recorded in other expenses, whereas for U.S. GAAP, goodwill impairment is recorded as an operating expense. In 2010 and 2009, the Company recorded expense from employee profit sharing of Ps. 95 and Ps. 7,261, respectively, recorded as other expenses that were reclassified to operating expenses for U.S. GAAP purposes. In 2011 the Company didn't record profit sharing. The Company record Ps. 7,000, under other income which was reclassified under operating income for U.S. GAAP purposes. The Company recorded in 2010 a cancellation of a patent acquired of \$117,457 relating to the acquisition of Lipa Capital, LLC in other expenses (see Note 3-m). This amount was reclassified to operating expenses for U.S. GAAP purposes.



**Reconciliation of stockholder's equity:**

|  | <b>2011</b>    | <b>2010</b>    | <b>2009</b>    |
|--|----------------|----------------|----------------|
| Total stockholders' equity reported under Mexican GAAP         | Ps. 24,268,823 | Ps. 20,618,425 | Ps. 20,078,552 |
| Bargain purchase gain, net of tax                              | 81,424         |                |                |
| Restatement of machinery and Equipment                         | 147,327        | 160,720        | 174,113        |
| Deferred income taxes  | 502            | (1,077)        | (2,655)        |
| Amortization of intangible assets                              | (2,618)        |                |                |
| Adjustment for implied goodwill                                |                |                | 102,000        |
| Gain from monetary position and exchange loss capitalized, net | (149,121)      | (156,876)      | (163,711)      |
| Total US GAAP adjustment                                       | 77,514         | 2,767          | 109,747        |
| Total stockholder's equity under US GAAP                       | Ps. 24,346,337 | Ps. 20,621,192 | Ps. 20,188,299 |

A summary of changes in stockholders' equity, after the US GAAP adjustments described above, is as follows:

|                                 | Capital<br>Stock<br><br>and<br>Paid-in<br>Capital | Retained<br>Earnings | Fair Value<br>Derivative<br>Financial<br>Instruments | Translation<br>effect of<br>foreign<br>subsidiaries | Cumulative<br>Restatement<br>Effect | Total<br>Controlling<br>Stockholders'<br>Equity | Non-<br>Controlling<br>interest | Total<br>Stockholders'<br>Equity |
|---------------------------------|---|----------------------|--|---|-------------------------------------|---|---------------------------------|----------------------------------|
| Balance at December 31, 2008    | 7,771,687   | 9,106,144            | (270,868)  | 595,165   | 981,302                             | 18,183,430                                      | 3,177,545                       | 21,360,975                       |
| Net comprehensive loss          | -   | (278,451)            | 119,141  | (79,507)  | -                                   | (238,817)                                       | (956,259)                       | (1,195,076)                      |
| Net effect at Adopting MFRS C-8 | -   | 22,400               | -  | -   | -                                   | 22,400  |                                 | 22,400                           |
| Balances at December 31, 2009   | 7,771,687   | 8,850,093            | (151,727)  | 515,658   | 981,302                             | 17,967,013                                      | 2,221,286                       | 20,188,299                       |
| Net Comprehensive income (loss) | -   | 829,521              | 88,378   | (109,145)   | -                                   | 808,754   | (375,861)                       | 432,893                          |
| Balances at December 31, 2010   | 7,771,687   | 9,679,614            | (63,349)   | 406,513   | 981,302                             | 18,775,767                                      | 1,845,425                       | 20,621,192                       |
|                                 |   | 2,897,945            | 37,904   | 418,292   |                                     | 3,354,141                                       | 371,004                         | 3,725,145                        |

Net Comprehensive  
income

|                                  |           |            |          |         |         |            |           |            |
|----------------------------------|-----------|------------|----------|---------|---------|------------|-----------|------------|
| Balances at December<br>31, 2011 | 7,771,687 | 12,577,559 | (25,445) | 824,805 | 981,302 | 22,129,908 | 2,216,429 | 24,346,337 |
|----------------------------------|-----------|------------|----------|---------|---------|------------|-----------|------------|

The cumulative difference between the amounts included under Capital Stock and Paid-in Capital for US GAAP and Capital Stock and Stock Premiums for Mexican GAAP arise from the following items:

**Issuance of capital stock**

During 1993 and 1994 the Company recorded Ps. 99,214 and Ps. 31,794, respectively, corresponding to expenses related to the issuance of shares in a simultaneous public offering in the United States and Mexico as a reduction of the proceeds from the issuance of capital stock. In 1993 and 1994, these expenses were deducted for tax purposes resulting in a tax benefit of Ps. 34,478 and Ps. 10,812. These tax benefits were included in the statement of operations for Mexican GAAP purposes. For U.S. GAAP purposes these items were shown as a reduction of cost of issuance of the shares, thereby increasing the net proceeds from the offering.

### **Maritime operations and amortization of negative goodwill**

In 1993, Grupo Simec disposed of its maritime operations by spinning- off the two entities acquired in 1992 to Grupo Sidek (former parent company of Grupo Simec) and transferring its remaining maritime subsidiary to Grupo Sidek for its approximate book value.

The operations sold had tax loss carry forward of approximately Ps. 211,193 which were related to operations prior to the date the entities were acquired by the Company. During 1994, Ps. 4,936 of these tax loss carry forwards were realized (resulting in a tax benefit of Ps. 1,701).

For U.S. GAAP purposes, the retained tax benefit of Ps. 1,701 realized in 1994, had been reflected as an increase to the corresponding paid-in capital rather than in net earnings as done for Mexican GAAP purposes.

### **Gain on extinguishment**

On February 7, 2001, the Company's Board of Directors approved the issuance of 492,852,025 shares of Series "B" variable capital stock in exchange for the extinguishment of debt amounting to U.S.\$ 110,257,012. Under Mexican GAAP, the increase in stockholders' equity resulting from the conversion or extinguishment of debt is equal to the carrying amount of the extinguished debt. The Company assigned a value of U.S.\$ 110,257,012 to the Series "B" capital stock and, therefore, no difference existed between the equity interest granted and the carrying amount of the debt extinguished. Under U.S. GAAP, the difference between the fair value of equity interest granted and the carrying amount of extinguished debt is recognized as a gain or loss on extinguishment of debt in the statement of operations. For U.S. GAAP purposes, the fair value of the Series "B" capital stock was determined by reference to the quoted market price on March 29, 2001, the date the transaction was effected, and the difference between the fair value of the Series "B" capital stock and the carrying amount of the extinguished indebtedness was recognized as a gain in the statement of operations. The related restated effect as of December 31, 2010 is Ps. 626,203.

### **Reconciliation of Net Income (loss) and Stockholders' Equity:**

The Company's consolidated financial statements are prepared in accordance with Mexican GAAP, which differ in certain significant respects from US GAAP. The explanations of the related adjustments included in the Reconciliation of the Net Income (loss) and the Reconciliation of stockholders' equity are explained below:

### **Restatement of property, machinery and equipment**

As explained in note 4(h), in accordance with Mexican GAAP, imported machinery and equipment has been restated until 2007 by applying devaluation and inflation factors of the country of origin.

Under US GAAP, until December 31, 2007 the restatement of all machinery and equipment, both domestic and imported, has been done in constant units of the reporting currency, the Mexican peso, using the inflation rate of Mexico.

Accordingly, a reconciling item for the difference in methodologies of restating imported machinery and equipment is included in the reconciliation of net income (loss) and stockholders' equity.

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### **Deferred income taxes and employee profit sharing**

As explained in Note 4(u) under Mexican GAAP, the Company accounts for deferred income tax following the guidelines of MFRS D-4 “income taxes”. The main differences between ASC 740 Income taxes (formerly SFAS No. 109) and MFRS D-4, as they relate to the Company, which are included as reconciling items between Mexican and US GAAP are:

<sup>Z</sup> the income tax effect of gain from monetary position and exchange loss capitalized that is recorded as an adjustment to stockholders’ equity for Mexican GAAP purposes until December 31, 2007,

the income tax effect until December 31, 2008 of capitalized pre-operating expenses. With adoption of new MFRS zC-8, in 2009 these capitalized expenses were cancelled to retained earnings. For US GAAP purposes, these are expensed when incurred,

<sup>Z</sup> the effect on income tax of the difference between the indexed cost and the restatement through use of specific indexation factors of fixed assets which is recorded as an adjustment to stockholders’ equity for Mexican GAAP, and,

In addition, the Company is required to pay employee profit sharing in accordance with Mexican labor law. Deferred employee profit sharing under US GAAP has been determined following the guidelines of ASC 740 Income Taxes (formerly SFAS No. 109). Until December 31, 2007, under Mexican GAAP, the deferred portion of employee profit sharing is determined on temporary non-recurring differences with a known turnaround time. As mentioned in Note 4(p), beginning in 2008, the Company recognizes deferred employee profit sharing under the new MFRS D-3 “Employee benefits” for Mexican GAAP. There are no significant differences between ASC 740 Income Taxes (formerly SFAS No. 109) and MFRS D-3.

Employee statutory profit-sharing expense is classified as an operating expense under US GAAP, and as other (expenses) income, net under MFRS.

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The effects of temporary differences giving rise to significant portions of the deferred assets and liabilities for Income Tax (IT) at December 31, 2011 and 2010, under US GAAP are present below:

|  | <b>2011</b>   | <b>2010</b>   |
|--|---------------|---------------|
| Deferred tax assets:   |               |               |
| Allowance for doubtful accounts                                  | Ps. 63,826    | Ps. 59,154    |
| Accrued expenses   | 143,404       | 160,787       |
| Advances from customers  | 643           | 25,907        |
| Tax losses carry forwards  | 3,893,413     | 851,269       |
| Republic tax credits   | 26,274        | 133,481       |
| Recoverable asset tax  | 106,869       | 99,610        |
| Employee profit sharing provision                                | 250           | 39            |
| Derivative financial instruments                                 | 13,429        | 27,612        |
| Deferred tax assets  | 4,248,108     | 1,357,859     |
| Less valuation allowance   | (3,650,815)   | (747,113)     |
| Deferred tax assets, net (includes Ps. 528,445 in USA)           | 597,293       | 610,746       |
| Deferred tax liabilities:  |               |               |
| Inventories, net   | 843,836       | 663,095       |
| Property, plant and equipment                                    | 2,069,339     | 1,874,676     |
| Intangible assets in acquisition of Grupo San                    | 510,214       | 613,868       |
| Deferred business flat tax                                       | 231,366       | 50,901        |
| Prepaid expenses   | 6,888         | 6,133         |
| Intangible assets in acquisition of Solon(bargain purchase gain) | 52,212        |               |
| Others   | 7,033         | 138,751       |
| Total deferred liabilities (includes Ps. 819,641 in USA)         | 3,720,888     | 3,347,424     |
| Deferred tax liabilities, net                                    | Ps. 3,123,595 | Ps. 2,736,678 |

For the years ended December 31, 2011 and 2010, the classification of deferred income tax under U.S. GAAP is as follows:

|  | <b>2011</b> | 2010      |
|--|-------------|-----------|
| Deferred tax assets:                               |             |           |
| Current portion of deferred income tax asset       | Ps. -       | Ps. -     |
| Non-current portion of deferred income tax asset   | -           | -         |
| Deferred tax liabilities:                          |             |           |
| Current portion of deferred income tax liabilities | 610,181     | 534,519   |
| Long-term deferred income tax liability            | 2,513,414   | 2,202,159 |

The deferred income taxes of Ps. 2,069,339 and Ps. 1,874,676 result from differences between the financial reporting and tax bases of property, plant and equipment at December 31, 2011 and 2010, respectively. Beginning in 1997 the restatement of property, plant and equipment and the effects thereof on the statement of operations are determined by using factors derived from the NCPI or, in the case of imported machinery and equipment, by applying devaluation and inflation factors of the country of origin. Until 1996, for financial reporting purposes, property, plant and equipment were stated at net replacement cost based upon annual independent appraisals and depreciation was provided by using the straight-line method over the estimated remaining useful lives of the assets. For income tax reporting purposes, property, plant, and equipment and depreciation are computed by a method which considers the NCPI.

### **Pre-operating expenses**

For Mexican GAAP purposes, the Company capitalized pre-operating expenses related to the production facilities at Mexicali, as well as costs and expenses incurred in the manufacturing and design of new products. In 2009, according to the adoption of the new MFRS C-8 the preoperative expenses were cancelled to retained earnings. For US GAAP purposes, these items are expensed when incurred.

### **Financial expense capitalized**

Under Mexican GAAP, financial expense capitalized during the period required to bring property, plant and equipment into the condition required for their intended use, includes interest, exchange losses and gains from monetary position. Under U.S. GAAP when financing is in Mexican pesos, the monetary gain is included in this computation; when financing is denominated in U.S. dollars, only the interest is capitalized and exchange losses and monetary position are not included.

### **Disclosure about Fair Value of Financial Instruments**

In accordance with ASC 825 Financial Instruments (formerly SFAS No. 107 Disclosures about Fair Value of Financial Instruments), under U.S. GAAP it is necessary to provide information about the fair value of certain financial instruments for which it is practicable to estimate that value. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and short-term debt approximate fair value due to the short term maturity of these instruments.

### **Pension and other retirement benefits**

The Company accrues for seniority premiums and termination payments based on actuarial computations as described in note 4(p).

ASC 715 Compensation – Retirement Benefits (formerly SFAS No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, SFAS No. 87 Employer's Accounting for Pensions, SFAS No. 88 Employer's Accounting for Settlements and Curtailments of Defined Benefit Pension Plan and for Termination Benefits, SFAS No. 106 Employer's Accounting for Post-retirement Benefits Other than Pensions and SFAS No. 132(R) Employers' Disclosures about Pensions and Other Postretirement Benefits), requires the employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in



its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive (loss) income. ASC 715 also requires accrual of post-retirement benefits other than pensions during the employment period. ASC 715 is also applied for purposes of determining seniority premium costs. Adjustments to US GAAP for these benefits were not individually or in the aggregate significant for any period.

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The additional disclosures for U.S. GAAP related to Pension and other retirement benefits are as follows:

|   | 2011       | 2010       |
|---|------------|------------|
| Change in projected benefit obligation            |            |            |
| Projected benefit obligation at beginning of year | Ps. 75,325 | Ps. 77,688 |
| Service cost                                      | 5,814      | 6,554      |
| Financial cost                                    | 5,400      | 5,962      |
| Actuarial losses (gains)                          | 782        | (794)      |
| Benefits paid                                     | (7,428)    | (14,085)   |
| Projected benefit obligation at end of year       | Ps. 79,893 | Ps. 75,325 |

In 2009 the Company terminated the pension plan from the Grupo San acquisition and the total amount of this fund was liquidated and paid to employees during the first and second quarter of 2009.

### **No Right of Redemption**

The Mexican Securities Market Law and our bylaws provide that our shareholders do not have redemption rights for their shares.

### **Goodwill and intangibles**

In assessing the recoverability of the goodwill and other intangibles the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The Company performs 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. The Company estimates the reporting unit's fair value based on a discounted future cash flow approach that requires estimating income from operations based on historical results and discount rates based on a weighted average cost of capital from a market participant perspective. Under U.S. GAAP, if the carrying amount of the reporting units exceeds its related fair value, the Company should apply a "second step" process by means of which the fair value of such reporting unit should be allocated to the fair value of its net assets in order to determine the reporting unit's "implied" goodwill. The resulting impairment loss under US GAAP is the difference between the carrying amount of the related goodwill as of the valuation date and the implied goodwill amount. As of December 31, 2009, the implied goodwill under the second step process was Ps. 1,916 million. Additionally, the Company reconciles the aggregate fair value of the reporting units to its market capitalization. The Company's market capitalization as of December 31, 2009 indicates an implied control premium of approximately 25% percent. This implied control premium is consistent with recent observed control premiums. Assumptions used in the analysis considered the current market conditions in developing short and long-term growth expectations. For U.S. GAAP purposes, in 2010, there was an adjustment for goodwill amounting Ps.102 million, in 2011 there are no additional impairments. Other intangible assets are mainly comprised by

trademarks, customer listings and non-competition agreements. When impairment indicators exists, or at least annually for indefinite live intangibles, the Company determines its 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, 2010 and 2009 there was no impairment charge related to other intangible assets.

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As a result of the downturn in the construction industry in Mexico during 2009 and the negative impact this downturn had in the Company's operations mainly at the San Luis facilities, in which goodwill resides, the Company adjusted the key assumptions used in the valuation model. As of December 31, 2009 the main key assumptions used in the valuation models of San Luis reporting unit are as follows:

z Discount rate: 18.1%

z Sales: the Company estimates sales will start a recovery in the years 2010, 2011 and 2012 to basically reach its 2008 sales level at the year 2012. After the year 2012 no sales increases in volume terms are considered in the valuation model.

The assumptions included in the valuation model for 2010 include an increase in sales in 2011 mainly attributable to the increase in the volume by the semi-finish products "billet" to a third party and the forecast of increase in sales price for the next years. The company forecast an increase of 4% for 2012, 2% for 2013 and the useful remaining live of the assets we keep the volume and sales prices. The Discount rate used in 2010 for the valuation was 11.8%

The assumptions included in the valuation model for 2011 include an increase in sales in 2012 mainly attributable to the increase in the volume by the mesh products, and the forecast of increase in sales price for the next years. The company forecast an increase of 10% for 2012 and 1.7% for 2013 and the useful remaining live of the assets we keep the volume and sales prices. The Discount rate used in 2011 for the valuation was 10.9%.

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.

### **Long-lived assets**

The Company reviews the recoverability of our long-lived assets as required by ASC 360 Property, Plant and Equipment (formerly SFAS No. 144 Accounting for the Impairment or Disposal of Long – Lived Assets) and must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. As of December 31, 2011, 2010 and 2009 there was no impairment charges recorded for these type of assets. If these estimates or their related assumptions change in the future, the Company may be required to record impairment charges not previously recorded.

## Business Combination

In February 2011, the Company, through two of its wholly owned subsidiaries (Solon Wire Processing LLC, formerly REP Acquisition LLC, and the newly formed Republic Memphis LLC) acquired certain land, plants, machinery and equipment from BCS Industries LLC and affiliates (Bluff City Steel) for cash of \$2.5 million and the essential forgiveness of \$6.0 million of net receivables due from Bluff City Steel to the Company. For accounting of Republic, this acquisition was deemed to be a business combination under Accounting Standards Codification (ASC) 805, *Business Combinations*. This accounting standard requires that when the fair value of the net assets acquired exceeds the purchase price, resulting in a bargain purchase gain, the acquirer must reassess the reasonableness of the values assigned to all of the assets acquired, liabilities assumed and consideration transferred. The Company has performed such a reassessment and has concluded that the values assigned for the acquisition are reasonable. Consequently, for USGAAP purposes a bargain purchase gain must be recorded. This gain amounted to Ps. 81,424 (US\$5.8 million). The Company determined to be reasonable because (a) the seller was financially distressed, (b) the business was not widely marketed for sale, (c) the machinery and equipment are specialized, and (d) an independent business valuation indicated that its fair value was in excess of the purchase price.

The methodology in allocating the total consideration to the acquired assets of Bluff City Steel is described as follows:

An experienced, qualified, independent third party assisted in the valuation of the property, plant and equipment using the cost and market approaches based in part on assumptions provided by management;

An experienced, qualified, independent third party assisted in the valuation of intangible assets.

Immediately after the acquisition, the Company leased back one of the acquired facilities to Bluff City Steel for a three year term. Due primarily to the bargain purchase option offered in that lease by the Company to Bluff City Steel, the Company recorded the lease as a sales-type lease whereby it allocated \$1.3 million to Lease receivable representing the present value of the expected minimum lease payments. However, shortly after the acquisition, Bluff City Steel defaulted on the lease and the Company terminated the lease. Accordingly, using the remaining Lease receivable as its estimated value, the Company reclassified the asset into Property, plant and equipment in the above table, leaving the Lease Receivable as the amount actually collected prior to the default and termination. The Company is assessing the future use, lease or sale of the facility.

The final purchase price allocation was as follows:

|   | Thousands of |          |
|---|--------------|----------|
|   | Dollars      | Pesos    |
| Total Consideration   | 8,503        | 118,960  |
| Recognized fair value amounts of identifiable assets, acquired and liabilities assumed: |              |          |
| Lease Receivable  | 289          | 4,042    |
| Property, plant and Equipment,  | 8,249        | 115,407  |
| Customer List intangible,   | 9,218        | 128,964  |
| Other identifiable intangibles  | 299          | 4,183    |
| Deferred Tax Liability  | (3,732)      | (52,212) |

|                                    |        |         |
|------------------------------------|--------|---------|
| Net Assets acquired                | 14,323 | 200,384 |
| Bargain purchase gain under USGAAP | 5,820  | 81,424  |

In accordance with MFRS B-7 “Business acquisitions”, in the unusual case where the amount paid in a business acquisition is less than the value assigned to identifiable assets and liabilities assumed of the acquired business, assets value must be reviewed. If the effect persists, must be considered the net assets of the acquired business are valued at more than its value. In this case, must be adjusted the value of the assets at the amount paid in the transaction, due to this price is considered as the fair value of the transaction.

The adjustment to the values in such situation must be applied reducing the value of certain assets of the acquired business to exhaustion, adjusted in the following order:

- the values of intangible assets, starting with those who are being recognized in the acquisition process.
- a) Subsequently, must be assigned to other intangible assets acquired that previously were recognized in the accounting of the company acquired.
- b) the value of non-monetary assets long-term tangible, such as property, plant and equipment, applying the pro rata adjustment to the assigned values, except for available for sale, and
- c) the value of other non-monetary assets in the long term, such as permanent investments.

For Mexican GAAP, the intangible assets recognized by Republic corresponding to the customer list amounting to Ps. 128,964 and the other identifiable intangibles amounting to Ps. 4,183 were reduce to zero, and was reduce the property, plant and equipment in Ps. 489, including its corresponding deferred tax of Ps. 52,212.

**Statement of cash flows**

The following presents a statement of cash flows under U.S. GAAP:

|  | <b>2011</b>   | <b>2010</b>   | <b>2009</b>     |
|--|---------------|---------------|-----------------|
| Cash Flows From Operating Activities:                            |               |               |                 |
| <b>Net Income (loss) under U.S. GAAP</b>                         | Ps. 3,026,978 | Ps. 561,974   | Ps. (1,155,900) |
| Impairment loss on intangible assets                             | -             | 219,457       | 2,266,000       |
| Unrealized foreign exchange (gain) loss                          | (664,023)     | 117,453       |                 |
| Depreciation and Amortization                                    | 1,009,354     | 1,103,846     | 1,045,734       |
| Deferred income taxes  | 195,095       | (47,330)      | (1,384,556)     |
| Trade receivable, net  | (424,197)     | (451,876)     | 760,413         |
| Other accounts receivable and prepaid expenses                   | 358,095       | 591,118       | (696,584)       |
| Inventories  | 15,095        | (176,173)     | 2,103,460       |
| Accounts payable and accrued expenses                            | (599,404)     | 425,029       | (1,832,455)     |
| Other long-term liabilities                                      | -             | 580           | 53,578          |
| Allowance for inventories  | 118,705       | -             |                 |
| Gain on Bargain Purchase   | (81,424)      | -             |                 |
|  | 2,954,274     | 2,344,078     | 1,159,690       |
| <b>Funds provided by operating activities</b>                    |               |               |                 |
| Cash Flows From Investing Activities:                            |               |               |                 |
| Acquisition of property, plant and equipment                     | (432,000)     | (496,361)     | (263,207)       |
| Acquisition of subsidiary  |               | (187,433)     |                 |
| (Increase) decrease in other non-current Assets                  | (34,200)      | (8,794)       | 6,932           |
|  | (466,200)     | (692,588)     | (256,275)       |
| <b>Funds used by investing activities</b>                        |               |               |                 |
| Cash Flows From Financing Activities:                            |               |               |                 |
| Financial debt repayment   | 2,410         | (7,452)       | (11,483)        |
| Related party payable  | 74,963        | 323,720       | 1,189,850       |
| Related party repayment  | (51,225)      | (442,688)     | (709,219)       |
| <b>Funds (used by) obtained from financing activities</b>        | 26,148        | (126,420)     | 469,148         |
|  | 2,514,222     | 1,525,070     | 1,372,563       |
| Increase (decrease) in cash and cash equivalents                 |               |               |                 |
| Effect of exchange rate fluctuation on cash and cash equivalents | 637,949       | (89,053)      | (404)           |
| Cash and cash equivalents at beginning of the year               | 3,384,917     | 1,948,900     | 576,741         |
| <b>Cash and cash equivalents at end of the year</b>              | Ps. 6,537,088 | Ps. 3,384,917 | Ps. 1,948,900   |

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Funds provided by operating activities include cash payments for interest and income taxes as follows:

|                              | <b>2011</b> | <b>2010</b>   | <b>2009</b> |
|------------------------------|-------------|---------------|-------------|
| Total interest paid          | Ps. 2,410   | Ps. 12,054    | Ps. 33,441  |
| Income taxes (recovery) paid | Ps. 6,922   | Ps. (323,374) | Ps. 217,285 |

#### **Accounting for uncertainty in income taxes-**

The Company adopted the provisions of ASC 740 (formerly FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" "FIN 48") as of January 1, 2007. FIN 48 did not have a material impact on the Company's financial statements either upon adoption or for the years ended December 31, 2008-2011.

Under ASC 740 (formerly FIN 48), the Company has to establish reserves to remove some or all of the tax benefit of any of our tax positions when it determines that it becomes uncertain based upon one of the following conditions: (1) the tax position is not "more likely than not" to be sustained, (2) the tax position is "more likely than not" to be sustained, but for a lesser amount, or (3) the tax position is "more likely than not" to be sustained, but not in the financial period in which the tax position was originally taken.

For purposes of evaluating whether or not a tax position is uncertain, (1) we presume the tax position will be examined by the relevant taxing authority that has full knowledge of all relevant information, (2) the technical merits of a tax position are derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position, and (3) each tax position is evaluated without consideration of the possibility of offset or aggregation with other tax positions taken.

A number of years may elapse before a particular uncertain tax position is audited and finally resolved or when a tax assessment is raised. The number of years subject to tax assessments varies depending on the tax jurisdiction and is generally three to five years for the countries in which the Company principally operates. The tax benefit that has been previously reserved because of a failure to meet the "more likely than not" recognition threshold would be recognized in our income tax expense in the first period when the uncertainty disappears under any one of the following conditions: (1) the tax position is "more likely than not" to be sustained, (2) the tax position, amount, and/or timing is ultimately settled through negotiation or litigation, or (3) the statute of limitations for the relevant taxing authority to examine and challenge the tax position has expired.

## Recent accounting pronouncements in the US

In September 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-09, Compensation – Retirement Benefits – Multiemployer Plans (ASU 2011-09), which amends the guidance in ASC 715-80. The amendments in ASU 2011-09 are intended to provide additional information relating to an employers' financial obligations to multiemployer pension plans and multiemployer other postretirement benefit plans. ASU 2011-09 is effective for annual periods ending after December 15, 2011. The Company plans to adopt this ASU and provide the required disclosures in 2012.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. The amendments in ASU 2011-05 require entities to present the total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, the amendments in ASU 2011-05 require an entity to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and components of other comprehensive income are presented. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 (ASU 2011-12), to defer the new requirement to present components of reclassifications of other comprehensive income on the face of the financial statements. The Company does not expect material financial statement implications relating to the adoption of these ASUs in 2012.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment (ASU 2011-08), which amends the guidance in ASC 350-20. The amendments provide entities with the option of performing a qualitative assessment before performing the first step of the two-step impairment test. If entities determine, based on qualitative factors, it is not more likely than not that the fair value of the reporting unit is less than the carrying amount, then performing the two-step impairment test would not be necessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step to measure the amount of the impairment loss, if any. ASU 2011-08 also provides entities with the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to the first step of the two-step impairment test. ASU 2011-08 is effective for interim and annual periods beginning after December 15, 2011. The Company does not expect material financial statement implications relating to the adoption of this ASU in 2012.

In December 2010, the FASB issued ASU No. 2010-29, “Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations — a consensus of the FASB EITF”. ASU No. 2010-29 amends accounting guidance concerning disclosure of supplemental pro forma information for business combinations. If an entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred in the current year had occurred as of the beginning of the comparable prior annual reporting period only. The accounting guidance also requires additional disclosures to describe the nature and amount of material, nonrecurring pro forma adjustments. ASU No. 2010-29 is effective for fiscal years beginning on or after December 15, 2010 and will apply prospectively to business combinations completed on or after that date. The Company has adopted ASU 2010-29 and included the required disclosures relating to the Bluff City Steel business combination which was completed in the first quarter of 2011 (see Reconciliation of net income under USGAAP).

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurement.” SFAS No. 157 was codified as a component of ASC 820.10 and it provides a common definition of fair value and establishes a framework to make the measurement of fair value in generally accepted accounting principles more consistent and comparable. ASC 820.10 also requires expanded disclosures to provide information about the extent to which fair value is used to measure assets and liabilities, the methods and assumptions used to measure fair value, and the effect of fair value measures on earnings. ASC 820.10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820.10 are described below:

Level 1— unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2— Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3— Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

ASC 820.10 was adopted by the Company effective January 1, 2008, for financial assets and liabilities and January 1, 2009, for nonfinancial assets and liabilities. ASC 820.10 is applied prospectively. ASC 820.10 did not have a material impact on the Company’s financial statements either upon adoption or for the years ended December 31, 2011, 2010 and 2009.

The Company is exposed to counterparty credit risk on all derivative financial instruments. Because the amounts are recorded at fair value, the full amount of the Company's exposure is the carrying value of these instruments. Since the Company has contracted the derivative financial instruments with Mexico and United States main Gas and Oil company the Credit Risk exposure is minimal

The following table provides a summary of significant liabilities at December 31, 2011 and 2010 that are measured at fair value on a recurring basis:

**2011**

**Fair Value Measurement**

**Level  
1 Level 2 Level 3 Total**

**Liabilities**

|                                  |            |            |            |
|----------------------------------|------------|------------|------------|
| Derivative financial instruments | -Ps.35,456 | Ps.-       | Ps.35,456  |
| Related party debt               | -. -       | Ps.703,316 | Ps.703,316 |

**2010**

**Level  
1 Level 2 Level 3 Total**

**Liabilities**

|                                  |            |            |            |
|----------------------------------|------------|------------|------------|
| Derivative financial instruments | -Ps.79,708 | -          | Ps.79,708  |
| Related party debt               | -. -       | Ps.603,149 | Ps.603,149 |

As of December 31, 2011 and 2010, the estimated fair value approximates the carrying value of the related party debt.

The fair value of financial derivative instruments is calculated based on Level 2 inputs, which includes the following: natural gas commodity prices, foreign exchange rates, LIBOR interest rates and the reporting entity own credit risk.

## GRUPO SIMEC, S.A.B. DE C.V. (PARENT COMPANY ONLY)

## Condensed Balance Sheets

December 31, 2011 and 2010

(In thousands of Mexican pesos)

|   | <b>2011</b> | <b>2010</b> |
|---|-------------|-------------|
| <b>Assets</b>                                   |             |             |
| Current assets:                                 |             |             |
| Cash and cash equivalents                       | Ps. 49,589  | Ps. 25,988  |
| Accounts receivable:                            |             |             |
| Related parties                                 | 1,148,997   | 1,937,194   |
| Other receivables                               | 50,644      | 28,815      |
| Recoverable taxes                               | 5,610       | 1,528       |
| Total accounts receivables, net                 | 1,205,251   | 1,967,537   |
| Total current assets                            | 1,254,840   | 1,993,525   |
| Investment in subsidiaries companies            | 22,905,032  | 19,447,171  |
| Property, net                                   | 160,187     | 164,824     |
| Other assets, net                               | 109,358     | 118,268     |
| Total assets                                    | 24,429,417  | 21,723,788  |
| <b>Liabilities and stockholders' equity</b>     |             |             |
| Current liabilities:                            |             |             |
| Short-term debt                                 | 4,225       | 3,732       |
| Other accounts payable                          | 8,065       | 18,370      |
| Related parties                                 | 2,284,383   | 2,879,022   |
| Taxes payable                                   | 25,669      | 30,077      |
| Total current liabilities                       | 2,322,342   | 2,931,201   |
| Deferred income taxes                           | 14,110      | 18,245      |
| Total liabilities                               | 2,336,452   | 2,949,446   |
| Contingencies and Commitments                   |             |             |
| Stockholders' equity:                           |             |             |
| Capital stock                                   | 4,142,696   | 4,142,696   |
| Additional paid-in capital                      | 4,208,204   | 4,208,204   |
| Retained earnings                               | 12,942,705  | 10,080,278  |
| Translation effect in foreign subsidiaries, net | 824,805     | 406,513     |

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|  |               |               |
|--|---------------|---------------|
| Fair value of derivative financial instruments | (25,445)      | (63,349)      |
| Total stockholders' equity                     | 22,092,965    | 18,774,342    |
| Total liabilities and stockholders' equity     | Ps.24,429,417 | Ps.21,723,788 |

See accompanying notes to these condensed financial statements.

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**GRUPO SIMEC, S.A.B. DE C.V. (PARENT COMPANY ONLY)**

## Condensed Statements of Operations

Years ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos)

|   | <b>2011</b>          | <b>2010</b>        | <b>2009</b>          |
|---|----------------------|--------------------|----------------------|
| Income (expenses):                          |                      |                    |                      |
| Equity in results of subsidiaries companies | Ps. 2,834,437        | Ps. 995,723        | Ps. (719,792)        |
| Leasing income                              | 20,556               | 20,556             | 20,556               |
| Total of income (expense)                   | 2,854,993            | 1,016,279          | (699,236)            |
| Costs and expenses:                         |                      |                    |                      |
| Depreciation and amortization               | 13,789               | 17,422             | 13,590               |
| Administrative                              | 24,735               | 15,110             | 12,420               |
| Total costs and expenses                    | 38,524               | 32,532             | 26,010               |
| Operating income (loss)                     | 2,816,469            | 983,747            | (725,246)            |
| Other income (expenses), net                | 37,695               | (107,972)          | 562                  |
| Comprehensive financing cost:               |                      |                    |                      |
| Interest expense                            | (40,999)             | (12,040)           | (218,029)            |
| Interest income                             |                      |                    | 6,201                |
| Foreign exchange gain (loss), net           | 45,127               | (1,203)            | 3,430                |
| Comprehensive financial result, net         | 4,128                | (13,243)           | (208,398)            |
| Income (loss) before income tax             | 2,858,292            | 862,532            | (933,082)            |
| Income tax:                                 |                      |                    |                      |
| Current                                     |                      | -                  | 1,333                |
| Deferred (benefit)                          | (4,135)              | (73,969)           | (590,670)            |
| <b>Net income (loss)</b>                    | <b>Ps. 2,862,427</b> | <b>Ps. 936,501</b> | <b>Ps. (343,745)</b> |

See accompanying notes to these condensed financial statements.

**GRUPO SIMEC, S.A.B. DE C.V. (PARENT COMPANY ONLY)**

## Condensed Statements of Cash Flows

Year ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos)

|  | <b>2011</b>   | <b>2010</b> | <b>2009</b>   |
|--|---------------|-------------|---------------|
| Operating activities:  |               |             |               |
| Income (loss) before income tax                                    | Ps. 2,858,292 | Ps. 862,532 | Ps. (933,082) |
| Depreciation and amortization                                      | 13,789        | 17,422      | 13,590        |
| Equity in net results of subsidiaries companies                    | (2,834,437)   | (995,723)   | 719,792       |
| Interest income  | (25,882)      | (50,450)    | (6,201)       |
| Accrued interest   | 66,653        | 62,466      | 218,029       |
| Other provisions   | 21,204        | 8,907       | -             |
|  | 99,619        | (94,846)    | 12,128        |
| Increase in related parties receivables                            | (107,202)     | (448,017)   | (746,331)     |
| (Increase) decrease in other accounts receivable                   | (45,260)      | (839)       | 3,324         |
| (Decrease) increase in other accounts payable and accrued expenses | (12,160)      | (11,792)    | 344           |
| (Decrease) increase in related parties payable                     | (42,625)      | 246,667     | (3,405,306)   |
| Tax Payable  | (4,408)       | 7,848       | -             |
| Resources used in operating activities                             | (112,036)     | (300,979)   | (4,135,841)   |
| Investing activities:  |               |             |               |
| Investment in others assets, long-term                             | (205)         | -           | -             |
| Acquisition of equipment   | (37)          | (17)        | -             |
| Interest collected   | 18,076        | 35,276      | 6,201         |
| Collective from related intercompanies                             | 1,231,881     | 1,822,189   | -             |
| Increase in capital stock of subsidiaries companies                | (167,228)     | (25,446)    | (1,333)       |
| Sales of shares of Grupo San to Simec International, subsidiary    | -             | -           | 4,351,882     |
| Loan to related intercompanies                                     | (328,676)     | (2,274,352) | -             |
| Resources provided by (used in) investing activities               | 753,811       | (442,350)   | 4,356,750     |
| Financing activities:  |               |             |               |
| Exchange rate effect on financial debt                             | 493           | (212)       | (111)         |
| Loans obtained from related intercompanies                         | 810,758       | 4,819,214   | -             |
| Payments of loans received from related intercompanies             | (1,377,188)   | (4,236,838) | -             |
| Interest paid  | (52,237)      | (31,498)    | (3,474)       |
| Resources (used in) provided by financing activities               | (618,174)     | 550,666     | (3,585)       |
| Net increase (decrease) in cash and cash equivalents               | 23,601        | (192,663)   | 217,324       |
| Cash and cash equivalents at beginning of year                     | 25,988        | 218,651     | 1,327         |
| Cash and cash equivalents at end of year                           | Ps. 49,589    | Ps. 25,988  | Ps. 218,651   |



See accompanying notes to these condensed financial statements.

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GRUPO SIMEC, S.A.B. DE C.V. (PARENT COMPANY ONLY)

Condensed Note to the Parent Only Financial Statements

Years ended December 31, 2011, 2010 and 2009

(In thousands of Mexican pesos)

**1. Organization of the Company and certain other information:**

The accompanying condensed financial statements of Grupo Simec, S.A.B. de C.V. (“the Company”) reflect its financial position at December 31, 2011 and 2010 and the related results from operations and cash flows for each of the years ended December 31, 2011, 2010 and 2009. The Company was incorporated in August 1990. These condensed financial statements do not reflect a complete set of financial statements nor do they include all the disclosures required under Mexican Financial Reporting Standards.

Information with respect to the Company’s material commitments and contingencies are presented in note 20 to the consolidated financial statements of Grupo Simec, S.A.B. de C.V. and subsidiaries.

These parent financial statements are presented in conformity with Mexican financial reporting standards.