GROUP SIMEC SA DE CV
Form 20-F/A
July 10, 2017

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

FORM 20-F/A

(Amendment No.1)

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, 2016

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

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

(Exact name of registrant as specified in its charter)

GROUP SIMEC

(Translation of registrant's name into English)

UNITED MEXICAN STATES

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of common stock as of December 31, 2016 was:

Series B Common Stock — 497,586,330 shares

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

Table of Contents

Page

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 20-F for the year ended December 31, 2016, as filed with the U.S. Securities and Exchange Commission on May 15, 2017 (the "Original 20-F"), amends Items 5A, 5B, 15D and 19 of the Original 20-F, and includes exhibit 16.1 thereto. No other information included in the Original 20-F is amended hereby. For presentation purposes only, this Amendment No. 1 restates in its entirety the Original 20-F.

CERTAIN TERMS

Grupo Simec, S.A.B. de C.V. is a corporation (*sociedad anónima bursátil de capital variable*) organized under the laws of the United Mexican States ("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. 20.6640 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2016. On May 12, 2017, the interbank transactions rate for the peso was Ps. 18.7594 per U.S.$1.00.

FORWARD LOOKING STATEMENTS

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

factors relating to the steel industry (including the cyclicality of the industry, finished product prices, worldwide production capacity, the high degree of competition from Mexican, U.S. and foreign producers and the price of ferrous scrap, iron ore and other raw materials);

our inability to operate at high capacity levels;

the costs of compliance with Mexican and U.S. environmental laws;

future capital expenditures and acquisitions;

future devaluations of the peso;

the imposition by Mexico of foreign exchange controls and price controls;

the influence of economic and market conditions in other countries on Mexican securities; and

ii

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

This annual report includes our consolidated financial statements as of December 31, 2015 and 2016 and for each of the three years ended December 31, 2014, 2015 and 2016. Beginning January 1, 2011, we adopted International Financial Reporting Standards (IFRS), and its amendments and interpretations, issued by the International Accounting Standard Board (IASB); consequently, it applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*. We have adjusted the financial statements of our subsidiaries to conform to IFRS, and we have translated them to Mexican pesos. See Note 4 to our consolidated financial statements included elsewhere herein.

When preparing the financial statements for our individual subsidiaries, transactions in currencies other than our functional currency are recognized as foreign currency at the exchange rates of the date in which such operations take place. At the end of each reporting period, monetary items in foreign currencies are reconverted at the actual period end exchange rate.

The exchange rate differences are recognized in our income statement, except for:

Differences in exchange rates from loans denominated in foreign currency for assets under construction for productive future use, which are included in the cost of those assets when considered as an adjustment to interest costs on such loans, provided that such differences do not arise from loans between related parties which effect is eliminated in the consolidation process;

Differences in exchange rates resulting from exchange rate hedging transactions; and

Differences in exchange rates resulting from accounts receivable or accounts payable from/to a foreign company for which payment is not planned nor possible (thus forming part of the net investment in such foreign transaction), which are initially recognized in other comprehensive income and reclassified from equity to profit or loss when the net investment is partially or totally sold.

The translation effect in the results of operations for the years ended December 31, 2016, 2015 and 2014 resulted from applying the following exchange rates (peso/dollar) to the active or passive monetary position in foreign currency:

Year ended	**Exchange Rate (pesos)**	**Change**
December 31, 2014	14.7348	1.6696
December 31, 2015	17.3398	2.6050
December 31, 2016	20.6640	3.3242

Transitions to IFRS – Our annual consolidated financial statements for the fiscal year ended 2011 were prepared in accordance with Mexican Financial Reporting Standards (MFRS). Certain accounting standards and valuation methods applied in the previously issued 2011 consolidated financial statements prepared in accordance

1

with MFRS differ from the accounting standards and valuation methods of IFRS. Accordingly, the comparative 2011 amounts were reformulated to reflect these adjustments.

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

- ***Accounting estimates*** – Accounting estimates made under MFRS in 2011 are consistent with estimates under IFRS made for the same periods and are thus, not retrospectively modified, except for the fixed asset componentization.
- ***Hedging instruments -*** Certain hedging instruments that were designated as hedges under MFRS qualify for hedge accounting under IAS 39, Financial Instruments: Recognition and Measurement. No designations of hedging relationships were made retrospectively.
- Other mandatory exceptions were not applicable to us.

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

- We elected not to apply IFRS 3, Business Combinations (as revised in 2008) retrospectively to prior business combinations that occurred before its date of transition to IFRS.
- We elected to value the items of property, plant and equipment at their book value under MFRS at the transition date, which represents the depreciated cost adjusted for price changes of a specific index (deemed cost).
- We elected to recognize all cumulative unrecognized actuarial gains and losses at the date of transition to IFRS.
- We elected to reset the balance of cumulative translation adjustment of foreign subsidiaries at the date of transition.
- We applied the transitional provisions set out in paragraphs 27 and 28 of IAS 23, Borrowing Costs. Therefore, we designated the transition date to IFRS as the commencement date for capitalization of borrowing costs relating all qualifying assets.

The following tables present the selected consolidated financial information as of and for each of the periods indicated. The selected financial and operating information as of December 31, 2012, 2013, 2014 and 2015 and for each of the years ended December 31, 2012, 2013, 2014 and 2015 has been derived in part from our consolidated financial statements, which have been reported on by Castillo Miranda y Compañía, S.C., a member practice of BDO International Limited ("BDO"), and the selected financial and operating information as of and for the year ended December 31, 2016 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Marcelo de los Santos y Cía., S. C. a practice member of Moore Stephens International Limited ("Moore Stephens"). BDO and Moore Stephens have relied on the audited consolidated financial statements of Corporación Aceros DM., S.A. de C.V. ("Aceros DM") subsidiaries and affiliates, reported on by Moore Stephens. The financial and operating information of GV do Brasil Industria e Comercio de Aço LTDA, as of December 31 2015 and for each of the years ended December 31, 2015 and 2014, have been reported by BDO RCS Independent Auditors SS and for the year ended December 31, 2016, the financial and operating information of GV do Brasil Industria e Comercio de Aço LTDA have been reported by Moore Stephens Lima Lucchesi, member of

2

Moore Stephens International Limited. 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,					
	2012 (1)	**2013** (1)	**2014** (1)	**2015** (1)	**2016** (2)	**2016** (2)
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)
Income Statement Data:						
IFRS:						
Net sales	29,524	24,369	26,829	24,476	27,516	1,332
Cost of sales	25,960	22,410	25,492	23,097	22,776	1,102
Impairment of property, plant and equipment	-	-	-	2,072	-	-
Gross profit (loss)	3,564	1,959	1,337	(693)	4,740	230
Administrative expenses	753	732	801	1,163	879	43
Depreciation and amortization	475	385	393	419	398	19
Other (expense) income, net	181	(59)	61	173	(36)	(2)
Interest income	23	20	25	34	107	5
Interest expense	23	28	23	40	40	2
Foreign exchange gain (loss)	(509)	(67)	474	(382)	1,775	86
Income (loss) before taxes	2,008	708	680	(2,490)	5,269	255
Income tax expense	54	(281)	162	771	926	45
Net income (loss)	1,954	989	518	(3,261)	4,343	210
Non-controlling interest income (loss)	(116)	(527)	(686)	(2,047)	1,458	70
Controlling interest income (loss)	2,070	1,516	1,204	(1,214)	2,885	140
Net income (loss) per share	4.16	3.06	2.44	(2.47)	5.93	0.29
Net income (loss) per ADS(3)	12.48	9.18	7.33	(7.40)	17.79	0.86
Weighted average shares outstanding (thousands)(3)	497,709	495,732	492,781	492,421	486,516	486,516
Weighted average ADSs outstanding (thousands)(3)	165,903	165,244	164,260	164,140	162,172	162,172
Balance Sheet Data:						
IFRS:						
Total assets	32,456	33,280	35,896	32,244	41,639	2,015
Total short-term liabilities	3,737	4,705	5,821	5,588	5,519	267
Total long-term liabilities(4)	3,052	2,300	2,295	1,535	2,910	141
Total stockholders’ equity	25,667	26,275	27,780	25,121	33,210	1,607
Cash Flow Data:						
IFRS:						
Cash provided by operating activities	3,655	2,051	1,370	(382)	3,428	166
Cash provided by (used in) financing activities	(23)	(259)	(48)	(285)	(3,166)	(153)
Cash (used in) provided by investing activities	(1,507)	(2,948)	(2,060)	(655)	898	43
Other Data:						
IFRS:						

Capital expenditures	1,304	3,178	1,858	648	3,100	150
Adjusted EBITDA(5)	3,348	1,895	1,261	1,058	4,892	237
Working capital(6)	13,583	11,497	11,852	11,392	17,488	846
Depreciation and Amortization	1,012	1,053	1,118	1,261	1,429	69
Dividends declared	0	0	0	0	0	0
Operational Data:						
(capacity and production in thousands of tons):						
Annual installed capacity(7)	3,791	3,818	3,830	4,330	4,132	N/A
Mexico	1,357	1,288	1,419	1,452	1,495	N/A
United States, Canada, Brazil and elsewhere outside Mexico	905	776	778	574	590	N/A
Total tons shipped	2,262	2,064	2,197	2,026	2,085	N/A
SBQ steel	1,111	989	1,131	929	761	N/A
Structural and other steel products	1,151	1,075	1,066	1,097	1,324	N/A
Number of employees	5,086	5,117	4,861	4,420	3,973	N/A
Per ton data						
IFRS:						
Net sales per ton(8)	13,052	11,807	12,212	12,081	13,197	639
Cost of sales per ton(8)	11,477	10,858	11,603	11,400	10,924	529
Adjusted EBITDA(5) per ton(8)	1,480	918	574	522	2,346	114

(1) Consolidated income statements in accordance with IFRS for the years 2012, 2013, 2014, 2015 and 2016.

(2) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 20.6640 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2016.

(3) Our series B shares are listed on the Mexican Stock Exchange, and the ADSs are listed on the New York Stock Exchange. One American depositary share, or "ADS," represents three series B shares.

3

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

(5) Adjusted EBITDA is not a financial measure computed under U.S. GAAP or IFRS. Adjusted EBITDA is derived from our IFRS financial information and means IFRS net income excluding: (i) depreciation, amortization and impairment loss; (ii) financial income (expense), net (which is composed of net interest expense and foreign exchange gain or loss); (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, U.S. GAAP or IFRS and that it may be calculated differently by different companies and must be read in conjunction with the explanations that accompany it. Adjusted EBITDA as presented in this table does not take into account our working capital requirements, debt service requirements and other commitments.

We believe that Adjusted EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies in our industry because it excludes the effect of: (i) depreciation, amortization and impairment loss which represents a non-cash charge to earnings; (ii) certain financing costs, which are significantly affected by external factors, including interest rates and foreign currency exchange 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,

	2012(1)	**2013**(1)	**2014**(1)	**2015**(1)	**2016**(2)	**2016**(2)
	(millions of pesos)					(millions of U.S. dollars)
IFRS:						
Net income (loss)	1,954	989	518	(3,261)	4,343	210
Impairment of property, plant and equipment	-	-	-	2,072	-	-
Depreciation and amortization	1,012	1,053	1,118	1,261	1,429	69
Other (expense) income	181	(59)	61	173	(36)	(2)
Interest income	23	20	25	34	107	5
Interest Expense	23	28	23	40	40	2
Foreign exchange gain (loss)	(509)	(67)	474	(382)	1,775	86
Income tax expense	54	(281)	162	771	926	45
Adjusted EBITDA	3,348	1,895	1,261	1,058	4,892	237

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

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

(8) Data in pesos and U.S. dollars, respectively, not in millions.

4

Exchange Rates

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

Year Ended December 31	**High**	**Low**	**Average[(1)]**	**Period End**
2012	14.37	12.63	13.15	12.96
2013	13.43	11.98	12.76	13.10
2014	14.79	12.85	13.30	14.75
2015	17.36	14.56	15.87	17.20
2016	20.84	17.19	18.67	20.62

Month in 2017	**High**	**Low**	**Average[(1)]**	**Period End**
January	21.89	20.75	21.39	20.84
February	20.82	19.74	20.30	20.00
March	19.93	18.67	19.28	18.83
April	19.15	18.48	18.77	18.93
May (through May 5)	19.01	18.76	18.87	19.00

(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 the 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 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 the first three quarters of 2006, then weakened in the last quarter of 2006 and in 2007 remained similar to prices in 2006. In 2008, global steel prices increased during the first three quarters of 2008, but weakened significantly in the last quarter of 2008 and 2009 as a result of the global economic recession. In 2010, 2011 and 2012, global steel prices began to recover and then remained relatively stable. Global steel prices decreased in 2013, 2014 and 2015, and in 2016 global steel prices began to recover. 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 may do so in the future. 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 material costs to customers by means of price increases. For example, prices of scrap metal in 2011 increased approximately 21%, in 2012 increased approximately 1%, in 2013 decreased approximately 6%, in 2014 increased approximately 7%, in 2015 decreased approximately 16% and in 2016 increased approximately 2%; prices of ferroalloys in 2011 increased approximately 10%, in 2012 and 2013 decreased approximately 10% and 5%, respectively, in 2014 increased approximately 16%, in 2015 decreased approximately 9% and in 2016 decreased approximately 13%. 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 inability to use our existing inventory in the future or impairments in the valuation of our inventory could adversely affect our business.

As of December 31, 2016, we had 231,942 metric tons of coke inventory, which is one of the principal raw materials used in blast furnaces. We have not used this raw material in recent years because our Lorain, Ohio blast furnace facility has been idle since 2008. We intend to start using coke as a substitute for coal in our productive process in our other plants in Mexico and the United States. However we cannot assure you that we will be able to effectively utilize such inventory.

We have assigned a fair market value of Ps. 1,433 million (U.S.$69.3 million) to our coke inventory. However, prices for coke have fluctuated significantly in the past and could continue to do so in the future and significant fluctuations in coke prices could adversely affect the value of our existing inventory.

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 11% in 2011, 3% in 2012, 9% in 2013 and 7% in 2014, decreased approximately 12% in 2015 and in 2016 increased approximately 1.5%; and prices for natural gas decreased approximately 14% in 2011 and 32% in 2012, increased approximately 16% in 2013 and 25% in 2014, decreased approximately 23% in 2015 and increased approximately 8% in 2016. Moreover, energy costs constitute a significant and increasing component of our costs of operations. Our energy cost was 13.5% of our manufacturing conversion cost for 2016 compared to 13% for 2015, 14% for 2014, 13% for 2013 and 11% for 2012.

We 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 of Mexico, 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, particularly in light of recent energy reforms in Mexico. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States and Canada. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportation and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States, as appropriate. As of December 31, 2016, we have not entered into derivative financial instruments in Mexico, the United States or Brazil. 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 intense, which 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, therefore 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 additional steel production assets, enter into joint ventures or form strategic alliances that we expect will expand or complement our existing business. If we undertake any of these transactions, they will likely involve some or all of the following risks:

- disruption of our ongoing business;
- diversion of our resources and of management’s time;
- decreased ability to maintain uniform standards, controls, procedures and policies;
- difficulty managing the operations of a larger company;

increased likelihood of involvement in labor, commercial or regulatory disputes or litigation related to the new enterprise;

potential liability to joint venture participants or to third parties;

difficulty competing for acquisitions and other growth opportunities with companies having greater financial resources; and

difficulty integrating the acquired operations and personnel into our existing business.

We will require significant capital for acquisitions and other strategic plans, as well as for the maintenance of our facilities and compliance with environmental regulations. We may not be able to fund our capital requirements from operating cash flow and we may be required to issue additional equity or debt securities or obtain additional credit facilities, which could result in additional dilution to our shareholders. We cannot assure you that adequate equity or debt financing would be available to us on favorable terms or at all. If we are unable to fund our capital requirements, we may not be able to implement our growth strategy.

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

We and our auditors have identified material weaknesses in our internal controls over financial reporting, for each of the last six 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, 2011, 2012, 2013, 2014, 2015 and 2016, we and our auditors identified material weaknesses (as defined under standards established by the Public Company Accounting Oversight Board, (United States of America)) in our internal controls over financial reporting (our management did not assess the effectiveness of our internal controls over financial reporting as of December 31, 2016). 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, 2011. On January 12, 2012, our audit and corporate practices committee (“Audit Committee”) received a formal complaint from the General Accounting and Treasury Services Manager of Republic Engineered Products, Inc. (“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 identified material weakness at SimRep, finding that, with respect to SimRep and its subsidiaries, management did not design and maintain effective controls relating to the year-end closing and financial reporting process, resulting in accounting errors with respect to the reconciliation of certain balance sheet accounts, and a failure to timely review and control the preparation and closing of SimRep’s consolidated financial statements. In addition, SimRep also had insufficient personnel resources and technical accounting and reporting expertise to appropriately address certain accounting and financial reporting matters in accordance with generally accepted accounting principles.

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

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

A lack of appropriate accounting resources, which led to inadequate supervision and controls within the accounting department and therefore prejudiced the financial statement closing process, the deferred income tax process and the conversion of foreign subsidiaries process, resulting in material accounting errors;

A lack of an appropriate consolidation system to allow management to supervise properly the preparation of consolidated financial information. Financial information of subsidiaries was presented at a level of detail that was insufficient to allow for a clear and precise understanding of operations; and

A lack of appropriate accounting resources at SimRep, which led to material weaknesses with respect to SimRep's internal controls over financial reporting, which resulted in material corrections to its consolidated financial statements. Such material weaknesses included: (i) a lack of proper controls to reconcile certain balance sheet accounts at a detailed level, including certain accounts payable debit balances that could not be substantiated, resulting in audit adjustments; (ii) financial close control failure due to lack of timely review of monthly financial statements; (iii) a necessity to perform several reclassifications to basic financial statements and adjustments to the footnotes after the auditors' review of such financial statements; and (iv) a lack of appropriate expertise at SimRep to address technical accounting and financial reporting matters.

Significant deficiencies were detected also 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.

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

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

Inadequate supervision and controls within our accounting department which prejudiced the financial statement closing process, conversion of foreign subsidiaries, presentation of financial statements and assets valuation, resulting in material accounting errors;

A lack of an appropriate consolidation system to allow our management to supervise properly the preparation of consolidated financial information with the required detail;

Deficient and not standardized controls in SimRep related to the physical inventory counts and a very vulnerable procedure to determine costs due to manual calculations, and;

Significant deficiencies were also detected at our subsidiary Corporación Aceros DM S.A. de C.V. which in the aggregate, constitute a material weakness. These significant deficiencies include: (i) failure to timely approve our policies and procedures to prepare financial statements in accordance with IFRS and limited knowledge of those standards, (ii) undocumented process and deficient controls in the control access to information systems, (iii) deficient controls to review and approve

10

cost calculation of finished goods, (iv) lack of physical inventory of fixed assets; and (v) failure to document and communicate adequately responsibilities and authority of key financial roles.

Fiscal Year Ended December 31, 2013. In our assessment of our internal controls over financial reporting for the year ended December 31, 2013, we and our external auditors identified the following material weaknesses:

Significant deficiencies were detected regarding entity-level controls and control environment which, in the aggregate, constitute a material weakness, and which include: (i) inadequate controls in the review and approval process of the disclosure in the financial statements and our annual report on form 20-F, (ii) out of date whistleblower line for the Mexican subsidiaries, (iii) ineffective controls in our patents registry, (iv) inadequate distribution and segregation of duties within the accounting department in the Mexican subsidiaries, (v) deficient distribution to employees and officers of our code of ethics and poor promotion of strong control environment and internal controls, (vi) failure to integrate all control processes into an Enterprise Resource Planning (ERP) system, (vii) lack of an accounting manual with accounting instructions for our most important transactions, (viii) lack of specific procedures to authorize and register intercompany transactions, (ix) failure to create and implement a complete training plan for our management personnel preparing financial records, (x) limited IFRS and consolidation process understanding and reduced personnel within our Internal Audit department which limited the scope of the management assessment, also the internal audit plan was not carried out in full and did not include test about risk assessment, environmental, fraud and compliance with law, and only included a limited review of the consolidated financial statements, (xi) lack of committees to review and approve all our contracts and to make risk assessments, these activities are currently executed by selected persons only, (xii) lack of a transition plan for the establishment of the new COSO 2013; and (xiii) insufficient resources to implement and follow up on the remedial measures identified in previous years for the Mexican subsidiaries due to the prevalence of such deficiencies, and informal communication of deficiencies and remediation plans;

Inadequate supervision and controls within our accounting department which prejudiced the financial statement closing process, conversion of foreign subsidiaries, presentation of financial statements, assets valuation and deferred taxes, resulting in material accounting errors;

A lack of an appropriate consolidation system to allow our management to supervise properly the preparation of consolidated financial information with the required detail;

Deficient and not standardized controls in SimRep related to authorization, control and accounting of capitalized expenditures and related fixed assets, and;

Significant deficiencies were also detected at our subsidiary Corporación Aceros DM, S.A. de C.V. which in the aggregate, constitute a material weakness. These significant deficiencies include (i) incomplete procedures for the review process over financial closings; (ii) incomplete documental support for authorization and extension of customer credit lines, (iii) deficient controls in the control access to the information systems, (iv) deficient controls to review and approve inventory valuation, cost of production calculation and cost of sales computation, (v) lack of physical inventory of fixed assets; and (vi) failure to document and communicate adequately responsibilities and authority of key financial roles.

Fiscal Year Ended December 31, 2014. In our assessment of our internal controls over financial reporting for the year ended December 31, 2014, we and our external auditors identified the following material weaknesses:

Insufficient resources applied to the remediation and appropriate monitoring of internal control weaknesses, most of which were identified in previous years and continue to be unresolved.

11

Inadequate distribution and segregation of duties within the accounting department in the Mexican Subsidiaries due to insufficient resources. Additionally, the internal audit staff was reduced and considered insufficient to fulfill their role.

Significant deficiencies were detected regarding entity-level controls and control environment which, in the aggregate, constitute a material weakness, and which include: (i) inadequate controls for the definition, review and approval process of the disclosure in the financial statements and our annual report on form 20-F, (ii) non-operating and outdated whistleblower line for the Mexican subsidiaries, (iii) ineffective controls in our patents registry, (iv) deficient distribution of our code of ethics to employees and officers and poor promotion of strong control environment and internal controls in accordance with the COSO model, (v) failure to integrate all control processes into one Enterprise Resource Planning (ERP) system, (vi) lack of an accounting manual with accounting instructions on most of accounting records, (vii) lack of specific procedures for the approval of transactions with related parties, (viii) failure to create and implement a complete training plan for management personnel preparing financial records, (ix) limited IFRS and consolidation process understanding and reduced personnel within our Internal Audit department which limited the scope of the management assessment; the internal audit plan was not carried out in full and did not include tests about risk assessment, including environmental, fraud, compliance with laws and review of the consolidated financial statements; (x) lack of committees to review, approve and make risk assessments of all our contracts, and (xii) informal communications of deficiencies and remediation plan to the areas and managers involved.

Inadequate supervision and controls within the accounting department which impacted the financial statement closing process, conversion of foreign subsidiaries and intercompany reconciliations, resulting in material accounting errors.

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

SimRep did not maintain effective controls relating to accounting of certain capital expenditures and related fixed assets were found. Lastly, the evaluation for impairments is not reasonable given actual results of such Subsidiary.

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) ineffective controls and insufficient supporting documentation for closings of periods end and financial statements review and authorization; the related procedures were incomplete and do not include specific procedures to enter transactions into the general ledger, to select and apply accounting policies and have not been updated in the last 3 years, which such controls are necessary to give reasonable assurance of compliance with IFRS, (ii) no evidence of review of some account balances, such as fixed assets, sales and tax calculations by the responsible individuals; there is also no evidence of review of the financial statements by the General Manager of Corporación Aceros DM, S.A de C.V., (iii) undocumented processes and deficient controls in the access to the information systems, (iv) deficient controls to review and approve cost calculations of finish goods, period end costs and inventories and cost of sales report, (v) lack of physical inventory of fixed assets in several years; and (vi) failure to document and communicate adequately responsibilities and authority of key financial roles.

Fiscal Year Ended December 31, 2015. In our assessment of our internal controls over financial reporting for the year ended December 31, 2015, we and our external auditors identified the following material weaknesses:

The internal audit department did not develop its functions to comply with the analysis of the controls during 2015. Consequently, this limited the functions of the Audit Committee.

12

Insufficient resources applied to the remediation and appropriate monitoring of internal control weaknesses, most of which were identified in previous years and continue to be unresolved.

Inadequate distribution and segregation of duties within the accounting department in our Subsidiaries due to insufficient resources. Additionally, the internal audit staff was considered insufficient to fulfill their role.

Significant deficiencies were detected regarding entity-level controls and control environment which, in the aggregate, constitute a material weakness and create a reasonable likelihood that a material misstatement of our annual and interim financial statements will not be prevented or detected on a timely basis. Such deficiencies include: (i) inadequate controls for the definition, review and approval process of the disclosure in the financial statements and our annual report on form 20-F, (ii) whistleblower line for our Mexican subsidiaries was not fully operational, our website information is outdated and does not include information about our Brazilian operations, (iii) ineffective controls in our patents registry, (iv) deficient distribution of our code of ethics to employees and officers and poor promotion of strong control environment and internal controls in accordance with the COSO model, (v) failure to integrate all control processes into one Enterprise Resource Planning (ERP) system, (vi) lack of an accounting manual with accounting instructions on most of accounting records, (vii) lack of specific procedures for the approval of transactions with related parties, (viii) failure to create and implement a complete training plan for management personnel preparing financial records under IFRS, (ix) limited IFRS and consolidation process understanding and reduced personnel within our Internal Audit department which limited the scope; also the internal audit plan was not carried out, and therefore the audit department did not perform risk assessment an environmental, fraud, compliance with laws, review of the consolidated financial statements and review of our annual report on form 20-F; (x) lack of committees to review, approve and make risk assessments of all our contracts; and (xi) informal communications of deficiencies and remediation plan to the areas and managers involved.

Inadequate supervision and controls within the accounting department which impacted the financial statement closing process, conversion of foreign subsidiaries, intercompany reconciliations and a lack of controls for the issuance and authorizations of journal entries, resulting in material accounting errors.

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

SimRep did not maintain personnel with the appropriate level of knowledge and experience of accounting and training required to comply with financial reporting requirements. This material weakness led to the certain control deficiencies, each of which are considered to be a material weakness.

Failure to provide our external auditors with evidence of the evaluation of the effectiveness of internal controls in our Brazilian subsidiary, in addition of not hiring an external auditor for this evaluation.

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

Fiscal Year Ended December 31, 2016. Our external auditors have incorporated into their “Attestation Report of the Independent Registered Public Accounting Firms” (see item 15.C), the following assessment of our internal controls, which included the following material weaknesses:

Regarding the control environment and entity level controls, the following material weaknesses were identified: (i) lack of a whistleblower tool that covers the entirety of the company; (ii)

13

regarding the distribution of the code of ethics, certain sectors of the employees did not recognize the code of ethics; (iii) ineffective control of the patent registration process, which lacks a policy and a procedure; (iv) lack of a policy and procedure for the valuation of assets and the company's physical inventories; (v) lack of a policy and procedure governing the extensions of credit to the clients; (vi) lack of a policy and procedure for the registration of related parties and the approval of transactions with related parties.

Lack of an appropriate consolidation system to allow management to properly supervise the preparation of consolidated financial information with the detail required.

In connection with certain financial reporting processes, lack of a robust role-segregation model for the creation, editing, deletion, display only, and modification of such processes.

Lack of communication between the internal audit team, which impacted time of test execution, leaving out of scope cycles such as income, human resources, general controls of information technology and costs and inventories.

Lack of documentation setting out the procedure in the event of a disaster (Disaster Recovery Plan) and documentation setting out the procedure in order to continue the operations of the business (Business Continuity Plan).

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.

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

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. On October 14, 2014, the United States International Trade Commission (USITC) determined that the U.S. steel industry is materially injured by reason of imports of steel concrete reinforcing bars from Mexico, that are sold in the United States at less than fair value, and from Turkey, that are subsidized by the government of Turkey. As a result of the USITC's affirmative determinations, the U.S. Department of Commerce issued an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government imposed tariffs of 66.7% against imports for rebar from Deacero, S.A.P.I de C.V. and us and tariffs of 20.58% for rebar imports from all other producers in Mexico.

Recent events, including the U.S. presidential election and Brexit in the U.K., have resulted in substantial regulatory uncertainty regarding international trade and trade policy. For example, President Trump and members of the U.S. Congress have called for substantial changes to tax policies, including the possible implementation of a border tax. The Trump administration has also raised the possibility of other initiatives that may affect importation of goods including renegotiation of trade agreements with other countries and the possible introduction of import duties or tariffs. Many of our products are subject to existing duties, tariffs, anti-dumping duties and quotas that may limit the quantity of some types of goods that we import into the United States. Furthermore, certain of our competitors may be better positioned than us to withstand or react to border taxes, tariffs or other restrictions on global trade and as a result we may lose market share to such competitors. Due to broad uncertainty regarding the timing, content and extent of any regulatory changes in the U.S. or elsewhere, we cannot predict the impact, if any, that these changes could have to our business, financial condition and results of operations. See "—Risks Related to Mexico—Developments in other countries could adversely affect the Mexican economy, our financial performance and the price of our shares."

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

As of December 31, 2016, approximately 83% of our non-Mexican and 45% 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 costs, which could in turn 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 2016, 2015, 2014, 2013 and 2012, sales to our ten largest customers in the United States accounted for approximately 62.1%, 56.8%, 51.4%, 40.6% and 42.4% of our consolidated revenues in the United States, respectively, and approximately 18.1%, 21.5%, 23.6%, 21.1% and 18.7% 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 or at all. 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.

Negative trends in the operation in our United States segment.

Our significant investment in the new Lorain, Ohio, electric arc furnace, built in response to the expected growth prospects in the United States oil and gas drilling and exploration industry, was a major contributor to the operational losses incurred in 2014 and 2015. Additionally, the U.S.$15 million (Ps. 310 million) investment in an electric bottom tapping furnace in 2012 at the Canton facility intended to drive operational and productivity improvements resulted in an initial challenge to master the new technology, which drove operational losses in 2013 in our United States segment. In response to the severe economic downturn in the energy exploration sector, which caused a significant drop in demand for seamless pipe, the entire Lorain facility was temporarily idled in 2015. This action halted the significant losses and allowed the business to focus on other industries which we supply (mainly the automotive industry) where demand for our products remains strong. We cannot assure you that a new economic downturn in the future could not 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, approvals are withdrawn or 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 that we will be able to maintain these required certifications.

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.

Failure to comply with environmental laws and regulations may result in fines, penalties or other significant liabilities or prevent us from operating our facilities.

Our operations are subject to a broad range of environmental laws and regulations governing 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 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 a cap-and-trade emissions permit system, a carbon tax or other regulatory regime may have a negative effect on our operations. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As signatories to the United Nations Framework Convention on Climate Change (the “UNFCCC”), Mexico, the U.S. and Canada are subject to the Paris Agreement to fight climate change, which was approved at the 21th session of the UNFCCC conference in 2015. As a result, some of our facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse emissions. 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. See Item 8. “Financial Information—Legal Proceedings.”

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

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

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

As of April 30, 2017, 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 our affiliates, including entities that Industrias CH owns or controls. We expect that in the future we will continue to enter into transactions with our affiliates, and some of these transactions may be significant.

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

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

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

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

Risks Related to Global Economic Conditions

Global economic conditions, such as the latest 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. We sell our products to the automotive and construction-related industries, both of which reported substantially lower customer demand during and after the latest global recession. As a result, our operating levels declined compared to pre-recession levels. While some of our end-product markets, such as the automotive industry, experienced recoveries during 2012, 2013, 2014, 2015, in 2016 we experienced a reduction in our sales. In addition to slackening demand by end consumers, we believe that some of our customers continue to experience and may experience in the future 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. Moreover, if a new global economic downturn occurs, we may face increased risk of insolvency and other credit related issues of our customers and suppliers, as we faced with our customers and suppliers particularly in industries that were hard hit by the latest recession, such as automotive, construction and appliance. Also, there is the possibility that our suppliers may face similar risks. A 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. The impact of global economic conditions on these industries may have a significant effect on our results of operations.

Additionally, if global economic conditions deteriorate, we may be required to undertake asset impairments, as we have been required to undertake in the past.

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 our products to automotive assemblers and manufacturers accounted for approximately 58% of our net sales of SBQ in 2016. Demand for our products is affected by, among other things, the relative strength or weakness of the North American automotive industry. 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 latest 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%, in 2011 and 2012 grew by 3.9%, in 2013 grew by 1.1%, in 2014 grew by 2.3%, in 2015 grew 2.5% and in 2016 grew 2.3%, 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, changes in oil prices, 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. The Mexican government recently cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects. 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. Social unrest, such as strikes, suspension of labor, demonstrations, acts of violence and terrorism in the Mexican states in which we operate could disrupt our financial performance. Additionally, the Mexican government has exercised, and continues to exercise, significant influence over the economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, the regulatory framework, the social or political context, and state-owned and stated controlled entities or industries could have a significant impact on private sector companies and on market conditions, prices and returns of Mexican securities. In the past, governmental actions have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports.

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

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy.

The Mexican federal government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, state-owned enterprises and state controlled, funded or influenced financial institutions could have a significant impact on private sector entities in general and on us in particular, and on market conditions, prices and returns on securities of Mexican companies. The Mexican federal government occasionally makes significant changes in policies and regulations, and may do so again in the future. Actions to control inflation and other regulations and policies have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Tax legislation in Mexico is subject to continuous change and we cannot assure you whether the Mexican government may maintain existing political, social, economic or other policies, or whether changes may have a material adverse effect on our financial performance.

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

Mexican drug related violence and other organized crime have escalated significantly since 2006, when the Mexican federal government began increasing the use of the army and police to fight drug trafficking. Drug cartels have carried out attacks largely directed at competing drug cartels and law enforcement agents, however they also target companies and their employees, including companies' industrial properties, including through extortion, theft from trucks or industrial sites, kidnapping and other forms of crime and violence. This increase in violence and criminal activity has led to increased costs for companies in the form of stolen products and added security and insurance. Corruption and links between criminal organizations and authorities also create conditions that affect our business operations, as well as extortion and other acts of intimidation, which may have the effect of limiting the level of action taken by federal and local governments in response to such criminal activity. 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.

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

The peso historically has been subject to significant depreciation against the U.S. dollar. 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. The Mexican Central Bank may from time to time participate in the foreign exchange market to minimize volatility and support an orderly market. The

Mexican Central Bank and the Mexican government have also promoted market-based mechanisms for stabilizing foreign exchange rates and providing liquidity to the exchange market, such as using over-the-counter derivatives contracts and publicly-traded futures contracts on the Chicago Mercantile Exchange. However, the Peso is currently subject to significant fluctuations against the U.S. dollar and may be subject to such fluctuations in the future. 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. 20.84 to U.S.$1.00 in November 14, 2016. In 2016 the exchange rate registered a low of Ps. 17.19 to U.S.$1.00 and a high of Ps. 20.84 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.

On December 17, 2015, a day after the U.S. Federal Reserve increased the target range for the federal funds rate in the United States by 25 basis points, the Mexican Central Bank increased the reference rate from 3.00% to 3.25% in an effort to counteract a sharp depreciation of the Mexican peso that could affect Mexico’s expected rate of inflation. On February 17, 2016, the Mexican Central Bank further increased the reference rate from 3.25% to 3.75%, and has been increasing the reference rate regularly since then, to 6.50% as of May 12, 2017. We cannot assure you that, as a result of future increases by U.S. Federal Reserve of the target range for the federal funds rate in the United States, the Mexican economy or the value of securities issued by Mexican companies will not be affected, including as a result of any precipitous unwinding of investments in emerging markets, depreciations and increased volatility in the value of their currency and higher interest rates.

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 2012, 4.0% for 2013, 4.1% for 2014, 2.1% for 2015 and 3.4% for 2016. 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 and the market value of Mexican companies may be, to varying degrees, affected by economic and market conditions globally, in other emerging market countries and major trading partners, in particular the United States. 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 or of Mexican assets. In recent years, for example, prices of both Mexican debt securities and equity securities decreased substantially as a result of developments in Russia, Asia, Europe and Brazil. Also, credit issues in the United States have in the past 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. However, Donald Trump's victory in the U.S. presidential election in November 2016, as well as the Republican Party maintaining control of both the House of Representatives and Senate of the United States in the congressional election, has generated volatility in the global capital markets and may create uncertainty regarding the future of NAFTA and trade between the U.S. and Mexico. On January 20, 2017, Donald Trump became president of the U.S. President Trump and the Trump administration have made comments suggesting that he intends to re-negotiate the free trade agreements that the U.S. is party to, including NAFTA, and to implement high import taxes, although it remains unclear what specifically the new U.S. administration and U.S. Congress will or will not do in this respect. Because the Mexican economy is heavily influenced by the U.S. economy, the re-negotiation, or even termination, of NAFTA and/or other U.S. government policies that may be adopted by the new U.S. administration (which may result in regulatory gridlock or on the contrary, it could result in a major regulatory change) could have a material adverse effect on the Mexican economy, which, in turn, could affect our business, financial condition and results of operations.

Moreover, the recent debt crisis in the European Union, the August and September 2015 Chinese stock market crashes, changes in Chinese exchange rate policy, continuing concerns regarding the slowdown of the Chinese economy, recent terrorist attacks and recent sharp declines in the price of crude oil, may also affect the global and Mexican economies. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our financial performance.

We could be adversely affected by violations of the Mexican Federal Anticorruption Law in Public Contracting, the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws.

The Mexican Federal Anticorruption Law (*Ley Federal de Anticorrupción en Contrataciones Públicas*), the U.S. Foreign Corrupt Practices Act and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials and other persons for the purpose of obtaining or retaining business. There can be no assurance that our internal control policies and procedures will protect us from reckless or criminal acts committed by our employees or agents. Violations of these laws, or allegations of such violations, could disrupt our business and could have an adverse effect on our business, financial condition and results of operations.

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

Beginning January 1, 2011, we adopted International Financial Reporting Standards (IFRS), and its amendments and interpretations, issued by the International Accounting Standard Board (IASB); consequently, we applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*.

All Mexican companies listed on the Mexican Stock Exchange must prepare their financial statements in accordance with IFRS which differs in certain significant respects from U.S. GAAP. Items on the financial statements of a company prepared in accordance with IFRS may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP. Accordingly, Mexican financial statements and reported earnings are likely to differ from those of companies in other countries in this and other respects.

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

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information, including accounting 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. The disclosure standards imposed by the Mexican Stock Exchange may be different than those imposed by securities exchanges in other countries or regions such as the United States.

Risks Related to Brazil

Brazilian political and economic conditions, and the Brazilian government's economic and other policies, may negatively affect demand for our products.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have at times involved wage and price controls, blocking access to bank accounts, imposing capital controls and limiting imports into Brazil.

Our results of operations and financial condition may be adversely affected by factors such as:

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;
- inflation;
- tax policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in GDP;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Brazilian markets have been experiencing heightened volatility due to the uncertainties derived from the ongoing *Lava Jato* investigation, which is being conducted by the Office of the Brazilian Federal Prosecutor, and its impact on the

Brazilian economy and political environment. Members of the Brazilian federal government and of the legislative branch, as well as senior officers of the state-owned oil company Petróleo Brasileiro S.A. – Petrobras, or Petrobras, have faced allegations of political corruption. These government officials and senior officers allegedly accepted bribes by means of kickbacks on contracts granted by Petrobras to several infrastructure, oil and gas and construction companies. As a result of the ongoing *Lava Jato* investigation, a number of senior politicians, including congressman and officers of the major state-owned companies in Brazil resigned or have been arrested.

In addition, the Brazilian Congress opened impeachment proceedings against President Dilma Rousseff on December 2, 2015 for allegedly breaking budget laws as she increased economic stimulus during her re-election campaign last year. On April 17, 2016, the Brazilian Congress voted in favor of the admissibility of the impeachment proceedings and the Brazilian Senate is expected to vote on the impeachment on May 11, 2016. On August 31, 2016, the Brazilian Senate voted in favor of the dismissal of President Dilma Rousseff. This situation has adversely affected and we expect that they will continue to adversely affect the Brazilian markets and trading prices of securities issued by Brazilian issuers. We cannot predict their effects on the Brazilian economy which could have a material adverse effect on us.

The potential outcome of these investigations and proceedings is uncertain, but they have adversely affected and we expect that they will continue to adversely affect the Brazilian markets and trading prices of securities issued by Brazilian issuers. We cannot predict whether the allegations or proceedings will lead to further political and economic instability or whether new allegations against government officials or other companies in Brazil will arise in the future. In addition, we can neither predict the outcome of any such allegations and proceedings nor their effect on the Brazilian economy.

In addition, the Brazilian steel sector is facing a severe crisis. According to the Brazilian Steel Institute, steel consumption fell by 14% in the first nine months of 2015. We believe this crisis is largely due to a sharp decrease in durable goods manufacturing, particularly motor vehicle production, which is depressing steel consumption and offsetting the positive impact of construction activity associated with the summer 2016 Olympic Games held in Rio de Janeiro. The crisis in the Brazilian steel sector could have a material and adverse effect on our Brazilian business segment.

Brazil has experienced extremely high rates of inflation in the past and has therefore implemented monetary policies that have resulted in one of the highest interest rates in the world. According to the IGP-M, a general price inflation index, the inflation rates in Brazil were, 5.1% in 2011, 7.8% in 2012, 5.5% in 2013, 3.7% in 2014, 10.5% in 2015 and 7.2% in 2016. In addition, according to the National Extended Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), published by the IBGE, the Brazilian price inflation rates were 6.1% in 2011, 6.2% in 2012, 5.6% in 2013, 6.2% in 2014, 11.3% in 2015 and 6.6% in 2016. Despite the Brazilian Central Bank's repeated increases of interest rates during the period from 2013 to 2015, the Brazilian price inflation rate (IPCA) has continued to increase, reaching 10.7% in 2015 (the highest level recorded since 2003), and reaching 6.3% for the twelve-month period ending December 31, 2016.

There have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the Brazilian real depreciated 19.7% and 53.2% against the U.S. dollar in 2001 and 2002, respectively and appreciated 18.0%, 8.0%, 12.3%, 8.5% and 17.0% against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007, respectively. In 2008, the Brazilian real depreciated again approximately 31.9% against the U.S. dollar. In 2009, the Brazilian real appreciated 25.3% against the U.S. dollar, while in December 31, 2010 the Brazilian real to U.S. dollar exchange rate was R$1.6662, according to the Brazilian Central Bank. In 2011, the Brazilian real depreciated by 13.6% against the U.S. dollar, from R$1.6510 in the beginning of the period to R$1.8758 by the end of the period, and in 2012 the Brazilian real went from R$1.8683 in the beginning of the year to R$2.0435 by the end of the period, amounting to a 9.4% depreciation against the U.S. dollar. In 2013, the Brazilian real went from R$2.0415 in the beginning of the year to R$2.3426 by the end of the period. In 2014, the Brazilian real went from R$2.3975 in the beginning of the year to R$2.6562 by the end of the period, corresponding to a 10.8% depreciation against the U.S. dollar.

However, during 2015, due to the poor economic conditions in Brazil, including as a result of political instability, the Brazilian real has devalued at a rate that is much higher than in previous years. On September 24, 2015, the Brazilian real fell to the lowest level since the introduction of the currency, at R$4.1949 per U.S.$1.00. In 2015, the Brazilian real depreciated 45%, reaching R$3.9048 per U.S.$1.00 on December 31, 2015. Conversely, in 2016, the Brazilian real went from R$4.0387 per U.S.$1.00 at the beginning of the year to R$3.2591 per U.S.$1.00 on December 31, 2016, corresponding to a 19.3% appreciation against the U.S. dollar. There can be no assurance that the Brazilian real will not depreciate or appreciate further against the U.S. dollar.

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, Canada and Brazil. We believe that in 2012, 2013, 2014, 2015 and 2016 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 2012, 2013, 2014, 2015 and 2016 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 Ps. 1,185 million (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 Ps. 1,589 million (U.S.$122 million) (excluding value added tax of approximately Ps. 208 million (U.S.$16 million) paid in 2004 and recouped from the Mexican government in 2005), funded with cash from operations, and a Ps. 247 million (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 Ps. 2,795 million (U.S.$245 million) purchase price principally through a loan we received from Industrias CH that we have repaid in full.

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

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

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

On May 30, 2008, we acquired all the capital stock of Aceros DM and certain affiliated companies (“Grupo San”) for a total cost of approximately Ps. 8,730 million (U.S.$844 million at the exchange rate at that time). 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 has a production capacity of 600 thousand tons of finished products annually.

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

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

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

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

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

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

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

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

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

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

On September 3, 2010 we formed a Brazilian entity denominated GV do Brazil Indústria e Comércio de Aço Ltda. On august 5, 2011 we acquired 1,300,000 square meters of land on Pindamonhangaba, São Paulo State, Brazil, and paid Ps. 121.1 million (U.S.$8 million) for the construction of a new steel facility. In November 2015, our steel plant in Brazil started operations. This facility has a production capacity of 450,000 tons of finished goods of rebar and wire, and 800 employees. We have already established contact with major local suppliers of raw materials. The next step is to attract the special steels market for the automotive and electro-welded wire derivatives products.

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 at the exchange rate at that time). On December 9, 2010, Lipa Capital, LLC merged to Simec International 6, S. A. de C. V.

On February 3, 2011, we, through two of our 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 our customer and vendor. For these assets we paid Ps. 30.6 million (U.S.$2.5 million) in cash and forgave approximately Ps. 73.5 million (U.S.$6 million due) by Bluff City Steel to us.

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 thousand, paid in cash.

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

On November 2011, Republic Steel, Inc. (a subsidiary of SimRep Corporation) 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 accounts receivable. The agreement was amended on October 26, 2016, so that any party can terminate the agreement after giving seven days' notice. 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 U.S.$30 million (Ps. 620 million). Proceeds on the transfer reflect the face value of the account minus 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, minus 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 Comprehensive Income. The purchaser shall have no recourse against the Republic Steel, Inc. 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 Steel, Inc. Republic Steel, Inc. sold a face amount of Ps. 427.7 million (U.S.$20.7 million) and Ps. 502.8 million (U.S.$29.0 million) of accounts receivable to the purchaser during the years ended December 31, 2016 and 2015, respectively. Discount fees incurred pursuant to this agreement were approximately Ps. 5.6 million (U.S.$0.3 million) and Ps. 7.9 million (U.S.$0.5 million) for the years ended December 31, 2016 and 2015, respectively. Of the face amount of accounts receivable sold to the purchaser, Ps. 55.8 million (U.S.$2.7 million) and Ps. 58.9 million (U.S.$3.4 million) had not been collected by the purchaser at December 31, 2016 and 2015, respectively, and therefore, such amount at December 31, 2016, is subject to possible charge-back to us.

On December 30, 2011 Simec International 7, S.A. de C.V. sold to Corporación ASL S.A. de C.V. all of its shares in Corporación Aceros DM, S.A de C.V., comprising of a total of 627,305,446 shares (99.9% of the common stock) for a value of Ps. 3,200 million, comprised of a down payment of Ps. 63 million and the remaining of Ps. 3,137 million due on April 30, 2012. This transaction generated a tax loss of Ps. 7,860 million which amount under the Mexican Income Tax Law (*Ley de Impuesto Sobre la Renta*), may be deducted against future gains related to dispositions of securities. On January 30, 2012 Simec International 7, S.A. de C.V. filed a demand challenging the current law, which limits the deduction of this net loss related to shares sales. On September 24, 2013, the second district judge denied the shelter and protection of the federal courts against the company pursuant to Article 32, Section XVII of the Mexican Income Tax Law, arguing that constitutional guaranties were not violated. Dissatisfied with the decision, the company filed an application for review of such judgment with the Mexican Supreme Court of Justice. The Supreme Court resolved that the constitutionality of Article 32, Section XVII of the Mexican Income Tax Law was not violated arguing that the Income Tax Law does not violate the guaranties of tax fairness and proportionality under Article 31, section IV of the Mexican Constitution. As a result, tax losses of the company may only be applied against future gains related to dispositions of securities.

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

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

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

On December 18, 2012 in an extraordinary shareholders meeting of Simec International 6, S.A. de C.V., the split of this company was approved and two new wholly owned Mexican subsidiaries were incorporated, under the names Simec International 8, S.A. de C.V. and Siminsa E, S.A. de C.V.

In May 2013, Malla San, S.A. de C.V., operator of the plant which produces mesh and wire derivatives in San Luis Potosi, split into two new entities, Malla San 1 S.A. de C.V. and Malla San 2 S.A. de C.V., and therefore ceased to exist.

On August 8, 2013, we and our subsidiary Simec International, S.A. de C.V. purchased shares of a company called Seehafen Operadora Maritima, S.A.P.I. de C.V. (Seehafen) for Ps. 44 million. The shares acquired correspond to (i) 500 ordinary, nominative Class "I" shares, representative of the fixed portion of the capital stock of Seehafen, which represents 50% of the shares of such class and (ii) 99,000 nominative Class "II" shares, representative of the variable portion of the capital stock of Seehafen, which represents 100 % of the shares of such class. These shares are without par value and Class "II" shares confer no voting rights. The transactions described above were approved in an extraordinary shareholders meeting of Seehafen celebrated on the same date, which also approved its change of name to Simec International 9, S.A.P.I. de C.V. (Simec 9), the modification of its corporate purpose and the appointment of members to its Board of Directors, comprised exclusively of officers and shareholders of us, therefore, from that date on, we consolidate the financial statements of Simec 9. Seehafen was incorporated on August 3, 2012 through a split and tax losses of Ps. 983 million were transferred.

On November 20, 2013, the merger of Simec USA, Corporation and Simec International 5, Inc. was authorized in their respective extraordinary shareholders meetings, whereby the first entity subsisted and the second ceased to exist.

On November 30, 2013 and December 2, 2013, the merger of Compañía Siderúrgica del Pacífico, S.A. de C.V., Comercializadora Msan S.A. de C.V., Comercializadora de Productos de Acero de Tlaxcala, S.A. de C.V., Productos Siderúrgicos de Tlaxcala, S.A. de C.V., Comercializadora Simec, S.A. de C.V., Siminsa E, S.A. de C.V., and Siderúrgica de Baja California, S.A. de C.V. was authorized in their respective extraordinary shareholders meetings, whereby the first entity subsisted and the others ceased to exist.

On January 16, 2015, we entered into a cooperation agreement with the government of the State of Tlaxcala, Mexico, to build a new steel facility, which will have a production capacity of 600,000 tons of bar quality steel (SBQ). In October and December 2015, we acquired land adjacent to our existing plant in Tlaxcala, which will increase the extension to a total of 100 hectares. On October 20, 2015, we entered into an agreement with Danieli & Officine Meccaniche for the construction (excluding civil engineering) of the plant and the provision of all required equipment. The total budget for the project will be approximately U.S.$600 million (Ps. 12,398 million), which will be financed with our own resources, with a construction period of two years and an estimated pre-operating period of between six to eight months.

On January 20, 2015, we incorporated a new wholly-owned subsidiary named Aceros Especiales Simec Tlaxcala, S.A. de C.V., in which Grupo Simec, S.A.B. de C.V. holds 49,999 class "I" shares and Simec International, S.A. de C.V. holds one class "I" share.

On January 20, 2015, we incorporated a new wholly-owned subsidiary named Recursos Humanos de la Industria Siderúrgica de Tlaxcala, S.A. de C.V., in which Grupo Simec, S.A.B. de C.V. holds 49,999 class "I" shares and Simec International, S.A. de C.V. holds one class "I" share.

On March 21, 2015, we and our subsidiary Simec International, S.A. de C.V. purchased 2,500 class "I1", ordinary, nominative and without par value shares of a company called RRLC, S.A.P.I. de C.V. (RRLC), representing the fixed portion of its capital stock, which represented 50% of the shares of such class, and 46,103 class "II", non-voting, nominative, without par value shares of RRLC, representing the variable portion of its capital stock, which represented 100% of the shares of that class, in the aggregate amount of Ps. 18.6 million. RRLC was incorporated as a result of a spin-off of another company on December 11, 2014, with a tax loss of Ps. 311.5 million.

On October 30, 2015, our subsidiaries Simec international 7, S.A. de C.V. and Simec International, S.A. de C.V., acquired 25,000 class "I", ordinary, nominative and without par value shares in a company called Grupo Chant, S.A.P.I.

de C.V. (Chant), representing the fixed portion of its capital stock, which represented 50% of the shares of such class, and 1,000,000 class "II", non-voting, nominative and without par value shares of Chant, representing the variable portion of its capital stock, which represented 100% of the shares of that class, in the aggregate amount of Ps. 167 million. Chant was incorporated as a result of a spin-off of another company on June 12, 2015, with a tax loss of Ps. 2,380 million.

On January 13, 2016, we incorporated a new wholly-owned subsidiary named GSIM de Occidente, S.A. de C.V., in which Grupo Simec, S.A.B. de C.V. holds 49,999 class "I" shares and Simec International, S.A. de C.V. holds one class "I" share.

On January 13, 2016, we incorporated a new wholly-owned subsidiary named Fundiciones de Acero Estructural, S.A. de C.V., in which Grupo Simec, S.A.B. de C.V. holds 49,999 class "I" shares and Simec International, S.A. de C.V. holds one class "I" share.}

In August 2016 Republic Steel sold to a third party, at a price of U.S.$350 thousand (Ps. 7 million), the assets of the Memphis, Tennessee plant, which had been idle.

30

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 2017 will be approximately Ps. 920.8 million (U.S.$44.6 million), consisting of Ps. 134.3 million (U.S.$6.5 million) of estimated capital expenditures in our Republic facilities and Ps. 786.5 million (U.S.$38.1 million) of capital expenditures in our facilities in Mexico. Nevertheless, this estimate is subject to certain uncertainties and actual capital expenditures in 2017 may differ significantly from such estimate.

In 2016, we spent Ps. 816.6 million (U.S.$37.1 million) on capital investments for Republic's facilities, including Ps. 691.6 million (U.S.$31.4 million) at the Lorain, Ohio facility, Ps. 2.8 million (U.S.$0.1 million) at the Lackawanna, New York facility, Ps. 105.3 million (U.S.$4.8 million) at the Canton, Ohio facility, Ohio facility, Ps. 15 million (U.S.0.7 million) at the Solon, Ohio facility, and Ps. 1.9 million (U.S.$0.1 million) at the Gary, Indiana, facility. We spent Ps. 2,169.3 million (U.S.$135.6 million) on capital improvements at our facilities in Mexico, including Ps. 2,006.1 million (U.S.$125.4 million) at the Apizaco facility, Ps. 1.2 million (U.S.$0.1 million) at the Mexicali facility, Ps. 26.4 million (U.S.$1.6 million) at the Guadalajara facility, and Ps. 135.6 million (U.S.$8.5 million) at the San Luis facilities. We also spent Ps. 114.3 million (U.S.$7.1 million) in our steel facility on Pindamonhangaba, Sao Paulo State, Brazil.

In 2015, we spent Ps. 0.4 million (U.S.$0.02 million) on capital investments at the Lorain, Ohio facility. We spent Ps. 574.2 million (U.S.$35.9 million) on capital improvements at our facilities in Mexico, including Ps. 509.2 million (U.S.$31.8 million) at the Apizaco facility, Ps. 43.1 million (U.S.$2.7 million) at the Mexicali facility, Ps. 7.4 million (U.S.$0.5 million) at the Guadalajara facility, and Ps. 14.5 million (U.S.$0.9 million) at the San Luis facilities. We also spent Ps. 73.1 million (U.S.$4.6 million) in the construction of a new steel facility on Pindamonhangaba, Sao Paulo State, Brazil, which in November 2015 started operations.

In 2014, we spent Ps. 924.2 million (U.S.$69.3 million) on capital investments for Republic's facilities, including Ps. 828.2 million (U.S.$62.1 million) at the Lorain, Ohio facility, Ps. 5.3 million (U.S.$0.4 million) at the Lackawanna, New York facility, Ps. 73.3 million (U.S.$5.5 million) at the Canton, Ohio facility, Ps. 4 million (U.S.0.3 million) at our corporate location in Ohio, Ps. 6.7 million (U.S.$0.5 million) at the Massillon, Ohio facility, Ps. 4 million (U.S.0.3 million) at the Solon, Ohio facility, and Ps. 2.7 million (U.S.$0.2 million) at the Gary, Indiana, facility. We spent Ps. 198.8 million (U.S.$14.9 million) on capital improvements at our facilities in Mexico, including Ps. 72.3 million (U.S.$5.4 million) at the Apizaco facility, Ps. 14.5 million (U.S.$1.1 million) at the Mexicali facility, Ps. 35.2 million (U.S.$2.6 million) at the Guadalajara facility, and Ps. 76.8 million (U.S.$5.8 million) at the San Luis facilities. We also spent Ps. 735.3 million (U.S.$55.3 million) in the construction of a new steel facility on Pindamonhangaba, Sao Paulo State, Brazil.

B. Business Overview

In the United States, Mexico and Brazil, we own and operate twelve state-of-the-art steel making, processing and/or finishing facilities with a combined annual crude steel installed production capacity of 4.6 million tons and a combined annual installed rolling capacity of 4.1 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;

31

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; Solon, Ohio and Hamilton, Ontario, all of which we own through our majority-owned subsidiary, Republic, and

a mini-mill and rebar and wire rod rolling mill in Pindamonhangaba; São Paulo, Brazil.

In 2016, we had net sales of Ps. 27.5 billion, gross profit of Ps. 4.7 billion and net income of Ps. 4.3 billion. In 2016, approximately 33% of our consolidated sales were in the United States and Canada, approximately 58% were in Mexico, approximately 7% were in Brazil and approximately 2% were exports to other markets outside North America.

Business Strategy

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

Improving our cost structure.

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

Focusing on high margin and value-added products.

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

Building on our strong customer relationships.

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

Pursuing strategic growth opportunities.

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

Our Products

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

I-beams. I-beams, also known as standard beams, are "I" form steel structural sections with two equal parallel sides joined together by the center with a transversal section, forming 90º angles. We produce

I-beams in our Mexican facilities and they are mainly used by the industrial construction sector as structure supports.

Channels. Channels, also known as U-Beams because of their “U” form, are steel structural sections with two equal parallel sides joined together by its ends with a transversal section, forming 90º angles. We produce channels in our Mexican facilities and they are mainly used by industrial construction sector as structure supports and for stocking systems.

Angles. Angles are two equal sided sections joined by their ends with a 90º angle, in an “L” form. We produce angles in our Mexican facilities and they are used mainly by the construction and furniture industries as joist structures and framing systems.

Hot rolled bars. Hot rolled bars are round, square and hexagonal steel bars that can be made of special or commodity steel. The construction, auto part and furniture industries mainly use the round and square bars. The hexagonal bars are made of special steel and are mainly used by the hand tool industry. We produce the steel sections in our Mexican and U.S. facilities.

Flat bars. Flat bars are rectangular steel sections that can be made of special or commodity steel. We produce flat bars at our Mexican facilities. The auto part industry mainly uses special steel as springs, and the construction industry uses the commodity steel flat bars as supports.

Rebar. Rebar is reinforced, corrugated round steel bars with sections from 0.375 to 1.5 inches in diameter, and we produced rebar our Mexican facilities. Rebar is only used by the construction industry to reinforce concrete. Rebar is considered a commodity product due to its general acceptance by most consumers of industry standard specifications.

Cold-finished bars. Cold-finished bars are round and hexagonal SBQ steel bars transformed through a diameter reduction process. This process consists of (1) reducing the cross sectional area of a bar by drawing the material through a die without any pre-heating or (2) turning or “peeling” the surface of the bar. The process changes the mechanical properties of the steel, and the finished product is accurate to size, free from scale with a bright surface finish. We produce these bars in our Mexican, U.S. and Canadian facilities, and mainly the auto part industry uses them.

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

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

Steel Product Sales Volume

	Years ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
	(thousands of tons)				
I-Beams	77.7	66.2	71.7	83.2	81.7
Channels	66.9	64.1	62.7	63.3	65.8
Angles[(1)]	152.1	142.2	164.3	182.3	182.5
Hot-rolled bars (round, square and hexagonal rods)	871.7	781.6	823.2	666.9	600.4
Flat bar	97.9	92.3	94.5	183.1	129.7
Rebar	627.5	568.5	567.4	577.8	774.6
Cold finished bars	192.0	195.9	207.5	126.3	163.2
Other semi-finished trade products[(2)]	42.1	23.6	130.8	89.4	10.7
Electro-Welded wire mesh	18.9	20.9	17.7	21.7	22.3
Wire rod	21.4	27.2	12.2	3.8	24.8
Electro-Welded wire mesh panel	26.9	25.2	19.9	22.8	28.1
Other	66.6	56.7	25.1	5.3	1.1
Total steel sales	2,261.7	2,064.4	2,197.0	2,025.9	2,084.9

(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 2016, approximately 37% of our steel product sales in tons represented SBQ steel products, of which we sold 60% to the auto part industry, 19% to service centers, 1% for hand tools and the remaining 20% to other industries.

In 2016, direct sales in tons to the automotive industry decreased by 23% compared to 2015. In 2015, direct sales in tons to the automotive industry increased by 18% compared to 2014. In 2014, direct sales in tons to the automotive industry increased by 44% compared to 2013. In 2013, direct sales in tons to the automotive industry decreased by 16% compared to 2012. In 2012, direct sales in tons to the automotive industry decreased 2% compared to 2011. 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 (Ps. 7,232 million) to US Steel alone. In 2010, we did not record any sales to this sector and in 2011, 2012, 2013, 2014, 2015 and 2016 sales in tons to the energy sector accounted 0.4%, 0.9%, 0.5%, 10%, 0.01% and 0.1%, respectively, of our sales of SBQ steel products.

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

Steel Product Sales By Region

	Mexico					**United States, Canada, Brazil and Other Countries**				
	Years ended December 31,									
	2012	**2013**	**2014**	**2015**	**2016**	**2012**	**2013**	**2014**	**2015**	**2016**
I-Beams	96%	97%	99%	98%	97%	4%	3%	1%	2%	3%
Channels	50%	51%	44%	54%	62%	50%	49%	56%	46%	38%
Angles	75%	78%	75%	82%	84%	25%	22%	25%	18%	16%
Hot-rolled bars (round, square and hexagonal rods)	29%	30%	33%	36%	42%	71%	70%	67%	64%	58%
Flat bar	78%	91%	99%	92%	95%	22%	9%	1%	8%	5%
Rebar	100%	100%	100%	99%	75%	—	—	—	1%	25%
Cold drawn finished bars	46%	49%	54%	66%	73%	54%	51%	46%	34%	27%
Other semi-finished trade products	—	—	—	—	—	100%	100%	100%	100%	100%
Electro-Welded wire mesh	100%	100%	100%	100%	100%	—	—	—	—	—
Wire rod	100%	100%	100%	100%	96%	—	—	—	—	4%

Electro-Welded wire mesh panel	100%	100%	100%	100%	100%	—	—	—	—	—
Other	37%	39%	3%	12%	76%	63%	61%	97%	88%	24%
Total (weighted average)	60%	62%	60%	67%	68%	40%	38%	40%	33%	32%

During 2016, approximately 19% of our sales by volume came from the U.S. segment, with almost 100% of such sales representing SBQ product and 10% of our sales by volume came from the Brazil segment. The Mexican segment represents approximately 71% of our sales by volume, with SBQ products representing approximately 24% of such sales and the remainder representing commercial steel products.

Approximately 75% 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 2016 and 2015, 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 Nissan North America, Inc.; first tier suppliers to automotive and industrial equipment manufacturers such as American Axle & Manufacturing Holdings, Inc., Meritor, Inc., Neexteer, NSK and Hephaesus Holding Inc.; service centers which include AM Castle & Co., Earle M. Jorgensen Co., and Eaton Steel Bar Company.

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.

Our plant in Brazil began production in June 2015 with 30,000 tons produced and 4,000 tons shipped in 2015, all of which correspond to rebar. Our main objective is to sell our products through independent distributors, targeting the construction market by providing quality service, a key factor in attracting and retaining customers. Our major customers include: Jotacefer Distribuidora, Risatec Distribuidor, Marson Com Distr de Aco, Fa Aco para Construccao y Fav Comercio de Ferro.

Brazil has recently experienced an economic recession and is not projected to return to growth in annual terms until the second half of 2016. Notwithstanding, our sales policy in Brazil has been well accepted by our customers and, even in the midst of a global crisis, our sales have begun to increase steadily, opening us a place in the steel Market in Brazil.

Our major customers in 2016 include: Risatec Distribuidor, Marson Com, Fav Comercio de Ferr, Udiaco Comercio e In, Acos Sao Carlos Come, J G Ind. Metalurgica, Comercial Litoranea, Globoferros Comercio and Paranaferros Parana.

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, Corporation, located in Plymouth, Utah; Commercial Metals Company, located in Meza, Arizona; Thyssenkrupp Steel North America, Inc., located in Santa Fe Springs, California; Deacero, S.A. de C.V. ("Deacero"), located in Saltillo, Coahuila, México and Gerdau Corsa, S.A.P.I. de C.V. ("Gerdau Corsa"), located in Tijuana, Baja California, Mexico. We believe that we have an advantage over certain competitors due to the labor cost in our Mexican operations.

In 2016, we sold approximately 208,660 tons of I-beams, channels and angles at least three inches in width which represented approximately 10% of our total finished product sales for the year. In 2015, we sold approximately 214,014 tons of I-beams, channels and angles at least three inches in width which represented approximately 11% of our total finished product sales for the year. We believe that the domestic competitors in the Mexican market for structural steel are Gerdau Corsa, Deacero, and Siderúrgica del Golfo, S.A. de C.V. (a wholly-owned subsidiary of Industrias CH). We estimate that our share of Mexican production of structural steel was 24.1% in 2016 and 31.6% in 2015, according with information provided by the *Cámara Nacional de la Industria y del Acero* (CANACERO).

In 2016, we sold approximately 894,062 tons of hot rolled and cold finished steel bars and 976,850 tons in 2015. 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 14% and 27%, respectively, in 2016 and 14% and 28%, respectively, in 2015. Rebar and light structural steel together accounted for approximately 895,988 tons, or 43%, of our total production of finished steel products in Mexico, the United States and Brazil in 2016. Rebar and light structural steel together accounted for approximately 692,548 tons, or 34%, of our total production of finished steel products in Mexico and the United States in 2015. We compete in the Mexican market with a number of producers of these products, including Deacero, Talleres y Aceros, S.A., Grupo Acerero, S.A. de C.V., Nucor Corporation, ArcelorMittal Lazaro Cardenas, S.A. de C.V., Ternium Mexico, S.A. de C.V. and Gerdau Corsa.

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

United States and Canada

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

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

We believe our principal competitors in the United States market, depending on the product, include Nucor, Corporation, Niagara LaSalle, Corporation, ArcelorMittal USA, LLC, Charter Steel, Inc., Steel Dynamics, Inc., The TimkenSteel Corporation and Gerdau Ameristeel US, Inc.

Brazil

Our main competitors in the Brazilian market: Aperam, ArcelorMittal Brazil, CSN, Gerdau, Sinobras, Thyssenkrupp CSA; Usiminas, VSB tubes, V & M do Brasil, Villares Metals and Votorantim.

The brazilian steel industry is comprised of 14 private companies, controlled by 11 business groups and operating 30 mills in 10 brazilian states, making Brazil the 8th largest producer in the world.

The privatization of steel companies, finalized in 1993, brought a significant flow of capital into the sector, with diverse shareholder composition. Thus, many steel companies came to be part of industrial and/or financial groups, with their interests in steelmaking unfolding into related activities, aiming to improved economies of scale and competitiveness.

The production park is able to deliver all types of steel products, as long as their production is economically viable.

Plants in Sao Paulo:

Gerdau Aços Especiais (Usina Pindamonhangaba)
Gerdau Aços Especiais (Usina Mogi das Cruzes)
ArcelorMittal Aços Longos (Piracicaba)
Usiminas (Cubatão)
Gerdau Aços Longos (Usina São Paulo)
Gerdau Aços Longos (Usina Araçariguama)
Villares Metals
Simec Aços Barra (usina Pindamonhangaba)

In 2017 there was a merger between Votorantim Aço and Arcelor Mittal.

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 9001:2008 certification from International Quality Certifications covering the period from March 12, 2016 to September 14, 2018. We are in the process of obtaining the ISO/TS 16949 certification.

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

Our Republic facilities are currently ISO 14001 certified except for the Solon plant. Through these certification, 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. The current ISO 14001 certification is effective until September 2018.

Raw Materials

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and significant increases in raw material prices could adversely affect our profit margins. During periods when prices for scrap metal, iron ore, ferroalloys, coke and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw materials costs to customers by means of price increases. For example, prices of scrap metal increased approximately 21% in 2011 and 1% in 2012, decreased approximately 6% in 2013, increased approximately 7% in 2014, decreased approximately 16% in 2015; and increased approximately 2% in 2016 and prices of ferroalloys increased approximately 10% in 2011, decreased approximately 10% in 2012 and 5% in 2013, increased approximately 16% in 2014, decreased approximately 9% in 2015 and decreased approximately 13% in 2016. 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 2016, our cost of sales in Mexico, as a percentage of sales in Mexico, was 84%, compared to our U.S. operations where our cost of sales, as a percentage of sales in the United States, was 78%, as a percentage of sales in Brazil, was 95% and our consolidated cost of sales, as a percentage of consolidated sales, was 83%. 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, 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 2016 (65% of the manufacturing conversion cost in our Mexico operations and 37% of the manufacturing conversion cost in our U.S. operations), compared to 52% of our consolidated manufacturing conversion cost in 2015 (63% of the manufacturing conversion cost in our Mexico operations and 36% of the manufacturing conversion cost in our U.S. operations). Scrap metal is principally generated from automobile, industrial, naval and railroad industries. The market for scrap metal is influenced by availability, freight costs, speculation by scrap brokers and other conditions largely beyond our control. Fluctuations in scrap costs directly influence the cost of sales of finished goods.

We purchase raw scrap from dealers in Mexico and the San Diego area, and we process the raw scrap into refined scrap metal at our Guadalajara, San Luis, Mexicali and Apizaco facilities. We meet our refined scrap metal requirements through: (i) our wholly-owned scrap processing facilities, which in the aggregate provided us with approximately 9.3% and 13.3% of our refined scrap tonnage in 2016 and 2015, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 83.0% and 7.7%, respectively, in 2016 and approximately 78.5% and 8.2%, respectively, in 2015 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 2012, 2013, 2014, 2015 and 2016, 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 13% of our manufacturing conversion cost in 2016, compared to 13% in 2015, and they accounted for 16% of our manufacturing conversion cost in 2016, compared to 17% in 2015 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., Elmet, S.A. de C.V., Ferroatlántica de México, S.A. de C.V., Marco Metales de Mexico, S. de R.L. de C.V., Possehl México, S.A. de C.V. and Distribuidora de Aleaciones y Metales, S.A. de C.V. Our U.S. and Canadian facilities purchase most of their ferroalloys from Affival, Duferco Steel, Globe Met., Gottlieb, Kennecott, Rusian Ferro, Traxys, Vale Americas, Minerais U.S. LLC and Glencore LTD.

We obtain electrodes used to melt raw materials from Graftech Comercial de Mexico, S.A. de C.V., Heg Limited and Graphite Cova GmbH. Our U.S. and Canadian facilities purchase most of their electrodes from SGL Carbon, Showa Denko Carbon, SK Carbon and E. J. Bognar Inc.

Refractory products include firebricks, which line and insulate furnaces, ladles and other transfer vessels. We purchase our refractory products for our Mexican operations from Vesuvius de México, S.A. de C.V., Magnesita Refractories México, S.A. de C.V., Magna Refractarios México, S.A. de C.V., Refratechnik Steel GmbH and Puyang Refractories Group Co., LTD. Our U.S. and Canadian facilities purchase most of their refractory products from Inc - RHI, Vesuvius USA, Corp., Nock & Son Co.-Minteq, Magna Refractories Inc., Refractory Materials Intl., Altus Refractories, LLC, Thermatex Sales Corp., Harbison-Walker Refractories Company and Magnesita Refractories Co.

Electricity. In 2016 and 2015 electricity accounted for approximately 10% and 9% respectively, of our consolidated manufacturing conversion cost. Electricity accounted for 9% in 2016 of our manufacturing conversion cost and 9% in 2015 in our Mexico facilities and is supplied by the CFE. It accounted for 12% in 2016 and 10% in 2015 of the manufacturing conversion cost in our U.S. and Canadian operations and is supplied by American Electric Power Company, Nipsco Industries, Inc., New York Power and Ohio Edison. We, like most 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 (2% of the manufacturing conversion cost of our Mexican operations and 3% of the manufacturing conversion cost of our U.S. operations) in 2016 and 2015. 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(q) to our consolidated financial statements as of and for the year ended December 31, 2016, derivative financial instruments are recognized in the statement of financial position at fair value, which is initially represented by the amount of consideration agreed on. Such fair value is restated at the end of each month based on the new estimate. We periodically evaluate the changes in the cash flows of derivative instruments to analyze if the swaps are highly effective for mitigating the exposure to natural gas price fluctuations. In 2012 and 2011, the fair value of derivatives that did not qualify for hedge accounting was adjusted through statement of income. At December 31, 2016 and 2015 we did not have natural gas cash-flow exchange contracts or swaps. For the derivatives that qualified for hedge accounting, their fair value was adjusted through the stockholders' equity under the caption fair value of derivative financial instruments until such time as the related item in the derivative hedges is recognized as income.

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

Regulation

U.S. and Canadian Operations

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

Environmental Matters

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

discharges to the air, water and soil;

the handling and disposal of solid and hazardous wastes;

the release of petroleum products, hazardous substances, hazardous wastes, or toxic substances to the environment; and

the investigation and remediation of contaminated soil, sediment and groundwater.

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

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

Our Lorain, Ohio plant (which is not currently in operation) and our Canton, Ohio facility are subject to the Maximum Achievable Control Technology ("MACT") standard for Electric Arc Furnaces as an "area source." Revisions of this standard are under development and, when promulgated, may impose additional restrictions on our Lorain and Canton operations including those relating to mercury emissions and control.

Our steelmaking 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. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As signatories to the UNFCCC, Mexico, the U.S. and Canada are subject to the Paris Agreement to fight climate change, which was taken by the parties at the 21th session of the UNFCCC conference of the Parties in 2015. As a result, some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse emissions. More stringent greenhouse 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 polychlorinated biphenyl ("PCB") -containing fluid in equipment that we currently use at many of our U.S. facilities. A preliminary notice regarding this future regulation was published in 2016 for comments, and a formal proposed rule is expected within the next two years. If the rule is enacted as proposed, it will require our facilities to reduce the levels of PCBs in our equipment to less than 50 ppm within 5 years following its adoption, which will in turn require us to incur cost for the removal and disposal of PCB containing oils, sampling and possible replacement of equipment in the event PCB levels cannot be reduced to acceptable levels.

Also in the United States, more stringent standards for particulate matter were promulgated in 2012. As these new more stringent standards were implemented through the different state programs, we experienced higher costs associated with any preconstruction permitting of new or modified sources at our U.S. facilities in 2014 and subsequent years. These costs were 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, among others, 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; (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; and (iv) the Federal Law on Environmental Responsibility (*Ley Federal de Responsabilidad Ambiental*), which is also administered by SEMARNAT and enforced by PROFEPA.

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. Some of our facilities in Mexico have a renewable concession to use and exploit underground waters from wells in order to meet the water requirements of our production processes. We pay the National Waters Commission duties per cubic meter of water extracted under our concessions. We believe we are in substantial compliance with all the requirements imposed by each of the concessions we have obtained.

Pursuant to the National Waters Law, companies that discharge waste into national water bodies must comply with certain requirements, including maximum permissible contaminant levels. Periodic reports on water quality must be provided by dischargers to applicable authorities. Liability may result from the contamination of underground waters or recipient water bodies. We believe that we are in substantial compliance with all water and waste water legislation applicable to us.

Antitrust Matters

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

Measurements Law

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

Trade Regulation Matters

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

We have benefited from the free trade agreements that Mexico has entered into. Specifically, we have directly benefited from our ability to export finished steel products directly to export markets and compete with similar products manufactured in those markets. We have also indirectly benefited from increased demand from our domestic customers who similarly manufacture their products to foreign markets under free trade agreements.

Nevertheless, we cannot assure you that the trade agreements affecting our business or the enforcement thereof will not change in a manner that could have a material adverse effect on our business, results of operations, financial condition or prospects.

North American Free Trade Agreement. NAFTA became effective on January 1, 1994. NAFTA provided for the progressive elimination over a period of ten years of the 10% duties formerly in effect on most steel products imported into Mexico from the United States and Canada, including those that compete with our main product lines. There is currently no duty. President Trump and the Trump administration have made comments suggesting that he intends to re-negotiate the free trade agreements that the U.S. is party to, including NAFTA, and to implement high import taxes, although it remains unclear what specifically the new U.S. administration and U.S. Congress will or will not do in this respect. See "Item 3.D. Risk Factors—Risks Related to Mexico—Developments in other countries could adversely affect the Mexican economy, our financial performance and the price of our shares."

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.

Transpacific Partnership Trade Agreement (TPP). On February 4, 2016, Mexico, along with Australia, Brunei Darussalam, Canada, Chile, United States, Japan, Malaysia, New Zealand, Peru, Singapore and Vietnam, signed the TPP, in the City of Auckland, New Zealand. This treaty will grant Mexican products access to six markets (Australia, Brunei, Malaysia, New Zealand, Singapore and Vietnam) with approximately 155 million of potential consumers, which were not covered by any other trade agreement. The TPP will become effective two years after its signature, provided all 12 participating countries ratify the agreement, or when at least six countries representing at least 85% of the gross domestic product of the TPP ratify the agreement.

The TPP eliminates or reduces tariff and non-tariff barriers across substantially all trade in goods and services and covers the full spectrum of trade, including goods and services trade and investment, so as to create new opportunities and benefits for the businesses, workers, and consumers of the countries members.

The TPP facilitates the development of production and supply chains, and seamless trade, enhancing efficiency and supporting our goal of creating and supporting jobs, raising living standards, enhancing conservation efforts, and facilitating cross-border integration, as well as opening domestic markets.

The TPP promotes innovation, productivity, and competitiveness by addressing new issues, including the development of the digital economy, and the role of state-owned enterprises in the global economy.

The TPP includes new elements that seek to ensure that economies at all levels of development and businesses of all sizes can benefit from trade. It includes commitments to help small- and medium-sized businesses understand the Agreement, take advantage of its opportunities, and bring their unique challenges to the attention of the TPP governments. It also includes specific commitments on development and trade capacity building, to ensure that all Parties are able to meet the commitments in the Agreement and take full advantage of its benefits.

The TPP is intended as a platform for regional economic integration and designed to include additional economies across the Asia-Pacific region.

The President of the United States, Donald Trump, signed an executive order on January 2017 withdrawing the United States from the TPP.

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.

On September 11, 2013, the United States International Trade Commission (USITC) started an official anti-dumping investigation against rebar exports from Mexico and Turkey promoted by Nucor, Gerdau, Commercial Metals, and Cascade Steel Buyer.

On September 25, 2013, the USITC determined that there was sufficient evidence of “injury” therefore, on October 2, 2013, the Department of Commerce (DOC) started the antidumping investigation.

On November 21, 2013, DeAcero was named a “Mandatory Respondent” of the questionnaires and on February 12, 2014, we were named the second “Mandatory Respondent” thereby replacing Grupo Acerero, S.A. de C.V. which is not participating in the process.

On April 21, 2014, preliminary “dumping” quotas were published: 66.7 % to Grupo Acerero, S.A. de C.V., 10.66 % to us and 20.59% to other Mexican exporters (including DeAcero).

On October 14, 2014, the United States International Trade Commission (USITC) determined that a U.S. industry is materially injured by reason of imports of steel concrete reinforcing bar from Mexico that are sold in the United States at less than fair value and from Turkey that are subsidized by the government of Turkey. As a result of the USITC’s affirmative determinations, the U.S. Department of Commerce will issue an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government imposed tariffs of 66.7% against imports for rebar from Deacero and us and tariffs of 20.58% for rebar from all other imports from producers in Mexico. On November 16, 2015, we filed a request for review with the U.S. Department of Commerce against the imposed tariffs. On December 6, 2016, the US Department of Commerce issued a preliminary resolution in which it determined that the tariff is 0%. We expect the final resolution to this administrative proceeding will be rendered in May, 2017.

On August 14, 2013, the Ministry of Industry and Tourism of Colombia (MIT) started an official safeguard investigation against imports of commercial angles and plates originating from countries that are members of the World Trade Organization (WTO) at the request of DIACO-GERDAU and SIDOC, seeking the imposition of a countervailing duty of 35%.

We were the only Mexican producer that responded to the questionnaire in October 10, 2013.

On April 2, 2014, the MIT announcement at a press conference that they would not impose safeguard measures to rebar straight and roll nor to profiles of steel angles, square bars / slabs / plates. Only wire was subject to safeguard measures with an antidumping duty of 21.29%.

Brazil operations

We produce according to the technical specifications of the Brazilian standard ABNT NBR 7480:2007 for steel bars and wires designed for the reinforcement for concrete structures. Our products are also registered with the

Brazilian National Institute of Metrology, Quality and Technology (INMETRO), in accordance with Resolution CONMETRO No. 05, dated May 6, 2008, and comply with conformity assessment regulations, including Ordinance No. 73, dated March 17, 2010, and with compulsory product certification regulations.

We have received environmental permits from the Sao Paulo State, for which hydrological studies and feasibility of groundwater have been conducted, such permits include a license granted by the Ministry of Environment of Sao Paulo and an operations license granted by the Ministry of Environment CETESBE Sao Paulo State Comnahia.

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%); 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%); CSG Comercial, S.A. de C.V. (99.95%); 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%), Simec International 9, S.A.P.I. de C.V., (100.00%); Corporación ASL, S.A. de C.V. (99.99%); Siderúrgica del Occidente y Pacífico, S.A. de C.V. (100%) (incorporated in 2014); GS steel B.V. (100%) (incorporated in 2014); Aceros Especiales Simec Tlaxcala, S.A. de C.V. (100%) (incorporated in 2015) and Recursos Humanos de la Industria Siderúrgica de Tlaxcala, S.A. de C.V. (100%) (incorporated in 2015).

(2) Our principal Mexican facilities consist of steel-making facilities in Guadalajara, Jalisco; Mexicali, Baja California; Apizaco, Tlaxcala; and cold finishing facilities in Cholula, Puebla; and San Luis Potosí., these facilities were operated by Simec International 6, S.A. de C.V. until October 31, 2012 (began operations in November 2010). Since November 1, 2012 these facilities are operated by Orge, S.A. de C.V. (incorporated in October, 2012). These facilities are operated by RRLC, S.A.P.I. de C.V. (95.10%) (incorporated in 2015) and Grupo Chant, S.A.P.I. de C.V. (97.61%) (incorporated in 2015), since April, 2015 and October 2015, respectively. These facilities are operated by GSIM de Occidente, S.A. de C.V. (incorporated in 2016) y Aceros Especiales Simec Tlaxcala, S.A. de C.V. (incorporated in 2015), since March 2016 and July 2016, respectively.

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

(4) SimRep, Co. owns 100% of Republic Steel, Inc. Our principal U.S. and Canadian facilities consist of a steel-making facility in Canton, Ohio; a steel- making and hot-rolling facility in Lorain, Ohio; a hot-rolling facility in Lackawanna, New York; and cold finishing facilities in Massillon, Ohio; Solon, Ohio; and Hamilton, 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, Aceros DM, S.A. de C.V. (99.99%) Acero Transportes SAN, S.A. de C.V. (99.99%), Steel Promotor, Inc. (100%), Coadm Steel Inc. (100%), Aceros San Luis, S.A. de C.V. (99.99%), Malla San 1, S.A. de C.V. (99.98%) and Malla San 2, S.A. de C.V. (99.98%).

The following table identifies each of our significant operating subsidiaries, including its country of incorporation and our percentage ownership thereof at December 31, 2016:

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

Compañía Siderúrgica de Guadalajara S.A. de C.V.	Mexico	99.99%
CSG Comercial, S.A. de C.V	Mexico	99.95%
Corporación Aceros DM, S.A. de C.V. and subsidiaries	Mexico	100.00%
Corporación ASL, S.A. de C.V.	Mexico	99.99%
Simec International 6, S. A. de C. V.	Mexico	100.00%
Simec International 7, S. A. de C. V.	Mexico	99.99%
Simec International 9, S.A.P.I. de C. V.	Mexico	100.00%
Simec Acero, S. A. de C. V.	Mexico	100.00%
Simec USA, Corp.	United States	100.00%
Pacific Steel Projects, Inc.	United States	100.00%
Simec Steel, Inc.	United States	100.00%
Corporativos G&DL, S.A. de C.V.	Mexico	100.00%
GV do Brasil Industria e Comercio de Aço LTDA.	Brazil	100.00%
Orge, S.A. de C.V.	Mexico	99.99%
Siderúrgica del Occidente y Pacífico, S.A. de C.V.	Mexico	100.00%
Gs Steel BV	Netherlands	100.00%
RRLC S.A.P.I. de C.V.	Mexico	95.10%
Grupo Chant S.A.P.I. de C.V.	Mexico	97.61%
Aceros Especiales Simec Tlaxcala, S.A. de C.V.	Mexico	100.00%
Recursos Humanos de la Industría Siderúrgica de Tlaxcala, S.A. de C.V.	Mexico	100.00%
GSIM de Occidente, S.A. de C.V.	Mexico	100.00%
Fundiciones de Acero Estructural, S.A. de C.V.	Mexico	100.00%

The U.S. dollar is the functional currency of our U.S. subsidiaries, except Simec 8 International, Inc., Steel Promotor, Inc. and Coadm Steel, Inc., which are not listed above and whose functional currency is the peso. These entities were merged into Simec USA Corp at the beginning of 2015 and, therefore, are no longer in operations. Prior to the merger, these entities recorded uncollected accrued interest for the year ended December 31, 2014 and their main assets and liabilities were accounts receivable and payable to related parties denominated in pesos. These three subsidiaries were previously Mexican entities and in 2014 changed their tax residence to the United States. Prior to the merger but after changing their tax residence to the United States, these entities had minimal operations and, therefore, we considered that their functional currency was the Mexican peso. In 2013, these subsidiaries operated in Mexico and were treated as Mexican subsidiaries.

D. Property, Plants and Equipment

Our Operations and Production Facilities

We conduct our operations at 14 facilities throughout North America. At December 31, 2016, our crude steel production capacity was 4.6 million tons, of which 1.2 million tons were based on an integrated blast furnace technology, and 3.4 million were based on electric arc furnace, or mini-mill, technology. Our Mexican facilities have 2 million tons of crude steel production capacity, operating five mini-mill facilities. Our U.S. operations have 2.1 million tons of crude steel production capacity and our Brazil operations have 0.5 million tons of crude steel production capacity. In addition, we have 4.1 million tons of rolling and finishing capacity, of which 1.8 million are located in Mexico, 1.8 million are located in the United States and Canada and 0.5 million are located in Brazil.

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

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

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

Our mini-mill plants use an electric arc furnace to melt ferrous scrap and other metallic components, which are then cast into long, square bars called billets 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

	Years ended December 31,				
	2012	2013	2014	2015	2016
	(tons in thousands)				
Melt shops					
Steel billet production	2,562.4	2,289.5	2,483.7	2,318.0	2,219.6
Annual installed capacity(1)	4,797.2	4,500.0	4,207.9	4,552.9	4,552.9
Effective capacity utilization	53.4%	50.9%	59.0%	50.9%	48.8%
Rolling mills					
Total production	2,462.4	2,300.2	2,286.3	2,206.4	2,211.4
Annual installed capacity(1)	3,790.5	3,817.6	3,829.6	4,279.6	4,131.8
Effective capacity utilization	65.0%	60.3%	59.7%	51.6%	53.5%

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

Mexican Operations and Facilities

The following table presents production by product at each of our Mexican facilities as a percentage of total production at that facility for 2016.

Mexican Production per Facility by Product
Location

Product	**Guadalajara**	**Mexicali**	**Apizaco/ Cholula**	**San Luis**	**Total**
	Production (%)				
I Beams	21.0%	0%	0%	0%	5.5%
Channels	11.0%	12.7%	0%	0%	4.4%
Angles	33.5%	26.1%	0%	0%	12.2%
Hot rolled bars (round, square And hexagonal rods)	22.5%	3.2%	43.4%	2.4%	17.3%
Rebar	0%	52.2%	0.6%	84.2%	39.0%
Flat bars	7.8%	4.5%	25.6%	0%	8.7%
Cold finished bars	4.0%	0%	30.4%	0%	7.9%
Electro-Welded wire mesh	0%	0%	0%	4.0%	1.5%
Wire rod	0%	0%	0%	4.3%	1.6%
Electro-Welded wire mesh panel	0%	0%	0%	5.1%	1.9%
Other	0.2%	1.3%	0%	0%	0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Guadalajara. Our Guadalajara mini-mill facility is located in central western Mexico in Guadalajara, Jalisco which is Mexico's second largest city. Our Guadalajara facilities and equipment include one improved electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, five reheating furnaces and three rolling mills. The Guadalajara mini-mill has an annual installed capacity of 370,000 tons of billet and an annual installed capacity of finished product of 480,000 tons. In 2016, the Guadalajara mini-mill produced 356,314 tons of steel billet and 380,003 tons of finished product, operating at 96% capacity for billet production and 79% 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,				
	2012	**2013**	**2014**	**2015**	**2016**
Steel sales (thousands of tons)	353	323	335	369	375
Average finished product price per ton	Ps. 11,357	Ps. 9,929	Ps. 10,410	Ps. 9,726	Ps. 10,779
Average scrap cost per ton	5,372	4,775	4,934	4,539	4,691
Average manufacturing conversion cost per ton of finished product[(1)]	3,070	2,879	2,613	2,399	2,452
Average manufacturing conversion cost per ton of billet[(1)]	1,749	1,685	1,586	1,489	1,588

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

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 2016, the Mexicali mini-mill produced approximately 268,122 tons of billet, of which the Guadalajara mini-mill used 53,329 tons. In 2016, the Mexicali mini-mill produced 188,652 tons of finished products. In 2016 we operated the Mexicali mini-mill at 62% capacity for billet production and at 75% 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 2016, 52% of the products produced at the Mexicali mini-mill were rebar, 26% were angles, 3% were hot rolled bars (round, square and hexagonal rods) and the remaining 19% were channels and flat bar.

Mexicali Mini-Mill

	Years ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Steel sales (thousands of tons)	186	195	206	220	216
Average finished product price per ton	Ps. 10,527	Ps. 9,097	Ps. 9,170	Ps. 9,405	Ps. 9,935
Average scrap cost per ton	5,283	4,580	4,348	3,981	3,942
Average manufacturing conversion cost per ton of finished product(1)	2,765	2,643	2,659	2,414	2,277
Average manufacturing conversion cost per ton of billet(1)	1,895	1,819	1,752	1,608	1,541

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

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 492,000 tons. In 2016, the Apizaco mini-mill produced 420,902 tons of steel billet. In 2016, the Apizaco mini-mill produced 380,971 tons of finished products. In 2016, we operated the Apizaco mini-mill at 83% capacity for billet production and at 77% capacity for finished product production. Our Apizaco facility is 1,112 miles from Mexicali and less than 124 miles from Mexico City. Our Apizaco facility mainly produces SBQ steel, light structurals and rebar. Our Cholula facility is approximately 25 miles from our Apizaco facility, which allows the integrated operations of the Apizaco mini-mill and Cholula facility. Our Cholula facilities and equipment include cold drawing and turning machines for peeling bars. This facility has an annual installed capacity of finished product of 120,000 tons. In 2016, the Cholula facility produced 111,809 tons of finished products, at 93% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2016, 43% of the products we produced at the Apizaco and Cholula facilities were hot rolled bars (round, square and hexagonals), 26% were flat merchant bar, 30% were cold finished products and 1% were rebar.

Apizaco Mini-Mill and Cholula Facility

Years ended December 31,					
	2012	**2013**	**2014**	**2015**	**2016**
Steel sales (thousands of tons)	376	329	361	339	350
Average finished product price per ton	Ps. 12,479	Ps. 11,845	Ps. 12,047	Ps. 12,366	Ps. 12,763
Average scrap cost per ton	5,037	4,498	4,800	4,111	4,376
Average manufacturing conversion cost per ton of finished product(1)	3,135	3,239	3,400	3,455	3,321
Average manufacturing conversion cost per ton of billet(1)	2,033	2,084	2,154	2,195	2,168

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

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, 2016, these facilities had an annual installed capacity of 660,000 tons of billet and 610,000 tons of finished product. In 2016, the San Luis facilities produced 540,019 tons of steel billet. In 2016, the San Luis facilities produced 554,495 tons of finished product, operating at 82% capacity for billet production and 91% capacity for finished product production. Our San Luis facilities mainly produces rebar, light structurals and wire rod. In 2016, 84% of the products produced at the San Luis facilities were rebar, 13% were electro-welded wire mesh, wire rod and electro-welded wire mesh panel, and the remaining 3% were other light structurals.

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

Years ended December 31,					
	2012	**2013**	**2014**	**2015**	**2016**
Steel sales (thousands of tons)	560	528	517	524	554
Average finished product price per ton	Ps. 10,438	Ps. 9,309	Ps. 9,269	Ps. 9,786	Ps. 10,301
Average scrap cost per ton	5,434	4,818	4,936	4,462	4,628
Average manufacturing conversion cost per ton of finished product(1)	2,390	2,594	2,268	2,060	2,032
Average manufacturing conversion cost per ton of billet(1)	1,604	1,750	1,764	1,584	1,571

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

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, 2016, these facilities had an annual installed capacity of 2,083,000 tons of billet and 1,850,000 tons of finished product. In 2016, Republic facilities produced 430,925 tons of steel billet. For the same period, Republic facilities produced 343,508 tons of hot-rolled bars. Republic facilities produced 62,442 tons of cold finish bars. In 2016, Republic facilities produced 100,155 tons of wire products.

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

	Years ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
Steel sales (thousands of tons)	[illegible]	[illegible]	778	570	397
Average finished product price per ton	[illegible]	[illegible]	Ps. 15,823	Ps. 16,611	Ps. 23,526
Average scrap cost per ton	[illegible]	[illegible]	5,354	3,899	3,939
Average manufacturing conversion cost per ton of finished product(1)	[illegible]	[illegible]	6,417	7,042	6,621
Average manufacturing conversion cost per ton of billet(1)	[illegible]	[illegible]	4,665	4,481	4,661

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

Lorain, Ohio. The Lorain facility operates an integrated steel mill, it has a blast furnace, two 220-ton basic oxygen furnaces, a 150-ton electric arc furnace, 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, 2016, an annual installed capacity of 952,000 tons of steel billet and 816,000 tons of finished product. This facility did not produce tons of steel billets in 2016. During 2016, the Lorain facility operated at 1% of capacity for 9-10" rolling mill and 5% of capacity for 20" mill finishing and shipping production, and it produced 27,216 tons of finished products.

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 2015, the Canton facility had annual installed capacity of 1,131,000 tons of steel billet. In 2016, this facility produced

430,925 tons of blooms, billets and other semi-finished trade product and was operated at 38% capacity of steel billet.

Lackawanna, New York. Our Lackawanna facility mainly produces SBQ steel and includes a three-zone walking beam billet reheat furnace, a recently upgraded 16 conventional stand mill with a 5 stand sizing mill and two saw lines capable of producing rounds, squares, and hexagons in both cut length and coils. This facility produces hot rolled bar sizes that range from 0.750” 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, 2016, the Lackawanna facility had annual installed capacity of 653,000 tons of hot rolled bars. In 2016, this facility produced 316,292 tons of hot rolled bars and was operated at 48% 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, 2016, an annual installed capacity of 125,000 tons of finished product. During 2016, the Massillon facility was operated at 24% capacity of finished product and produced 30,111 tons of cold finished bars.

Gary, Indiana. The idled Cold Finish plant in Gary, Indiana was relocated to a fellow subsidiary company in Tlaxcala, Mexico. This was a turnkey project to design the relocation, de-commission and ship the equipment, install and then re-commission the plant for an all-in cost of Ps. 1,478 million (U.S.$79.2 million). This facility was not in production in 2016.

Solon, Ohio. Our Solon facility, 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, 2016, the Solon facility had installed capacities of 196,000, for wire products. During 2016, the Solon facility produced and shipped 100,155 tons of wire products and was operated at 51% capacity of finished product.

Memphis, Tennessee. No wire products were produced at the Memphis facility during 2016 and the assets were sold to a third party in August 2016.

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, 2016, the Hamilton facility had annual installed capacity of 59,000 tons of cold finished bars. In 2016, this facility produced 32,331 tons of cold finished bars and was operated at 55% capacity of finished product.

Pindamonhangaba, Sao Paulo, Brazil.

Our plant is located 140 kms from the city of Sao Paulo, in a town called Pindamonhangaba, State of Sao Paulo and is 218 miles from Rio de Janeiro. Our Brazil facility and equipment include an electric German arc furnace and an Italian rebar and wire rod rolling mill. This plant began operations in July 2015 and currently produces rod. As of December 31, 2016, this plant had installed capacity to produce 500,000 tons of “billet” and 450,000 tons of finished product per year capacity. In 2016 our mini-steel plant in Brazil produced 203,360 tons of “billet” and 201,166 tons of finished product, operating at 41% of its capacity for “billet” and 45% capacity for finished product.

The following table sets forth, for the period indicated selected operating data for our Brazil facility.

	Years ended December 31,	
	2015	**2016**
Steel sales (thousands of tons)	4	193
Average finished product price per ton	Ps. 7,500	Ps. 9,399
Average scrap cost per ton	2,322	3,679
Average manufacturing conversion cost per ton of finished product(1)	2,481	2,551
Average manufacturing conversion cost per ton of billet(1)	1,103	1,703

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

54

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

Production per Facility by Product, Equipment and Volume

Location	**Product (%)**	**Equipment**	**2016 Annual Production Volume (tons)**	**Finished Product Annual Installed Capacity (tons)**
Guadalajara	Structurals (44%); Light structurals (21%); Bars (35%)	electric arc furnace with continuous caster rolling mill and bar processing lines	380,003	480,000
Mexicali	Structurals (20%); Rebar (52%); Light structurals (20%), Hot rolled bars (8%)	electric arc furnace with continuous caster and bar rolling mills	188,652	250,000
Apizaco and Cholula	SBQ (99%), rebar (1%)	electric arc furnace with vacuum tank degasser, continuous caster, bar rolling mills, cold drawn and bar turning equipment	380,971	492,000
Aceros DM, San Luis Potosí	Rebar (84%), Wire rod (4%), Electro-Welded wire mesh (4%), Electro-Welded wire mesh panel (5%), Bars (3%)	three electric arc furnaces, two continuous casters, two reheating furnaces, rebar rolling mill and wire rod rolling mills	386,313	410,000
Aceros San Luis, San Luis Potosí	Rebar (100%)	electric arc furnace, continuous caster, reheating furnace and rebar rolling mill	168,182	200,000
Lorain[(1)]	SBQ (100%)	electric arc furnace, blast furnace, vacuum tank degasser, continuous caster, bar and wire rod rolling mills	27,216	816,000

55

Location	Product (%)	Equipment	2016 Annual Production Volume (tons)	Finished Product Annual Installed Capacity (tons)
Canton(2)	SBQ (100%)	electric arc furnace, vacuum tank degasser, continuous caster	430,925	1,131,000
Lackawanna	SBQ (100%)	reheat furnace, bar and wire rod rolling mills	316,292	653,000
Massillon	SBQ (100%)	cold drawn bar turning and heat treating equipment	30,111	125,000
Solon (acquired in February, 2011)	Cold Heading Quality (CHQ) wire products (100%)	machinery and equipment to clean and coat, draw, and anneal wire	100,155	196,000
Hamilton	SBQ (100%)	cold drawn bar turning and heat treating equipment	32,331	59,000
Brazil	Rebar (100%)	electric arc furnace, rebar and wire rod rolling mill	201,166	450,000

(1) Production capacity is for rolling only.

(2) Production capacity is for billets only.

Item 4A. Unresolved Staff Comments

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

Item 5. Operating and Financial Review and Prospects

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

Adoption of International Financial Reporting Standards (IFRS)

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

Our Financial Statements for the year ending December 31, 2012 are the first annual financial statements presented in accordance with IFRS. The translation date was January 1, 2011 and therefore, the year ended December 31, 2011 is the comparative period covered by the standard of adoption IFRS 1, “Initial Adoption of International Financial

Reporting Standards." According to IFRS 1 we will apply the relevant mandatory exceptions and certain optional exemption to retroactive application of IFRS. We applied the following mandatory exceptions with respect to the retroactive application of IFRS:

- ***Accounting estimates*** – Accounting estimates made under MFRS in 2011 are consistent with estimates under IFRS made for the same periods and are thus, not retrospectively modified, except for the fixed asset componentization.

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

- Other mandatory exceptions were not applicable to us.

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

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

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

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

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

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

A. Operating Results

Overview

We are producers of SBQ and structural steel products. Accordingly, our net sales and profitability are highly dependent on market conditions in the steel industry which is greatly influenced by general economic conditions in North America and globally. The sharp reduction in economic activity and consumer demand in general, and in the automotive, construction and manufacturing industries in particular, in North America starting in the fourth quarter of 2008 has had a significant negative impact on the demand and price levels for all steel products, including SBQ and structural steel products. These economic conditions have had an impact on all parts of our operations since the fourth quarter of 2008. Our sales dropped in 2009 by 37% in the automotive sector and by 21% in the energy sector relative to 2008. Demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree, although the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. Our sales increased in 2010, compared to 2009, by 48% in the automotive sector, 16% in the independent distributor sector and 80% in the mining sector. The total increase in net revenue from sales of SBQ products in 2010, compared to 2009, was of 34%. Our net revenue from sales decreased in 2011, compared to 2010, by 7% in the automotive sector, increased 1% in the independent distributor sector and increased 22% in the mining sector. The total increase in net revenue from sales of SBQ products in 2011, compared to 2010, was 16%. Our net revenue from sales decreased in 2012, compared to 2011, increased by 1% in the automotive sector, increased 20% in the independent distributor sector, decreased 55% in the hand tools sector, decreased 53% in the mining sector and decreased 20% in other industries. The total decrease in net revenue from sales of SBQ products in 2012, compared to 2011, was 4%. Our net revenue from sales decreased in 2013, compared to 2012, decreased by 23% in the automotive sector, decreased 15% in the independent distributor sector, decreased 33% in the hand tools sector, increased 3% in the mining sector and decreased 13% in other industries. The total decrease in net revenue from sales of SBQ products in 2013, compared to 2012, was 18%. Our net revenue from sales increased in 2014, compared to 2013, increased by 42% in the automotive sector, decreased 13% in the independent distributor sector, decreased 34% in the hand tools sector, decreased 61% in the mining sector and increased 29% in other industries. The total increase in net revenue from sales of SBQ products in 2014, compared to 2013, was 18%. Our net revenue from sales decreased in 2015, compared to 2014, increased by 20% in the automotive sector, decreased 43% in the independent distributor sector, increased 204% in the hand tools sector, decreased 52% in the mining sector and decreased 48% in other industries. The total decrease in net revenue from sales of SBQ products in 2015, compared to 2014, was 16%. Our net revenue from sales decreased in 2016, compared to 2015, decreased by 18% in the automotive sector, increased 9% in the independent distributor sector, decreased 72% in the hand tools sector, decreased 42% in the mining sector and decreased 10% in other industries. The total decrease in net revenue from sales of SBQ products in 2016, compared to 2015, was 13%.

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 2012, 2013, 2014, 2015 and 2016 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 these periods. 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.

The negative operating trends in our USA segment are primarily driven by under-utilized production capacity that severely impacts cost. The automotive sector is stable and continues to provide good demand for our products.

Our U.S. subsidiaries have entered into sale agreements with customers and, in order to comply with the terms thereof, any existing orders pursuant to those agreements need to be fulfilled even if the price of raw material increases with time. As the existing sale agreements expire, we will evaluate new agreements which would result in a production of profitable products.

Typically, about 75% of our business uses a fixed base price that is negotiated annually, plus monthly scrap and alloy surcharges. The remaining 25% is transaction business, where we can adjust the base pricing as required. Scrap metal and commodity prices stabilized somewhat midway through 2016, thereby providing the marketplace with price stability and aiding our efforts to focus on managing our costs down to secure levels of profitability without compromising in any way on quality. Financial resources will continue to be made available as our U.S. segment tackles the cost curve and restores the business to profitability.

Sales Volume, Price and Cost Data, 2012 - 2016

	Year ended December 31,				
	2012	2013	2014	2015	2016
Shipments (thousands of tons)	2,262	2,064	2,197	2,026	2,085
Guadalajara and Mexicali	539	518	540	589	591
Apizaco and Cholula	376	329	362	339	350
San Luis facilities	560	528	517	524	554
Republic facilities	787	689	778	570	397
Brazil	—	—	—	4	193
Net sales (Ps. millions)	29,524	24,369	26,829	24,476	27,516
Guadalajara and Mexicali	5,967	4,981	5,366	5,658	6,188
Apizaco and Cholula	4,692	3,897	4,361	4,192	4,467
San Luis facilities	5,845	4,915	4,792	5,128	5,707
Republic facilities	13,020	10,576	12,310	9,468	9,340
Brazil	—	—	—	30	1,814
Cost of sales (Ps. millions)	25,960	22,410	25,492	23,097	22,776
Guadalajara and Mexicali	5,116	4,087	4,740	3,955	5,364
Apizaco and Cholula	3,344	2,729	3,115	2,764	3,635
San Luis facilities	4,568	4,240	4,221	4,529	4,726
Republic facilities	12,932	11,354	13,416	11,829	7,332
Brazil	—	—	—	20	1,719
Average price per ton (Ps.)	13,052	11,807	12,212	12,081	13,197
Guadalajara and Mexicali	11,071	9,616	9,937	9,606	10,470
Apizaco and Cholula	12,479	11,845	12,047	12,366	12,763
San Luis facilities	10,438	9,309	9,269	9,786	10,301
Republic facilities	16,544	15,350	15,823	16,611	23,526
Brazil	—	—	—	7,500	9,399
Average cost per ton (Ps.)	11,477	10,858	11,603	11,400	10,924
Guadalajara and Mexicali	9,492	7,890	8,778	6,715	9,076
Apizaco and Cholula	8,894	8,295	8,605	8,153	10,386
San Luis facilities	8,157	8,030	8,164	8,643	8,531
Republic facilities	16,432	16,479	17,244	20,753	18,469
Brazil	—	—	—	5,000	8,907

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 2.3% in 2016 and increased 2.6% in 2015. The U.S. GDP increased 1.6% in 2016 and 2.6% in 2015. Deterioration in economic conditions in the countries in which we operate is likely to adversely affect our results of operation.

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

Steel prices are generally set by reference to world steel prices, which are determined by global supply and demand trends. As a result of general excess capacity in the industry, the world steel industry was previously subject to substantial downward pricing pressure, which negatively impacted the results of steel companies in the second half of 2000 and all of 2001. International steel prices generally improved beginning in 2003, driven by a strong increase in global demand fostered by economic growth in Asia and an economic recovery in the United States, combined with increased rationalization of production capacity in the United States and elsewhere. Average steel prices continued to improve from 2003 to 2008 due to strong end-market demand fundamentals for a number of key steel-consuming industries, continued strong steel demand in China, India and other developing economies, relatively high raw material and energy costs and reductions in U.S. production from some of the industry's largest producers.

This period of high prices for steel encouraged reactivation of investment in production capacity, and consequently an increase in the supply of steel products that contributed to a decline in steel prices. As the 2008 financial crisis worsened in late 2008 and early 2009, global demand for steel fell while new steel production capacity was coming into the market, and as a result steel prices fell worldwide. In 2009 the average steel price decreased approximately 22% compared to 2008. Due to an increase in the demand, in 2010, the average steel price increased approximately 16% compared to 2009. The average steel price increased approximately 17% in 2011 compared to 2010. The average steel price increased approximately 2% in 2012 compared to 2011. The average steel price decreased approximately 10% in 2013 compared to 2012. The average steel price increased approximately 3% in 2014 compared to 2013. The average steel price decreased approximately 23% in 2015 compared to 2014, mainly due to the deceleration in China. The average steel price increased approximately 2% in 2016 compared to 2015.

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

60

government, at the request of CANACERO, implemented several measures to prevent unfair trade practices such as dumping in the steel import market. These measures include initiating anti-dumping and countervailing duty proceedings, temporarily increasing import tariffs for countries with which Mexico does not have free trade agreements. As a result, the competitive price pressure from dumping declined, contributing to a general upward trend in domestic Mexican steel prices. In 2006 and 2007, imports to Mexico increased as market conditions improved, and in 2008, imports to Mexico continued to increase, notwithstanding the worsening of international market conditions. In 2009, however, imports to Mexico decreased as domestic and global market conditions worsened. In 2010, 2011 and 2012, imports to Mexico increased as market conditions improved. In 2013, imports to Mexico decreased as domestic and global market conditions worsened. In 2014, imports to Mexico increased slightly. In 2015, imports to Mexico increased 10% compared to 2014 according to preliminary information of CANACERO. In 2016, imports to Mexico increased 1.6% compared to 2015 according to preliminary information of CANACERO.

Steel imports to the United States accounted for an estimated 26% of the domestic U.S. steel market in 2016 and an estimated 33% in 2015. Foreign producers typically have lower labor costs, and in some cases are owned, controlled or subsidized by their governments, allowing production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Increases in future levels of imported steel in the United States could reduce future market prices and demand levels for steel in the United States. To this extent, the U.S. Department of Commerce and the U.S. International Trade Commission are currently conducting five year "sunset" reviews of existing trade relief in several different steel products. Imports represent less of a threat to SBQ producers like us in the United States than to commodity steel producers because of the high quality requirements and standard required by buyers of SBQ steel products.

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

We purchase substantial quantities of raw materials, including scrap metal, iron ore, coke and ferroalloys for use in the production of our steel products. The availability and price of these inputs vary according to general market and economic conditions and thus are influenced by industry cycles. As a result of the 2008 financial crisis that continues to affect the international markets, the prices of these inputs have remained highly volatile. For example, prices of scrap metal increased approximately 34% in 2010, increased approximately 21% in 2011, increased approximately 1% in 2012, decreased approximately 6% in 2013, increased approximately 7% in 2014, decreased approximately 16% in 2015 and increased approximately 2% in 2016; and prices of ferroalloys increased approximately 22% in 2010 and 10% in 2011, decreased approximately 10% and 5% in 2012 and 2013, respectively, increased approximately 16% in 2014 and decreased approximately 9% and 13% in 2015 and 2016, respectively. As with other raw materials, iron ore and coke prices fluctuate significantly. However, in 2012, 2013, 2014, 2015 and 2016 we did not purchase coke or pellets since our Lorain, Ohio blast furnace facility was idle during this period.

In addition to raw materials, electricity and natural gas are both relevant components of our cost structure. We purchase electricity and natural gas at prevailing market prices in Mexico and the United States. These prices are impacted by general demand and supply for energy in the United States and Mexico as economic activity fueled energy demand and the supply and price of oil was impacted by geopolitical events. While natural gas and electricity prices in the United States and Mexico decreased in response to the financial crisis, they have remained highly volatile. Prices for electricity increased approximately 8% in 2010, 11% in 2011, 3% in 2012, 9% in 2013, 7% in 2014, decreased approximately 12% in 2015 and increased approximately 1.5% in 2016; and prices for natural gas decreased approximately 18% in 2010, 14% in 2011, 32% in 2012, increased approximately 16% in 2013 and 7% in 2014, decreased approximately 23% in 2015 and increased approximately 8% in 2016.

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 2012, 4.0% for 2013, 4.1% for 2014, 2.1% for 2015 and 3.4% for 2016. 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 U.S.$1.00 at August 6, 2008, and a high of Ps. 20.84 per U.S.$1.00 at November 14, 2016. Depreciation of the Mexican peso relative to the U.S. dollar in 2016 was 19.2%. The exchange rate at December 31, 2016 was 20.6640 compared to 17.3398 at December 31, 2015. At May 12, 2017 the exchange rate was Ps. 18.7594 per 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 convert Mexican pesos into U.S. dollars and other currencies. While the Mexican government does not currently restrict, and has not recently restricted the right or ability of Mexican or foreign persons or entities to convert Mexican pesos into U.S. dollars or to transfer other currencies out of Mexico, it has done so in the past and could reinstate exchange controls and restrictions in the future. Currency fluctuations or restrictions on the transfer of foreign currency outside of Mexico may have an adverse effect on our financial performance.

Segment Information

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

We conduct business in three 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;

our U.S. segment represents the results of our operations of Republic, including its eight plants, seven of which are located in the United States and one in Canada; and our Brazil segment represents the results of our operations in one plant located in Pindamonhangaba, São Paulo State, Brazil, which started operations in June 2015.

The following information shows other results by segment.

	For the year ended December 31, 2014				
	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	14,518,299	12,310,462	—	—	26,828,761
Cost of sales	12,075,965	13,416,333		—	25,492,298
Gross profit	2,442,334	(1,105,871)	—	—	1,336,463
Administrative expenses	818,213	335,127	40,378	—	1,193,718
Other income, net	(29,622)	(30,932)	—	—	(60,554)
Interest income	24,773	366	—	—	25,139
Interest expense	7,164	25,028	15,296	(24,874)	22,614
Exchange gain (loss), net	490,729	—	(202,502)	185,865	474,092
Income (loss) before income tax	2,162,081	(1,434,728)	(258,176)	210,739	679,916
Income tax	222,491	(60,494)	—	—	161,997
Net income (loss)	1,939,590	(1,374,234)	(258,176)	210,739	517,919

Other Data	Mexico	United States	Brazil	Operations between Segments	Total
Depreciation and amortization	757,873	358,872	1,161	—	1,117,906
Total assets	27,340,625	11,078,721	3,331,720	(5,854,577)	35,896,489
Total liabilities	3,476,065	9,585,026	909,330	(5,854,577)	8,115,844
Additions of property, plant and equipment, net	198,811	924,241	735,306	—	1,858,358

62

	For the year ended December 31, 2015				
	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	14,978,728	9,467,604	29,489	—	24,475,821
Cost of sales	11,247,661	11,828,885	20,421	—	23,096,967
Impairment of property, plant and equipment	—	2,071,901	—	—	2,071,901
Gross profit (loss)	3,731,067	(4,433,182)	9,068	—	(693,047)
Administrative expenses	1,100,622	457,435	24,432	—	1,582,489
Other (income) expense, net	(5,656)	(184,039)	16,268	—	(173,427)
Interest income	33,872	155	—	—	34,027
Interest expense	9,987	47,032	24,805	(41,629)	40,195
Exchange gain (loss), net	840,156	—	(496,906)	(725,312)	(382,062)
Income (loss) before income tax	3,500,142	(4,753,455)	(553,343)	(683,683)	(2,490,339)
Income tax	1,412,695	(642,123)	—	—	770,572
Net income (loss)	2,087,447	(4,111,332)	(553,343)	(683,683)	(3,260,911)
Other Data	Mexico	United States	Brazil	Operations between Segments	Total
Depreciation and amortization	747,436	512,393	1,264	—	1,261,093
Total assets	28,530,321	7,891,964	3,226,150	(7,404,019)	32,244,416
Total liabilities	1,889,025	10,808,505	1,829,524	(7,404,019)	7,123,035
Additions of property, plant and equipment, net	574,211	396	73,136	—	647,743

	For the year ended December 31, 2016				
	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	16,361,808	9,339,527	1,814,230	—	27,515,565
Cost of sales	13,724,880	7,332,094	1,718,619	—	22,775,593
Gross profit (loss)	2,636,928	2,007,433	95,611		4,739,972
Administrative expenses	901,849	298,967	76,671		1,277,487
Other (income) expense, net	40,134	(1,481,573)	—	1,477,637	36,198
Interest income	108,004	147	—	—	108,151
Interest expense	15,053	45,120	50,980	(70,983)	40,170
Exchange gain (loss), net	2,343,393	42,727	765,684	(1,376,820)	1,774,984
Income (loss) before income tax	4,131,289	3,187,793	733,644	(2,783,474)	5,269,252
Income tax	667,667	256,089	2,285	—	926,041
Net income (loss)	3,463,622	2,931,704	731,359	(2,783,474)	4,343,211

Other Data	Mexico	United States	Brazil	Operations between Segments	Total
Depreciation and amortization	620,354	551,650	257,377	—	1,429,381
Total assets	33,124,471	9,684,303	5,293,891	(6,463,293)	41,639,372

Total liabilities	4,151,297	9,893,536	2,325,325	(7,940,930)	8,429,228
Additions of property, plant and equipment, net	2,169,375	816,586	114,298	—	3,100,259

63

Our net sales by product during 2014, 2015 and 2016 were as follows:

SALES BY PRODUCT

(in thousands of pesos)

	2014	2015	2016
Light structurals	1,348,564	1,270,459	1,467,727
Structurals	1,720,764	1,957,388	2,321,771
Bars	1,435,075	1,272,580	1,122,116
Rebar	4,907,453	5,235,167	7,449,278
Flat bar	746,161	906,243	1,090,841
Hot rolled bars	10,310,093	8,568,417	7,729,167
Cold drawn bars	3,646,684	2,750,380	3,207,924
Other	2,713,967	2,515,187	3,126,741
Total	26,828,761	24,475,821	27,515,565

Our net sales by country or region during 2014, 2015 and 2016 are as follows:

SALES BY COUNTRY OR REGION

(in thousands of pesos)

	2014	2015	2016
Mexico	14,165,166	14,543,446	16,077,884
USA	11,941,251	9,417,392	9,198,561
Brazil	—	—	1,828,279
Canada	493,911	371,610	350,673
Latin America	216,293	134,031	34,932
Other (Europe and Asia)	12,140	9,342	25,236
Total	26,828,761	24,475,821	27,515,565

Consolidated Statements of Comprehensive Income

Comparison of Years Ended December 31, 2015 and 2016

Net Sales

Net sales increased 12%, to Ps. 27,516 million in 2016 compared to Ps. 24,476 million in 2015. This increase resulted primarily from a 9% increase in the average price per ton of steel products and an increase of 59 thousand tons in shipments of finished steel products. Total sales outside of Mexico increased 15%, to Ps. 11,438 million in 2016 compared to Ps. 9,932 million in 2015. Total sales in Mexico increased 11%, from Ps. 14,543 million in 2015 to Ps. 16,078 million in 2016.

Shipments of finished steel products increased 3%, to 2.085 million tons in 2016, compared to 2.026 million tons in 2015. Total sales volume outside of Mexico of finished steel products increased 0.6% to 0.636 million tons in 2016, compared to 0.632 million tons in 2015, while total Mexican sales decreased 0.2%, from 1.452 million tons in 2015, compared to 1.449 million tons in 2016. The average price of steel products increased 9% in 2016 compared to 2015.

Cost of Sales

Our cost of sales decreased 1%, from Ps. 23,097 million in 2015 to Ps. 22,776 million in 2016, which decrease is mainly attributable to a 4% decrease in the average price per ton of steel products sold and to the fact that in 2016 Ps. 466 million was charged against the cost of sales as a result of the increase in the value of the coke inventory, compared to Ps. 552 million in 2015. Cost of sales as a percentage of net sales was 83% in 2016 and 94% in 2015. 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.$1.4 (Ps. 29) per hour in 2016 and U.S.$1.7 (Ps. 35) per hour in 2015, compared to U.S.$61.3 (Ps. 1,267) and U.S.$52.5 (Ps. 1,085) per hour for 2016 and 2015, 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 (Loss)

Our gross profit was Ps. 4,740 million in 2016 compared to a Ps. 693 million gross loss in 2015. This gross profit is attributable mainly to an increase of 59 thousand tons of finished steel products shipped, a 9% increase in the average price of steel products sold, and a 4% decrease in the average price per ton of steel products sold. As a percentage of net sales, our gross profit was 17% in 2016 and our gross loss was 3% in 2015.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) decreased 19%, to Ps. 1,277 million in 2016, compared to Ps. 1,582 million in 2015. The decrease of Ps. 305 million in 2016 compared to 2015 is attributable principally to the fact that in 2015 we made the following payments, which we did not make in 2016: (i) Ps. 178 million in royalties to Industrias CH for use of their brands, (ii) Ps. 78 million related to fees for legal services and (iii) expenses of Ps. 76 million corresponding to severance payments in Republic, which were made in 2015. In 2016 and 2015, our general and administrative expenses included Ps. 258 million and Ps. 256 million, respectively, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Operating expenses as a percentage of net sales were 5% in 2016 and 6% in 2015. Depreciation and amortization expense were Ps. 398 million in 2016 compared to Ps. 419 million in 2015.

Other (Expense) Income, Net

We recorded other expense, net, of Ps. 36 million in 2016, reflecting (i) income of Ps. 10 million related to the sale of scrap, (ii) expense of Ps. 35 million in the dismantling of machinery and (iii) an expense related to other financial operations of Ps. 11 million.

We recorded other income, net, of Ps. 173 million in 2015, reflecting (i) income of Ps. 4 million related to the sale of scrap, (ii) income of Ps. 174 million related to proceeds from a settlement with a client and (iii) an expense related to other financial operations of Ps. 5 million.

Interest Income

We recorded an interest income of Ps. 108 million in 2016 compared to Ps. 34 million in 2015. This increase is attributable mainly to better interest rates negotiated with our lenders.

Interest Expense

We recorded an interest expense of Ps. 40 million in 2016 compared to Ps. 40 million in 2015.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange gain of Ps. 1,775 million in 2016 compared to an exchange loss of Ps. 382 million in 2015; this foreign exchange gain reflected the 19.2% depreciation of the peso against the dollar and the 17% appreciation of the Brazilian real against the dollar in 2016, compared to the 47% depreciation of the Brazilian real against the dollar and the 17.7% depreciation of the peso against the dollar in 2015.

Income Tax

In 2016 we recorded an income tax provision of Ps. 926 million, which included an income tax provision of Ps. 57 million and an income tax provision for deferred income taxes of Ps. 869 million. In 2015 we recorded an income tax provision of Ps. 771 million, which included an income tax provision of Ps. 1,598 million and an income tax benefit for deferred income taxes of Ps. 827 million. The income tax of 2015 includes Ps. 1,333 million that was paid by Simec International 6 S.A. de C.V. and Simec International 8 S.A. de C.V. arising from a review by the tax authority initiated in July 2015 to the fiscal year ended December 31, 2010, due to a difference of opinion on the deduction of losses on disposal of treasury bonds of the United States.

Our effective income tax rates for 2016 and 2015 were 17.6% and 22.5%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2016 and years thereafter is 30%. We have implemented the practice of recognizing the benefit derived from the amortization of tax losses for the period in which such losses are actually amortized. In 2016 and 2015, we amortized tax losses which generated a benefit on income tax of approximately Ps. 1,166 million and Ps. 39 million, respectively. These effects caused our effective tax rates during 2016 and 2015 to be lower than the statutory tax rate.

Net Income (Loss)

We recorded net income of Ps. 4,343 million in 2016, compared to net loss of Ps. 3,261 million in 2015. This income is attributable mainly to (i) an increase of 59 thousand shipments of finished steel products, (ii) an increase of 9% in the average price of steel products sold, (iii) the 4% decrease in the average price per ton of steel products sold and (iv) a foreign exchange gain of Ps. 1,775 million in 2016 compared to Ps. 382 million of foreign exchange loss in 2015.

Mexican Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2015 and 2016

Net Sales

Net sales increased 9%, to Ps. 16,362 million in 2016 compared to Ps. 14,978 million in 2015. This increase resulted principally from a 6% increase in the average price per ton of steel products and an increase of 43 thousand tons of shipments of finished steel products.

Shipments of finished steel products increased 3%, to 1.495 million tons in 2016, compared to 1.452 million tons in 2015.

The average price of steel products increased 6% in 2016 compared to 2015.

Cost of Sales

Our cost of sales increased 22%, from Ps. 11,248 million in 2015 to Ps. 13,725 million in 2016, which increase is mainly attributable to a 18% increase in the cost of sales of our products sold and the increase of 43 thousand tons of shipments of finished steel products. As a percentage of net sales, our cost of sales was 84% in 2016, compared to 75% in 2015.

Gross Profit

Our gross profit decreased 29%, to Ps. 2,637 million in 2016 compared to Ps. 3,731 million in 2015. This decrease is attributable mainly to an increase of 18% in the average price of steel products sold. As a percentage of net sales, our gross profit was 16% in 2016, compared to 25% in 2015.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) decreased 18%, to Ps. 902 million in 2016, compared to Ps. 1,101 million in 2015. Such decrease is attributable principally to the fact that in 2015 we had an administrative expense of Ps. 178 million in royalties paid to Industrias CH for use of their brands, which we did not have in 2016. In 2016 and 2015, our general and administrative expenses included Ps. 245 million and Ps. 245 million, respectively, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Administrative expenses as a percentage of net sales were 6% in 2016 and 7% in 2015. Depreciation and amortization expense were Ps. 338 million in 2016 compared to Ps. 366 million in 2015.

Other Expense (Income), Net

We recorded other expense, net, of Ps. 40 million in 2016, reflecting (i) an income of Ps. 10 million related to the sale of scrap, (ii) other expense of Ps. 35 million related to dismantling machinery and (iii) other expense, net, related to other financial operations of Ps. 15 million.

We recorded other income, net, of Ps. 6 million in 2015, reflecting (i) an income of Ps. 4 million related to the sale of scrap and (ii) other income related to other financial operations of Ps. 2 million.

Interest Income

We recorded an interest income of Ps. 108 million in 2016 compared to Ps. 34 million in 2015. This increase is attributable mainly to better interest rates negotiated with our lenders.

Interest Expense

We recorded an interest expense of Ps. 15 million in 2016 compared to Ps. 10 million in 2015. This increase was principally due to negotiations with our lenders in connection with commissions payable to them.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange gain of Ps. 2,343 million in 2016 compared to an exchange gain of Ps. 840 million in 2015; this foreign exchange reflected the 19.2% depreciation of the peso against the dollar in 2016.

Income Tax

In 2016, we recorded an income tax provision of Ps. 668 million, which included an income tax provision of Ps. 7 million and an income tax provision for deferred income taxes of Ps. 661 million. In 2015 we recorded an income tax provision of Ps. 1,413 million, which included an income tax provision of Ps. 1,598 million and an income tax benefit for deferred income taxes of Ps. 185 million. The income tax of 2015 includes Ps. 1,333 million that was paid by Simec International 6 S.A. de C.V. and Simec International 8 S.A. de C.V. arising from a review by the tax authority initiated in July 2015 to the fiscal year ended December 31, 2010, due to a difference of opinion on the deduction of losses on disposal of treasury bonds of the United States.

According to the Income Tax Law in Mexico, the tax rate for the year 2016 and years thereafter is 30%.

Net Income

We recorded net income of Ps. 3,463 million in 2016, compared to net income of Ps. 2,087 million in 2015. This increase is attributable mainly to (i) an increase of 43 thousand shipments of finished steel products, (ii) an increase of 6% in the average price of steel products sold, and (iii) a foreign exchange gain of Ps. 2,343 million in 2016 compared to Ps. 840 million of foreign exchange gain in 2015.

USA Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2015 and 2016

Net Sales

Net sales decreased 1%, to Ps. 9,339 million in 2016 compared to Ps. 9,468 million in 2015. This decrease resulted principally from a decrease of 173 thousand tons of shipments of finished steel products.

Shipments of finished steel products decreased 30%, to 397 thousand tons in 2016, compared to 570 thousand tons in 2015.

The average price of steel products in pesos increased 41% in 2016 compared to 2015. Also, surcharges of scrap have affected the sales price due to a consistently low level of scrap cost.

Cost of Sales

Our cost of sales decreased 38%, from Ps. 11,829 million in 2015 to Ps. 7,332 million in 2016, which decrease is mainly attributable to a 30% decrease in shipments of finished steel products, a decrease of 11% in the prices of raw materials used for the production of finished products and to the fact that in 2016 Ps. 466 million was charged against the cost of sales as a result of the increase in the value of the coke inventory, compared to Ps. 552 million in 2015. Cost of sales as a percentage of net sales was 79% in 2016, compared to 125% in 2015.

Gross Profit (Loss)

Our gross profit was Ps. 2,007 million in 2016 compared to a Ps. 4,433 million gross loss in 2015. As a percentage of net sales, our gross profit was 21% in 2016, compared to a 47% gross loss in 2015. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of steel purchases as a result of the time lag between the production and sales cycles.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) decreased 35%, to Ps. 299 million in 2016, compared to Ps. 457 million in 2015.

Administrative expenses as a percentage of net sales were 4% in 2016 and 5% in 2015. Depreciation and amortization expense were Ps. 58 million in 2016 compared to Ps. 67 million in 2015.

Other Income, Net

We recorded other income, net, of Ps. 1,482 million in 2016, reflecting (i) income of Ps. 1,478 million related to the transfer of the total assets of the Gary, Indiana plant in the United States to the current Tlaxcala plant in Mexico, through a turnkey transaction, by which Republic Steel developed the project until the start of the operations in Tlaxcala, Mexico, and (ii) other income, net of Ps. 4 million related to other financial operations.

We recorded other income, net, of Ps. 184 million in 2015, reflecting (i) income of Ps. 174 million related to proceeds from a settlement with a client and (ii) other income, net of Ps. 10 million related to other financial operations.

Interest Income

We recorded an interest income of Ps. 0.1 million in 2016 compared to Ps. 0.2 million in 2015.

Interest Expense

We recorded an interest expense of Ps. 45 million in 2016 compared to Ps. 47 million in 2015.

Income Tax

In 2016 we recorded an income tax provision of Ps. 256 million for deferred income taxes. In 2015 we recorded an income tax benefit of Ps. 642 million for deferred income taxes.

Net Income (Loss)

We recorded net income of Ps. 2,932 million in 2016, compared to a net loss of Ps. 4,111 million in 2015. Our net income is attributable mainly to (i) the increase of 41% in the average price of steel products sold, (ii) a decrease of 11% in the prices of raw materials used for the production of finished products and (iii) other income, net, of Ps. 1,482 million.

Brazil Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2015 and 2016

Our segment in Brazil started operations in late 2015. The information presented for 2016 is not comparable with 2015 because the information presented for 2016 corresponds to a full year of operations, while the information presented for 2015 corresponds only to a few months of operations.

Net Sales

Net sales increased to Ps. 1,814 million in 2016 compared to Ps. 29 million in 2015. This increase resulted principally from an increase of 189 thousand tons of shipments of finished steel products.

Shipments of finished steel products increased to 193 thousand tons in 2016, compared to 4 thousand tons in 2015.

Cost of Sales

Our cost of sales increased to Ps. 1,719 million compared to Ps. 20 million in 2015. Cost of sales as a percentage of net sales was 95% in 2016, compared to 69% in 2015.

Gross Profit

Our gross profit was Ps. 95 million in 2016 compared to Ps. 9 million of gross profit in 2015. As a percentage of net sales, our gross profit was 5% in 2016, compared to 31% of gross loss in 2015.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 77 million in 2016 compared to Ps. 24 million in 2015. Operating expenses as a percentage of net sales were 4% in 2016 compared to 83% in 2015. Depreciation and amortization expense were Ps. 3 million in 2016 compared to Ps. 1 million in 2015.

Other Expense, Net

We did not record other expense, net, in 2016. We recorded other expense, net, of Ps. 16 million in 2015, reflecting other expenses related to other financial operations.

Interest Expense

We recorded an interest expense of Ps. 51 million in 2016 compared to Ps. 25 million in 2015.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange gain of Ps. 766 million in 2016 compared to an exchange loss of Ps. 497 million in 2015; this foreign exchange reflected the 17% appreciation of the Brazilian real against the dollar in 2016 compared to 2015.

Income Tax

In 2016 we recorded an income tax provision of Ps. 2 million, while in 2015 we did not record any income tax.

Net Income (Loss)

We recorded a net income of Ps. 731 million in 2016 compared to Ps. 553 million of net loss in 2015.

Consolidated Statements of Comprehensive Income

Comparison of Years Ended December 31, 2014 and 2015

Net Sales

Net sales decreased 9%, to Ps. 24,476 million in 2015 compared to Ps. 26,829 million in 2014. This decrease resulted principally from a 1% decrease in the average price per ton of steel products and a decrease of 171 thousand shipments of finished steel products. Total sales outside of Mexico decreased 22%, to Ps. 9,932 million in 2015 compared with Ps. 12,664 million in the same period of 2014. Total sales in Mexico increased 3%, from Ps. 14,165 million in 2014 to Ps. 14,543 million in 2015.

Shipments of finished steel products decreased 8%, to 2.026 million tons in 2015, compared to 2.197 million tons in 2014. Total sales volume outside of Mexico of finished steel products decreased 24% to 0.632 million tons in 2015, compared to 0.837 million tons in 2014, while total Mexican sales increased 2%, from 1.360 million tons in 2014, compared to 1.394 million tons in 2015.

The average price of steel products decreased 1% in 2015 compared to 2014.

Cost of Sales

Our cost of sales decreased 9%, from Ps. 25,492 million in 2014 to Ps. 23,097 million in 2015, which decrease is mainly attributable to (i) a 1% decrease in the average price per ton of steel products sold, and (ii) an decrease of 171 thousand tons of finished steel products shipped. Cost of sales as a percentage of net sales was 95% in 2015 and 2014. 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.$1.7 (Ps. 35) per hour in 2015 and U.S.$2.0 (Ps. 41) per hour in 2014, compared to U.S.$52.5 (Ps. 1,085) and U.S.$50 (Ps. 1,033) per hour for 2015 and 2014, 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.

Impairment of Property, Plant and Equipment

We made an analysis of the fair value of the Lorain facility with the assistance of an independent valuation firm and determined the net book value exceeded the fair value by approximately Ps. 2,072 million (U.S.$130.7 million) and as such, recognized an asset impairment of this amount during the year ended December 31, 2015.

Gross (Loss) Profit

Our gross loss was Ps. 693 million in 2015 compared to Ps. 1,337 million of gross profit in 2014. This gross loss is attributable mainly to the impairment of property, plant and equipment and a decrease of 171 thousand tons of finished steel products shipped. As a percentage of net sales, our gross loss was 3% in 2015 and our gross profit was 5% in 2014.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 32%, to Ps. 1,582 million in 2015, compared to Ps. 1,194 million in 2014. The increase of Ps. 388 million in 2015 compared to 2014, is attributable principally to (i) Ps. 178 million in royalties paid to Industrias CH for use of their brands, (ii) Ps. 78 million related to fees paid for legal services and (iii) expenses of Ps. 76 million corresponding to severance payments in Republic. In 2015 and 2014, our general and administrative expenses included Ps. 256 million and Ps. 254 million, respectively, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Operating expenses as a percentage of net sales were 6% in 2015 and 4% in 2014. Depreciation and amortization expense were Ps. 419 million in 2015 compared to Ps. 393 million in 2014.

Other Income (Expense), Net

We recorded other income, net of Ps. 173 million in 2015, reflecting (i) income of Ps. 4 million related to the sale of scrap, (ii) income of Ps. 174 million related to proceeds from a settlement with a client and (iii) an expense related to other financial operations of Ps. 5 million.

We recorded other income, net of Ps. 61 million in 2014, reflecting (i) expenses of Ps. 1 million corresponding to land remediation work at Pacific Steel (ii) an expense of Ps. 2 million related to the write-off of certain account balances (iii) an income of Ps. 29 million related to the sale of scrap and (iv) an income related to other financial operations of Ps. 35 million.

Interest Income

We recorded an interest income of Ps. 34 million in 2015 compared to Ps. 25 million in 2014. This increase is attributable mainly to better interest rates negotiated with our lenders.

Interest Expense

We recorded an interest expense of Ps. 40 million in 2015 compared to Ps. 23 million in 2014. This increase was principally due to negotiations with our lenders in connection with commissions payable to them.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 382 million in 2015 compared to an exchange gain of Ps. 474 million in 2014; this foreign exchange loss reflected the 47% depreciation of the Brazilian real against the dollar and the 17.7% depreciation of the peso against the dollar in 2015 compared to the 13% depreciation of the peso against the dollar in 2014.

Income Tax

In 2015 we recorded an income tax provision of Ps. 771 million, which included an income tax provision of Ps. 1,598 million and an income tax benefit for deferred income taxes of Ps. 827 million. The income tax of 2015 includes Ps. 1,333 million that was paid by Simec International 6 S.A. de C.V. and Simec International 8 S.A. de C.V. arising from a review by the tax authority initiated in July 2015 to the fiscal year ended December 31, 2010, by difference of opinion on the deduction of losses on disposal of treasury bonds of the United States. In 2014 we recorded an income tax provision of Ps. 162 million, which included an income tax provision of Ps. 278 million and an income tax benefit for deferred income taxes of Ps. 116 million.

Our effective income tax rates for 2015 and 2014 were 22.5% and 23.8%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2015 and years thereafter is 30%. We have implemented the practice of recognizing the benefit derived from the amortization of tax losses for the period in which such losses are actually amortized. In 2015 and 2014, we amortized tax losses which generated a benefit on income tax of approximately Ps. 39 million and Ps. 145 million, respectively. These effects caused our effective tax rates during 2015 and 2014 to be lower than the statutory tax rate.

Net (Loss) Income

We recorded net loss of Ps. 3,261 million in 2015, compared to net income of Ps. 518 million in 2014. This loss attributable mainly to (i) a decrease of 171 thousand shipments of finished steel products, (ii) an expense of Ps. 2,072 million related to impairment charges in Republic, (iii) a foreign exchange loss of Ps. 419 million in 2015 compared to Ps. 474 million of foreign exchange gain in 2014 and (iv) the Ps. 1,333 million that was paid by Simec International 6, S.A. de C.V. and Simec International 8, S.A. de C.V. derived by a review initiated in July 2015 to the fiscal year 2010 by the tax authority, by difference of opinion on the deduction of losses on disposal of treasury bonds of the United States.

Mexican Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2014 and 2015

Net Sales

Net sales increased 3%, to Ps. 14,978 million in 2015 compared to Ps. 14,518 million in 2014. This increase resulted principally from a 1% increase in the average price per ton of steel products and an increase of 33 thousand tons of shipments of finished steel products.

Shipments of finished steel products increased 3%, to 1.452 million tons in 2015, compared to 1.419 million tons in 2014.

The average price of steel products increased 1% in 2015 compared to 2014.

Cost of Sales

Our cost of sales decreased 7%, from Ps. 12,076 million in 2014 to Ps. 11,248 million in 2015, which decrease is mainly attributable to a 9% decrease in the prices of raw materials used for the production of finished products. As a percentage of net sales, our cost of sales was 75% in 2015, compared to 83% in 2014.

Gross Profit

Our gross profit increased 53%, to Ps. 3,731 million in 2015 compared to Ps. 2,442 million in 2014. This increase is attributable mainly to a 9% decrease in the prices of raw materials used for the production of finished products and an increase of 33 thousand tons of shipments of finished steel products. As a percentage of net sales, our gross profit was 25% in 2015, compared to 17% in 2014.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 35%, to Ps. 1,101 million in 2015, compared to Ps. 818 million in 2014. Such increase is attributable principally to (i) an administrative expense of Ps. 178 million in royalties paid to Industrias CH for use of their brands, (ii) Ps. 78 million related to fees paid for legal services and (iii) other administrative expenses in our plants in Mexico. In 2015 and 2014, our general and administrative expenses included Ps. 245 million and Ps. 245 million, respectively, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Administrative expenses as a percentage of net sales were 7% in 2015 and 6% in 2014. Depreciation and amortization expense were Ps. 366 million in 2015 compared to Ps. 331 million in 2014.

Other Income (Expense), Net

We recorded other income, net of Ps. 6 million in 2015, reflecting (i) an income of Ps. 4 million related to the sale of scrap and (ii) other income related to other financial operations of Ps. 2 million.

We recorded other income, net of Ps. 30 million in 2014, reflecting (i) an expenses of Ps. 1 million corresponding to land remediation work at Pacific Steel (ii) an expense of Ps. 2 million related to the depuration of some account balances (iii) an income of Ps. 4 million related to adjustments in inflation for taxes returned to us and (iv) other income related to other financial operations of Ps. 29 million.

Interest Income

We recorded an interest income of Ps. 34 million in 2015 compared to Ps. 25 million in 2014. This increase is attributable mainly to better interest rates negotiated with our lenders.

Interest Expense

We recorded an interest expense of Ps. 10 million in 2015 compared to Ps. 7 million in 2014. This increase was principally due to negotiations with our lenders in connection with commissions payable to them.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange gain of Ps. 840 million in 2015 compared to an exchange gain of Ps. 491 million in 2014; this foreign exchange reflected the 17.7% depreciation of the peso against the dollar in 2015 and the 47% depreciation of the Brazilian real against the dollar in 2015.

Income Tax

In 2015 we recorded an income tax provision of Ps. 1,413 million, which included an income tax provision of Ps. 1,598 million and an income tax benefit for deferred income taxes of Ps. 185 million. The income tax of 2015 includes Ps. 1,333 million that was paid by Simec International 6 S.A. de C.V. and Simec International 8 S.A. de C.V. arising from a review by the tax authority initiated in July 2015 to the fiscal year ended December 31, 2010, by difference of opinion on the deduction of losses on disposal of treasury bonds of the United States. In 2014 we recorded an income tax provision of Ps. 222 million, which included an income tax provision of Ps. 278 million and an income tax benefit for deferred income taxes of Ps. 56 million.

According to the Income Tax Law in Mexico, the tax rate for the year 2015 and years thereafter is 30%.

Net Income

We recorded net income of Ps. 2,087 million in 2015, compared to net income of Ps. 1,940 million in 2014. Net income for 2015 remains virtually equal to the net income generated in 2014, due to the increase in tons sold that offset the additional expense of income tax.

USA Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2014 and 2015

Net Sales

Net sales decreased 23%, to Ps. 9,468 million in 2015 compared to Ps. 12,310 million in 2014. This decrease resulted principally from a decrease of 208 thousand tons of shipments of finished steel products.

Shipments of finished steel products decreased 27%, to 570 thousand tons in 2015, compared to 778 thousand tons in 2014.

The average price of steel products in pesos increased 5% in 2015 (in dollars decreased 14%) compared to 2014, mainly as a result of lower prices in the steel market. Also, surcharges of scrap have affected the sales price due to a consistently low level of scrap cost.

Cost of Sales

Our cost of sales decreased 12%, from Ps. 13,416 million in 2014 to Ps. 11,829 million in 2015, which decrease is mainly attributable to a 27% decrease in shipments of finished steel products and the decrease of 25% in the prices of raw materials used for the production of finished products. In 2015 we made a charge to the cost of sales for an inventory valuation allowance of Ps. 681 million. Cost of sales as a percentage of net sales was 125% in 2015, compared to 109% in 2014.

Impairment of Property, Plant and Equipment

We made an analysis of the fair value of the Lorain facility with the assistance of an independent valuation firm and determined the net book value exceeded the fair value by approximately Ps. 2,072 million (U.S.$130.7 million) and as such, recognized an asset impairment of this amount during the year ended December 31, 2015.

Gross (Loss) Profit

Our gross loss was Ps. 4,433 million in 2015 compared to Ps. 1,106 million of gross loss in 2014. This gross loss is attributable mainly to the impairment of property, plant and equipment of Ps. 2,072 million (U.S.$130.7 million), a decrease of 208 thousand tons of shipments of finished steel products and the charge to the cost of sales for an inventory valuation allowance of Ps. 681 million. As a percentage of net sales, our gross loss was 47% in 2015, compared to 9% of gross loss in 2014. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of steel purchases as a result of the time lag between the production and sales cycles.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 36%, to Ps. 457 million in 2015, compared to Ps. 335 million in 2014. The administrative expenses in dollars increased by U.S.$3.6 million (Ps. 74 million), due to the expenses of U.S.$3.8 million corresponding to severance payments (Ps. 76 million), the other difference in pesos of Ps. 46 million corresponds to 17.7% depreciation of the peso against the dollar, the amount in pesos is recorded as an increase.

Administrative expenses as a percentage of net sales were 5% in 2015 and 3% in 2014. Depreciation and amortization expense were Ps. 67 million in 2015 compared to Ps. 62 million in 2014.

Other Income, Net

We recorded other income, net of Ps. 184 million in 2015, reflecting (i) income of Ps. 174 million related to proceeds from a settlement with a client and (ii) other income, net of Ps. 10 million related to other financial operations.

We recorded other income, net of Ps. 31 million in 2014, reflecting an income of (i) Ps. 29 million related to the sale of scrap and (ii) Ps. 2 million related to other financial operations.

Interest Income

We recorded an interest income of Ps. 0.2 million in 2015 compared to Ps. 0.4 million in 2014.

Interest Expense

We recorded an interest expense of Ps. 47 million in 2015 compared to Ps. 25 million in 2014.

Income Tax

In 2015 we recorded an income tax benefit of Ps. 642 million for deferred income taxes. In 2014 we recorded an income tax benefit of Ps. 60 million for deferred income taxes.

Net Loss

We recorded net loss of Ps. 4,111 million in 2015, compared to net loss of Ps. 1,374 million in 2014. This increase in our net loss is attributable mainly to (i) an expense of Ps. 2,072 million related to asset impairment charges, (ii) a decrease of 208 thousand tons of shipments of finished steel products and (iii) the charge to the cost of sales for an inventory valuation allowance of Ps. 681 million.

Brazil Segment

Statements of Comprehensive Income

Comparison of Years Ended December 31, 2014 and 2015

Our segment in Brazil started operations in late 2015; the information presented is not comparable with 2014 because in that year we did not have production and sale of our products.

Net Sales

Our net sales were Ps. 29 million in 2015. Our shipments of finished steel products in 2015 were 4 thousand tons.

Cost of Sales

Our cost of sales was Ps. 20 million in 2015. As a percentage of net sales, our cost of sales was 69% in 2015.

Gross Profit

Our gross profit was Ps. 9 million in 2015. As a percentage of net sales, our gross loss was 31% in 2015. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of steel purchases as a result of the time lag between the production and sales cycles.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 24 million in 2015. Operating expenses as a percentage of net sales were 83% in 2015. Depreciation and amortization expense were Ps. 1 million in 2015.

Other Expense, Net

We recorded other expense, net of Ps. 16 million in 2015, reflecting other expenses related to other financial operations.

Interest Expense

We recorded an interest expense of Ps. 25 million in 2015 compared to Ps. 15 million in 2014.

Foreign Exchange Loss

We recorded a foreign exchange loss of Ps. 497 million in 2015 compared to an exchange loss of Ps. 203 million in 2014; this foreign exchange reflected the 47% depreciation of the Brazilian real against the dollar in 2015.

Income Tax

In 2015 we did not record any income tax for 2015.

Net Loss

We recorded a net loss of Ps. 553 million in 2015. Our net loss is attributable mainly to our foreign exchange loss of Ps. 497 million.

Critical Accounting Policies

The discussion in this section is based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at year-end, and the reported amount of revenues and expenses during the year. Management regularly evaluates these estimates, including those related to the carrying value of property, plant and equipment and other non-current assets, inventories and cost of sales, income taxes, foreign currency transactions and exchange differences, liabilities for deferred income taxes, valuation of financial instruments, obligations relating to employee benefits, potential tax deficiencies, environmental obligations, and potential litigation claims and settlements. Management estimates are based on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Accordingly, actual results may differ materially from current expectations under different assumptions or conditions.

Management believes that the critical accounting policies which require the most significant judgments and estimates used in the preparation of the financial statements relate to deferred income taxes, the impairment of property, plant and equipment, impairment of intangible assets, valuation allowance on accounts receivable and inventories obsolescence. We evaluate the recoverability of operating tax losses (NOL) carry forwards, and only for those who have probability of being recovered is determined a deferred tax asset. The final realization of deferred tax assets depends on the generation of taxable profits in the periods when the temporary differences are deductible. Upon carrying out this evaluation, we considered the expected reversal of deferred tax liabilities, projected taxable profit and planning strategies. Based on the company’s evaluation, it determined the amount of deferred tax assets that is more likely than not to be realized in the future against those taxable profits.

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

In June of 2015 Republic Steel temporarily idled the newly constructed electric arc furnace at the Lorain, Ohio, facility in response to the severe economic downturn in the energy exploration sector following the sharp drop in the price of oil which has led to significant market declines and demand for product. As a consequence of this event management determined a triggering event took place to where the long-lived assets at the Lorain facility may not be fully recoverable. Management performed an analysis of the fair value of the Lorain facility with the assistance of an independent valuation firm and determined the net book value exceeded the fair value by approximately U.S.$130.7 million (Ps. 2,701 million) and as such recognized an asset impairment of this amount during the year ended December 31, 2015. The fair value determination at the Lorain facility was based on an independent valuation of the Lorain melt shop assets using the comparable match method of the market approach. The income approach was not considered an appropriate fair value measurement due to the absence of reliable forecast data as the facility was idled indefinitely in early 2016.

As of the date of this report, management has no near-term plans to restart the facility. The expectation is that it will be restarted when market conditions improve substantially, particularly in the oil and gas industry. We have property, plant and equipment with a net book value of approximately U.S.$46.9 million (Ps. 969 million) as of December 31, 2016, pertaining to the Lorain Ohio facility after recording the impairment charge of U.S.$130.7 million (Ps. 2,700 million) in 2015 (the impairment charge did not impact the cash flows, as it was not a cash expenditure). Management further assessed if there were any impairments at the Company's other asset groups in accordance with IFRS and determined that as of December 31, 2016, no other asset groups were impaired based on current projections. No further impairment was considered necessary nor appropriate.

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

our history of earnings;

our history of capital expenditures;

the remaining useful lives of our primary assets;

current and expected market and operating conditions; and

our weighted average cost of capital.

Other intangible assets are mainly comprised of trademarks, customer list and non-competition agreements. When impairment indicators exist, or at least annually for indefinite live intangibles, we determine our projected revenue streams over the estimated useful life of the asset. In order to obtain undiscounted and discounted cash flows attributable to each intangible asset, such revenues are adjusted for operating expenses, changes in working capital and other expenditures as applicable, and discounted to net present value using the risk adjusted discount rates of return. As of December 31, 2015 and 2016 there was no impairment charge to other intangible assets.

As a result of the downturn in the construction industry in Mexico during 2009 and the negative impact the downturn had on our operations mainly at the San Luis facilities, in which goodwill resides we adjusted the key assumptions used in the valuation model. As of December 31, 2015 and 2016, there was no impairment charge related to the San Luis facilities.

As of December 31, 2016, the main key assumptions used in the valuation models of the San Luis reporting unit are as follows:

discount rate:
13.1%; and

sales: we estimate an increase in sales of approximately 32.7% in 2017, mainly attributable to the increase in volume of mesh products, as a result of an investment to increase the production of mesh by approximately 42%. After 2017, no sales increases in volume terms are considered in the valuation model and the useful remaining life of the assets we keep the volume and only the increase in sales prices proportional to the estimated inflation.

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

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

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

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

New Accounting Pronouncements

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

IFRS effective since 2016:

IAS 16, Property, Plant and Equipment;

IAS 38, Intangible Assets;

IFRS 11, Joint arrangements;

IFRS 10, Consolidated Financial Statements;

IAS 28, Investment in Associates;

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations;

IFRS 7, Financial Instruments: Disclosures;

IAS 19, Employee Benefits; and

IAS 34.- Interim Financial Reporting.

IFRS to be effective from 2017:

IAS 12, Recognition of Deferred Tax Assets for Unrealized Losses.

IFRS to be effective from 2018:

IFRS 15, Revenue for Contracts with Customers,

IFRS 9, Financial Instruments,

Amendment to IAS 40, Investment Property,

Amendment to IAS 28, Investment Entity,

Amendments to IFRS 2, related to the Classification and Measurement of Share-based Payment Transactions; and

Interpretation IFRIC 22, Foreign Currency Transactions and Advance Consideration Issued.

IFRS to be effective from 2019:

IFRS 16, Leases.

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

B. Liquidity and Capital Resources

On December 31, 2016, our total consolidated debt was Ps. 6.241 million (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, 2016 and 2015, Republic had Ps. 1,016 million (comprised of U.S.$38 million and Ps. 222 million, including interest) and Ps. 881 million (U.S.$50 million, including interest), respectively, outstanding under this line of credit. See Note 18 to our consolidated financial statements included elsewhere herein.

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 Ps. 2,421 millones (U.S.$214 million). As of December 31, 2012 we had cash and cash equivalents of Ps. 8,102 million, as of December 31, 2013 we had cash and cash equivalents of Ps. 6,985 million, as of December 31, 2014 we had cash and cash equivalents of Ps. 7,003 million, as of December 31, 2015 we had cash and cash equivalents of Ps. 6,224 million and as of December 31, 2016 we had cash and cash equivalents of Ps. 7,536 million. We believe that this amount of cash generated from operations will be sufficient to satisfy our currently anticipated cash requirements, including our currently anticipated capital expenditures.

Our principal use of cash has generally been to fund our operating activities, to acquire businesses and to fund our capital expenditure programs. The following is a summary of cash flows for the three years ended December 31, 2014, 2015 and 2016:

Principal Cash Flows

	Years ended December 31,		
	2014	2015	2016
Funds provided (used) by operating activities	1,370	(382)	3,349
Funds used in investing activities	(2,060)	(655)	(3,166)
Funds (used) provided by financing activities	(48)	(285)	978

Our net funds provided by operations were Ps. 3,349 million in 2016 compared to Ps. 382 million of net funds used by operations in 2015. The increase of Ps. 3,731 million in the net funds provided by operations between 2016 and 2015 originated mainly from the net income for the year. Our net funds used by operations were Ps. 382 million in 2015 compared to Ps. 1,370 million of net funds provided by operations in 2014. The decrease of Ps. 1,752 million in the net funds provided by operation between 2015 and 2014 originated mainly from the decrease in our gross profit and the income tax of Ps. 1.3 million paid in 2015 for a review of prior periods.

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. 3,166 million in 2016 compared to Ps. 655 million in 2015. In addition, in 2016 we invested Ps. 54 million in the acquisition of shares of public companies for trading. Our net funds used in investing activities were Ps. 655 million in 2015 compared to Ps. 2,060 million in 2014. In addition, in 2015 we invested Ps. 374 million in the acquisition of shares of public companies for trading.

Our net funds provided by financing activities in 2016 were Ps. 978 million, compared to Ps. 285 million used by financing activities in 2015. In 2016 we obtained an income of Ps. 1,018 million in the repurchase of our own shares compared to Ps. 245 million in 2015. Our net funds used by financing activities in 2015 were Ps. 285 million, compared to Ps. 48 million used by financing activities in 2014. In 2015 we used Ps. 245 million to repurchase our own shares compared to Ps. 26 million in 2014. We do not have in place any interest rate or currency hedging instruments. We were not a party to any non-exchange traded contracts accounted for at fair value in 2016 and 2015.

As of December 31, 2016, we have the following commitments for capital expenditures:

On September 5, 2015 a turnkey contract became effective with Danieli & Officine Meccaniche Spa (Danieli) for the supply and construction (except for civil engineering) in Tlaxcala, México, of a new Minimill for the production of 600,000 SBQ, up to a total amount of U.S.$203.5 million (Ps. 4,205 million) for which, as of December 21, 2016, U.S.$59.4 million (Ps. 1,227 million) had been advances, compared to U.S.$27.7 million (Ps. 572 million) as of December 31, 2015. The off-shore portion of the contract price is equal to U.S.$152.5 million (Ps. 3,151 million) , which will be paid to Danieli in various installments according to the project’s progress, and the on-shore portion of the contract price is equal to U.S.$51 million (Ps. 1,054), which will be paid to certain local suppliers of Danieli on a monthly basis, as instructed by them. The project is estimated to be completed in 2018.

C. Research and Development, Patents and Licenses

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

D. Trend Information

In the first quarter of 2017 net sales increased 29% compared to the fourth quarter of 2016. Sales in tons of finished steel increased 30% in the first quarter of 2017 compared with the fourth quarter of 2016. Prices of finished products sold in the first quarter of 2017 decreased approximately 0.3% compared to the fourth quarter of 2016.

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, 2016:

Maturity&n