GROUP SIMEC SA DE CV
Form 20-F
July 12, 2011

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

FORM 20-F

o **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

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

For the fiscal year ended December 31, 2010

OR

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

OR

o **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)

Adolfo Luna Luna, telephone number 011-52-33 3770-6700, e-mail aluna@gruposimec.com.mx
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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, 2010 was:

Series B Common Stock 497,709,214 shares

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

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

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

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 o No o (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 o Accelerated filer x Non-accelerated filer o

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

o U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board x Other

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 o Item 18 x

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

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CERTAIN TERMS

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

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

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

This annual report contains translations of certain peso amounts to U.S. dollars at specified rates solely for your convenience. These translations do not mean that the peso amounts actually represent such dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated these U.S. dollar amounts from pesos at the exchange rate of Ps. 12.3571 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2010. On July 1, 2011, the interbank transactions rate for the peso was Ps.11.6294 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, pr similar expressions are intended to identify forward looking statements, although not all forward looking statements contain those words. These statements, including, but not limited to, our statements regarding our strategy for raw material acquisition, products and markets, production processes and facilities, sales and distribution and exports, growth and other trends in the steel industry and various markets, operations and liquidity and capital resources, are based on management s beliefs, as well as on assumptions made by, and information currently available to, management, and involve various risks and uncertainties, some of which are beyond our control. Our actual results could differ materially from those expressed in any forward looking statement. In light of these risks and uncertainties, we cannot assure you that forward looking statements will prove to be accurate. Factors that might cause actual results to differ materially from forward looking statements include, but are not limited to, the following:

- factors relating to the steel industry (including the cyclicality of the industry, finished product prices, worldwide production capacity, the high degree of competition from Mexican, U.S. and foreign producers and the price of ferrous scrap, iron ore and other raw materials);
- our inability to operate at high capacity levels;
- the costs of compliance with Mexican and U.S. environmental laws;
- future capital expenditures and acquisitions;
- future devaluations of the peso;
- the imposition by Mexico of foreign exchange controls and price controls;
- the influence of economic and market conditions in other countries on Mexican securities; and
- the factors discussed in Item 3.D Risk Factors below.

Forward looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward looking statements after the date of this annual report because of

new information, future events or other factors. In light of the risks and uncertainties described above, the forward looking events and circumstances discussed in this annual report might not occur.

PART I.

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

This annual report includes our consolidated financial statements as of December 31, 2009 and 2010 and for each of the three years ended December 31, 2008, 2009 and 2010. We have prepared our financial statements in conformity with Mexican Financial Reporting Standards (MFRS) issued by the Mexican Financial Reporting Standards Research and Development Board (*Consejo Mexicano para la Investigación y Desarrollo de Normas de Información Financiera, A.C.)* (CINIF), which include bulletins and circulars issued by the Accounting Principles Commission (CPC) of the Mexican Institute of Public Accountants (IMCP) to the extent not amended, replaced or abrogated by MFRS. We have adjusted the financial statements of our non-Mexican subsidiaries to conform to MFRS, and we have translated them to Mexican pesos. See Note 4(b) to our consolidated financial statements included elsewhere herein.

MFRS differ in certain significant respects from generally accepted accounting principles in the United States (U.S. GAAP). Note 24 to our consolidated financial statements included elsewhere herein provides a description of the principal differences between MFRS and U.S. GAAP, as they relate to us, a reconciliation to U.S. GAAP of net income, total stockholders equity and a statement of cash flows under U.S. GAAP.

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

- Beginning January 1, 2008, MFRS B-10, "Effects of Inflation", has been in effect, which requires the recognition of the effects of inflation through the application of the comprehensive method only in inflationary environments (i.e., inflation equal or higher than 26%, accumulated during the previous three annual periods). Since the accumulated inflation in Mexico during the three years prior to our financial statements included herein was lower than 26%, the economic environment has been qualified as non-inflationary. Therefore, our financial statements for 2008, 2009 and 2010 included herein are presented in nominal pesos, except for the non-monetary items acquired before 2008, which include their restatement to constant pesos as of December 31, 2007.
  Accumulated inflation in Mexico during the last three years prior to 2008, 2009 and 2010 amounted to 11.6%, 15.0% and 14.5%, respectively.
- We considered that it was impractical to identify the realized and unrealized part of the deficit by holding non-monetary assets included in the Deficit on restatement of stockholders equity at January 1, 2008 and the Ps. 132 million related to this amount were reclassified to retained earnings.
- MFRS C-8 was issued by the CINIF to replace Mexican accounting Bulletin C-8, Intangible Assets . The rule defines intangible assets as non-monetary items and broadens the criteria of identification, indicating that an intangible asset must be separable; this means that such asset could be sold, transferred, or used by the entity. In addition, intangible assets arise from legal or

contractual rights, whether those rights are transferable or separable from the entity. On the other hand, this standard establishes that preoperative costs should be eliminated from the capitalized balance, affecting retained earnings, and without restating prior financial statements. This amount should be presented as an accounting change in consolidated financial statements. The effect of the adoption of this MFRS was to cancel unamortizated preoperative expenses to retained earnings for Ps.152 million less its deferred income tax liability of Ps. 42 million in 2009.

Certain of the financial information set forth below is presented in accordance with U.S. GAAP. The effect of inflation accounting under MFRS until December 31, 2007 has not been reversed in the reconciliation to U.S. GAAP of net income and total stockholders equity, except with respect to certain information included in the cash flow statement. See Note 24 to our consolidated financial statements included elsewhere herein.

The following tables present the selected consolidated financial information for our company as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. The selected financial and operating information as of and for the years ended December 31, 2006, 2007, 2008 and 2009 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Mancera S.C., a member practice of Ernst & Young Global (Ernst & Young), an independent registered public accounting firm, and the selected financial and operating information as of and for the year ended December 31, 2010 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Castillo Miranda y Compañía, S.C., a member practice of BDO International Limited (BDO), an independent registered public accounting firm. Ernst & Young and BDO have relied on the audited combined financial statements of Corporación Aceros DM., S.A. de C.V. (Aceros DM) subsidiaries and affiliates, reported on by Marcelo de los Santos y Cía., S. C. a member of Moore Stephens International (Moore Stephens). The selected financial information as of and for the years ended December 31, 2006 and 2007 set forth below has been derived in part from our consolidated financial statements that are not included herein. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements included elsewhere herein.

	As of and for Year Ended December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2010(1)**
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S dollars)
Income Statement Data:						
Mexican GAAP:						
Net sales	23,515	24,106	35,185	19,232	24,576	1,989
Direct cost of sales[2]	18,206	19,555	28,751	17,240	20,530	1,661
Gross margin	5,309	4,551	6,434	1,992	4,046	328
Indirect manufacturing, selling, general and administrative expenses	1,828	1,818	2,424	1,730	1,864	151
Depreciation and						

amortization	450	549	895	1,048	1,098	89
Operating income (loss)	3,031	2,184	3,115	(786)	1,084	88
Financial (expense) income	(63)	41	(175)	(97)	(207)	(17)

	As of and for Year Ended December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2010(1)**
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S dollars)
Other (expense) income, net	39	21	(4)	30	(186)	(15)
Impairment of intangible assets	-	-	-	(2,368)	-	-
Income (loss) before taxes, and non-controlling interest	3,007	2,246	2,936	(3,221)	691	56
Income tax expense (benefit)	609	621	1,036	(2,045)	86	7
Net income (loss)	2,398	1,625	1,900	(1,175)	605	49
Non-controlling interest income (loss)	220	96	104	(852)	(299)	(24)
Controlling interest income (loss)	2,178	1,529	1,796	(323)	904	73
Net income (loss) per share	5.18	3.27	3.70	(0.65)	1.82	0.15
Net income (loss) per ADS(3)	15.54	9.82	11.10	(1.95)	5.45	0.44
Weighted average shares outstanding (thousands)(3)	420,340	468,228	484,904	497,709	497,709	497,709
Weighted average ADSs outstanding (thousands)(3)	140,113	155,743	161,635	165,903	165,903	165,903
U.S. GAAP including effects of inflation until 2007:						
Net sales	23,515	24,106	35,185	19,232	24,576	1,989
Cost of sales(2)	19,560	21,125	30,744	18,980	22,250	1,801
Gross profit	3,955	2,981	4,441	252	2,326	188
Operating income (loss)(5)	3,144	2,310	3,166	(3,115)	950	77
Financial (expense) income	(63)	41	(175)	(96)	(207)	(17)
Other income, net	24	12	20	30	(69)	(6)
Income (loss) before taxes, and non-						

controlling interest	3,105	2,363	3,011	(3,181)	674	55
Income tax expense (benefit)	636	653	1,057	(2,025)	112	9
Income (loss) before non-controlling interest	2,469	1,709	1,954	(1,156)	562	45

	As of and for Year Ended December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2010(1)**
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S dollars)
Non-controlling interest income (loss)	220	122	110	(877)	(270)	(22)
U.S. GAAP adjustment on non-controlling interest	25	0	0	0	0	0
Net income (loss)	2,224	1,587	1,844	(279)	832	67
Net income (loss) per share	5.29	3.39	3.80	(0.56)	1.67	0.14
Net income (loss) per ADS(3)	15.87	10.19	11.41	(1.68)	5.01	0.41
Balance Sheet Data:						
Mexican GAAP:						
Total assets	18,043	22,841	30,814	26,768	27,121	2,195
Total short-term liabilities	2,908	2,860	5,256	3,952	3,899	315
Total long-term liabilities(6)	2,175	2,729	4,253	2,834	2,764	224
Total stockholders equity	12,960	17,252	21,305	19,982	20,458	1,656
U.S. GAAP including effects of inflation until 2007:						
Total assets	18,205	22,849	30,908	27,978	27,353	2,214
Total short-term liabilities	2,907	2,865	5,268	4,499	4,434	359
Total long-term liabilities(6)	2,220	2,731	4,280	3,292	2,299	186
Non-controlling interest	2,277	2,440	3,178	2,222	1,844	150
Total stockholders equity	10,801	14,813	18,182	17,965	18,776	1,519
Cash Flow Data:						
Mexican GAAP:						
Cash provided by operating activities	2,384	2,352	1,845	1,159	2,227	180
Cash provided by						

(used in) financing activities	(417)	2,324	1,334	469	(126)	(10)
Cash (used in) provided by investing activities	13	(484)	(9,000)	(256)	(693)	(56)

	As of and for Year Ended December 31,					
	2006	2007	2008	2009	2010	2010(1)
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S dollars)
Other Data:						
Mexican GAAP:						
Capital expenditures	417	486	480	263	496	40
Adjusted EBITDA(7)	3,481	2,733	4,010	263	2,182	177
Working capital(8)	6,964	11,594	7,790	8,410	8,062	652
Depreciation and Amortization	450	549	895	1,048	1,098	89
Dividends declared	0	0	0	0	0	0
Operational Data:						
(capacity and production in thousands of tons):						
Annual installed capacity(9)	2,902	2,902	3,522	3,522	3,522	
Total tons shipped	2,676	2,691	2,924	2,040	2,241	
Mexico	945	900	1,028	1,285	1,225	
United States, Canada and elsewhere outside Mexico	1,731	1,791	1,896	755	1,016	
SBQ steel	1,918	1,951	1,952	826	1,109	
Structural and other steel products	758	740	972	1,214	1,132	
Per ton data (*Mexican GAAP)*:						
Net sales per ton	8,787	8,958	12,033	9,427	10,967	888
Cost of sales per ton	6,803	7,267	9,833	8,451	9,161	741
Operating (loss) income per ton	1,133	812	1,065	(385)	484	39
Adjusted EBITDA(7) per ton	1,301	1,016	1,371	128	974	79
Number of employees	4,053	4,437	4,823	4,378	4,361	

(1) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 12.3571 per U.S.$1.00, the interbank transactions rate in effect on December 31, 2010.

(2) For U.S. GAAP purposes, in 2006, 2007, 2008 and 2009 we reclassified indirect costs, including depreciation, from selling, general and administrative expenses to cost of sales, in the amounts of Ps. 501 million, Ps. 703

million, Ps. 989 million and Ps. 1,197 million, respectively, to conform with the presentation of such indirect costs for the year ended December 31, 2010.

Additionally, for Mexican GAAP purposes, in 2006, 2007, 2008 and 2009 we reclassified indirect cost of SimRep from cost of sales to indirect manufacturing, selling, general and administrative expenses, in the amounts of Ps. 926 million, Ps. 944 million, Ps. 1,045 million and Ps. 477 million, respectively.

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

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

(5) In 2010 we recorded expenses for employee profit sharing at Ps. 0.095 million, an impairment loss of intangible assets of Ps. 102 million and a cancellation of other assets of Ps. 117 million. In 2009 we recorded an impairment loss of intangible assets of Ps. 2,266 million and other expense of Ps. 7 million for

employee profit sharing, which were reclassified to operating expenses for U.S. GAAP purposes. In 2008 we recorded other expense of Ps. 24 million for employee profit sharing, which were reclassified to operating expenses for U.S. GAAP purposes. In 2007 we recorded Ps. 17 million of gain on derivative instruments in other income and an expense of Ps. 8 million for fiscal amnesty offered by the Mexican government in other expense, which were reclassified to operating expenses for U.S. GAAP purposes. In 2006 we recorded Ps. 15 million for the cancellation of the provision of labor obligations assumed in the acquisition of the assets of Atlax, S.A. de C.V. in other income which was reclassified to operating expenses for U.S. GAAP purposes.

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

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

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

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

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

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

	Year Ended December 31,				
2006	**2007**	**2008**	**2009**	**2010**	**2010(1)**
		(Millions of pesos)			(Millions of U.S. dollars)

Mexican GAAP:						
Net income (loss)	2,398	1,625	1,900	(1,175)	605	49
Depreciation and amortization	450	549	895	1,048	1,098	89

Other income (expense)	39	21	(4)	30	(186)	(15)
Financial income (expense), net	(63)	41	(175)	(97)	(207)	(17)
Impairment of intangibles assets	-	-	-	2,368	-	-
Income tax expense and employee profit sharing (benefit)	609	621	1,036	(2,045)	86	7
Adjusted EBITDA	3,481	2,733	4,010	263	2,182	177

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

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

Exchange Rates

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

Exchange Rates

Year Ended December 31	**High**	**Low**	**Average (1)**	**Period End**
2006	11.46	10.43	10.91	10.80
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.14	13.83
2009	15.41	12.63	13.50	13.06
2010	13.19	12.16	12.62	12.38
Month in 2011	**High**	**Low**	**Average (1)**	**Period End**
January	12.25	12.04	12.13	12.15
February	12.18	11.97	12.06	12.11
March	12.11	11.92	12.00	11.92
April	11.86	11.52	11.71	11.52
May	11.77	11.50	11.65	11.58
June (through June 30)	11.97	11.64	11.81	11.72

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

Except for the period from September through December 1982, during a liquidity crisis, the Mexican Central Bank has consistently made foreign currency available to Mexican private-sector entities (such as us) to meet their foreign currency obligations. Nevertheless, in the event of renewed shortages of foreign currency, we cannot assure you that

foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations or to import goods could be purchased in the open market without substantial additional cost or at all.

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business

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

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

Global steel prices increased significantly during 2004, fell in 2005, increased again in first three quarters of 2006, then weakened in the last quarter of 2006 and in 2007 remained similar to prices in 2006. In 2008, global steel prices increased during the first three quarters of 2008, but weakened significantly in the last quarter of 2008 and 2009 as a result of the global economic recession. In 2010, 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 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 57% in 2008, decreased approximately 24% in 2009 and

increased approximately 34% in 2010; and prices of ferroalloys increased approximately 19% in 2008, decreased approximately 43% in 2009 and increased

approximately 22% in 2010. As with other raw materials, iron ore and coke prices fluctuated significantly; however, in 2009 and 2010 we did not purchase iron ore pellets or coke since our Lorain, Ohio blast furnace facility, which is our only facility that utilizes these materials, was idle during this period. We may not be able to pass along these and other cost increases in the future and, therefore, our profitability may be materially and adversely affected. Even when we can successfully increase our prices, interim reductions in profit margins frequently occur due to a time lag between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that our customers will agree to pay increased prices for our steel products that compensate us for increases in our raw material costs.

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

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

Our production processes are dependent on adequate supplies of electricity and natural gas. A substantial increase in the cost of electricity or natural gas could have a material adverse effect on our profit margins. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales. Prices for electricity increased approximately 36% in 2008, 17% in 2009 and 8% in 2010; and prices for natural gas increased approximately 28% in 2008 and 10% in 2009 and decreased approximately 18% in 2010. Moreover, energy costs constitute a significant and increasing component of our costs of operations; energy cost as a percentage of direct cost was 13% for 2010, compared to 9.4% for 2009.

The Mexican government is currently the only supplier of energy in Mexico and has, in some cases, increased prices above international levels. We, like all other high volume users of electricity in Mexico, pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or CFE) for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, (PEMEX), the national oil company, for natural gas used at our facilities in Mexico. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States and Canada. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportion and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States. As of December 31, 2010, we have entered into derivative financial instruments in Mexico and the United States to cover risks of fluctuations in the price of natural gas with PEMEX and Shell and Hess Corporation. We have not always been able to pass the effect of increases in our energy costs on to our customers and we cannot assure you that we will be able to pass the effect of these increases on to our customers in the future. We also cannot assure you that we will be able to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of electricity or natural gas would materially and adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

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

- disruption of our ongoing business;
- diversion of our resources and of management s time;
- decreased ability to maintain uniform standards, controls, procedures and policies;
- difficulty managing the operations of a larger company;
- increased likelihood of involvement in labor, commercial or regulatory disputes or litigation related to the new enterprise;
- potential liability to joint venture participants or to third parties;

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- 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, and if we fail to remediate these material weaknesses and achieve an effective system of internal controls, we may not be able to accurately report our financial results 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 the year ended December 31, 2009 and 2010, we and our auditors identified material weaknesses (as defined under standards established by the Public Company Accounting Oversight Board) in our internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Due to the growth of our operations in Mexico primarily as a result of our acquisition in May 2008 of Aceros DM, the structure of our finance department proved to be insufficient insofar as it did not allow for adequate segregation of duties with respect to the supervision and review procedures for the assessment of deferred taxes and for the closing of our financial statements. The personnel of our finance department also lacked the requisite level of knowledge and specialization to calculate asset impairments and conversion between MFRS and U.S. GAAP and the conversion of the financial statements of our foreign subsidiaries to MFRS. Our growth also had an adverse impact on our ability to maintain adequate control over our preparation of consolidated financial information which has become more complex. The preparation of consolidated financial information was carried out through the use of electronic Excel sheets and a partially integrated system which relied on the use of different software by various subsidiaries, rather than through a company-wide, integrated consolidation system. The situation described above did not allow a proper supervision of the consolidation process during 2009. In addition, although, in accordance with MFRS we record revenues when materials have been shipped and the risk is transferred to the customers, we invoiced in Mexico certain materials that were paid for in 2009 but not shipped until 2010. This occurred due to a failure of a manual key control regarding our revenue recognition process.

In the course of the audit of the consolidated financial statements of our subsidiary SimRep Corporation (SimRep) and its subsidiaries, including Republic Engineered Products, Inc. (Republic), for the year ended December 31, 2009 and of internal control over financial reporting as of December 31, 2009, our external auditor identified certain

accounting entries that it concluded were not in compliance with U.S.

GAAP. In connection with these entries, our external auditor requested that certain audit adjustments be made, and SimRep made those adjustments.

On April 29, 2010, our external auditor notified our audit and corporate practices committee (Audit Committee) and certain members of the management of Republic that it had identified, during its audit of the financial statements of SimRep and its subsidiaries for the year ended December 31, 2009, what it considered, under standards established by the Public Company Accounting Oversight Board, to be material weaknesses in internal control over financial reporting at the SimRep evaluation level. Specifically, our external auditor noted material weaknesses with regard to what it characterized as management override of internal controls and identified five specific management overrides. In addition, our external auditor also noted material weaknesses in internal control over financial reporting with regard to SimRep s adherence to its written policies with regard to accounting for working capital and fixed asset accounts. For further detail, see Item 16.F Change in Registrant s Certifying Accountant below.

In response to the notification from our external auditor described above, our Audit Committee engaged outside counsel to conduct an internal investigation concerning these matters. Following the completion of this internal investigation, our outside counsel discussed with our outside auditor the types of remedial measures that would be appropriate to address these material weaknesses in internal controls over financial reporting. After consulting with our external auditor, our outside counsel reported the findings and conclusions of its internal investigation to our Audit Committee and recommended that the Audit Committee adopt certain remedial measures to address these matters.

On September 3, 2010, our Audit Committee adopted the following remedial measures to address these material weaknesses:

- Our chief financial officer reviewed Republic s finance policies and ensured that such policies were consistent with our practices and that such policies complied with U.S. GAAP. In the future, our chief financial officer shall approve any change to these finance policies. Republic s chief financial officer and his senior subordinates who handle general accounting and financial reporting matters will report directly to our chief financial officer on all such matters. Republic s chief executive officer shall not give instructions or make suggestions to Republic s chief financial officer or Republic s accounting staff concerning any general accounting or financial reporting matters. Republic s chief financial officer will continue to report to and collaborate with Republic s chief executive officer on other matters;
- Republic s chief executive officer and the general manager of Industrias C.H will certify annually that they understand that Republic s accounting staff is obligated to adhere to U.S. GAAP and that they are not permitted to instruct Republic s accounting personnel about the accounting treatment of any matter;
- We retained a third party consultant to evaluate what additional resources are needed by Republic s accounting department;
- Republic revamped its current whistleblower procedures to enable members of Republic s accounting staff to anonymously report problems directly to our internal audit department;
- Our senior manager in Sarbanes Oxley compliance reviewed Republic s testing of internal control, including testing related to information technologies; and
- Republic hired a professional to oversee testing of internal controls for purposes of the U.S. Sarbanes-Oxley Act of 2002, including testing related to information technologies, and a member of our audit team performs an on-site review of Republic s internal controls at least twice a year.

For information on the remedial measures adopted by our Audit Committee to address these matters, see Item 15.D Controls and Procedures Changes in Internal Control Over Financial Reporting below.

Furthermore, also as a result of our evaluation of the effectiveness of our internal controls in Mexico for the year ended December 31, 2009 and the material weakness and deficiencies identified during that period, we have conducted an analysis of functions and workloads in our finance department and continue to

implement additional changes to our internal controls over financial reporting. For further information, see Item 15.D Controls and Procedures Changes in Internal Control Over Financial Reporting below.

Additionally, a report issued by our external auditors on July 12, 2011, concluded that we do not maintain effective internal control over financial reporting as of December 31, 2010 and identified the following material weaknesses:

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

See below Item 15.B Controls and Procedures Management s Annual Report on Internal Control Over Financial Reporting Material Weaknesses and Item 15.C Attestation Report of the Independent Registered Public Accounting Firms.

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 negative impact on the trading price of our Series B shares or the ADSs.

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

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

In September 2001, the Mexican government imposed tariffs of 25% against imports for all products that we produce from all countries with the exception of those which have a free trade agreement with Mexico, which includes the United States. In April 2002, the Mexican government increased these tariffs to 35%. These tariffs have

subsequently been reduced over time and currently range from 3% to 5% for steel

products. We cannot assure you that these tariffs will not be further reduced or eliminated or that countries seeking to export steel products to Mexico will not impose similar tariffs on Mexican exports to those countries, and in either case such developments could have a material adverse effect on our financial condition and results of operations.

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

At December 31, 2010, approximately 83% of our non-Mexican and 57% of our Mexican employees were members of unions. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. In addition, collective bargaining agreements are typically negotiated on a facility-by-facility basis for our Mexican facilities. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material and adverse effect on our business. Labor disruptions or significant negotiated wage increases could reduce our sales or increase our cost, and accordingly could have a material adverse effect on our results of operations.

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

The operations of our Lackawanna facility depend upon certain arrangements and understandings relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. These service and utility arrangements, initially entered into with the Mittal Steel Company N.V. and its affiliates (Mittal Steel), were effective through April 30, 2009, at which time Mittal Steel transferred its Lackawanna plant to Tecumseh Redevelopment, Inc. (Tecumseh). In December 2010, Tecumseh transferred a portion of the former Mittal Steel facility to Great Lakes Industrial Development, LLC (GLID). Upon the transfer to GLID, we entered into a written agreement with GLID regarding the provision of compressed air to our facility. This lease assures that compressed air will be provided to our facilty 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 2009 and 2010,

sales to our ten largest customers in the United States accounted for approximately 39.2% and 38.6% of our consolidated revenues in the United States, respectively, and approximately 16% and 19% of our total consolidated revenues, respectively. A disruption in sales to one or more of our largest

customers would adversely affect our cash flow and results of operations. Starting in the fourth quarter of 2008, due to the U.S. financial crisis and the ensuing worldwide economic recession, all of our top ten customers have suffered reduced demand for their products. This reduction in demand has in turn adversely affected our results of operations.

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

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

Our capacity to manufacture steel products depends on the suitable operation of our manufacturing equipment, including blast furnaces, electric arc furnaces, continuous casters, reheating furnaces and rolling mills. Breakdowns requiring significant time and/or resources to repair, as well as the occurrence of unexpected adverse events, such as fires, explosions or adverse meteorological conditions, could cause production interruptions that could adversely affect our results of operations.

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

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

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

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

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

Our operations are subject to a broad range of environmental laws and regulations regulating our impact on air, water, soil and groundwater and exposure to hazardous substances. The costs of complying with, and the imposition of liabilities pursuant to, environmental laws and regulation can be significant. Despite our efforts to comply with environmental laws and regulations, environmental incidents or events that negatively affect the operations of our

facilities may occur. In addition, we cannot assure you that we will at

all times operate in compliance with environmental laws and regulations. If we fail to comply with these laws and regulations, we may be assessed fines or penalties, be required to make large expenditures to comply with such laws and regulations, or be forced to shut down non-compliant operations and face lawsuits by third parties. You should also consider that 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. In addition, we need to maintain existing and obtain future environmental permits in order to operate our facilities. The failure to obtain necessary permits or consents or the loss of any permits could result in significant fines or penalties or prevent us from operating our facilities. We may also be subject, from time to time, to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury that could result in significant liability. Certain of our facilities in the United States have been the subject of administrative action by federal, state and local environmental authorities. See Item 8. Financial Information Legal Proceedings.

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

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

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

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

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

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

Our controlling shareholder, Industrias CH, is able to exert significant influence on our business and policies and its interests may differ from those of other shareholders.

As of June 27, 2011, Industrias CH, S.A.B. de C.V. (Industrias CH), which the chairman of our board of directors, Rufino Vigil González, controls, owned approximately 84% of our shares. Industrias CH nominated and elected all of the current members of our board of directors, and Industrias CH is in a position to exercise substantial influence and control over our business and policies, including the timing and payment of dividends. The interests of Industrias CH may differ significantly from those of other shareholders. Furthermore, as a result of the significant equity position of Industrias CH, there is currently limited liquidity in our series B shares and the ADSs.

We have had a number of transactions with our affiliates.

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

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

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

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

Taxes payable by companies in the countries in which we operate are substantial and include income tax, value-added tax, excise duties, profit taxes, payroll related taxes, property taxes and other taxes. Tax laws and regulations in some of these countries may be subject to change, varying interpretation and inconsistent enforcement.

Ineffective tax collection systems and continuing budget requirements may increase the likelihood of the imposition of onerous taxes and penalties which could have a material adverse effect on our financial condition and results of operations. In addition to the usual tax burden imposed on

taxpayers, these conditions create uncertainty as to the tax implications of various business decisions. This uncertainty could expose us to significant fines and penalties and to enforcement measures despite our best efforts at compliance, and could result in a greater than expected tax burden. In addition, many of the jurisdictions in which we operate have adopted transfer pricing legislation. If tax authorities impose significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse effect on our financial condition and results of operations. It is possible that tax authorities in the countries in which we operate will introduce additional revenue raising measures. The introduction of any such provisions may affect our overall tax efficiency and may result in significant additional taxes becoming payable. Any such additional tax exposure could have a material adverse effect on our financial condition and results of operations.

Risks Related to Challenging Global Economic Conditions

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

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

In addition, in 2009, the decreased demand in the construction sector had a negative impact on our San Luis facilities, since these facilities produce mostly rebar and mesh. Under MFRS, when assessing the recoverability of the goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. As of December 31, 2009, this reporting unit did not exceed its respective carrying value; therefore, we determined there was an impairment of goodwill in the amount of Ps. 2,368 million in the Grupo San unit. Assumptions used in the analysis considered the market conditions in developing short and long-term growth expectations. If global economic conditions deteriorate, we may be required to undertake additional asset impairments.

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

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

We may face increased risks of customer and supplier defaults.

There is an increased risk of insolvency and other credit related issues of our customers, particularly those in industries that were hard hit by the recent recession, such as automotive, construction and

appliance. Also, there is the possibility that our suppliers may face similar risks. This decrease in available credit may increase the risk of our customers defaulting on their payment obligations to us and may cause some of our suppliers to be delayed in filling or to be unable to fill our needs.

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

Direct sales of products to automotive assemblers and manufacturers accounted for approximately 41% of our net sales of SBQ in 2010. Demand for our products is affected by, among other things, the relative strength or weakness of the North American automotive industry. North American industry production manufacturers have experienced significant reductions in market share to mostly Asian companies and in the past have undertaken reductions in working capacity. In addition, during the recent financial crisis and economic recession many large original equipment manufacturers and two of the largest North American automobile manufacturers sought bankruptcy protection. A reduction in vehicles manufactured in North America, the principal market for Republic s SBQ steel products, would have an adverse effect on our results of operations. We also sell to independent forgers, components suppliers and steel service centers, all of which sell to the automotive market as well as other markets. Developments affecting the North American automotive industry may adversely affect us.

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

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

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

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

Risks Related to Mexico

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

A substantial portion of our operations are conducted in Mexico and our business is affected by the performance of the Mexican economy. The recent global credit crisis and the economic recession has had significant adverse consequences on the Mexican economy, which in 2009 contracted by 6.5% and in 2010 grew by 5.5%, in terms of

gross domestic production. Moreover, in the past, Mexico has experienced prolonged periods of economic crises, caused by internal and external factors over which we have no

control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, economic contraction, a reduction of international capital flows, balance of payment deficits, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the Mexican economy, or periods of negative growth, or increases in inflation may result in lower demand for our products. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial performance.

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

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

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

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

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

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

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

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

Depreciation of the Mexican peso relative to the U.S. dollar decreases a portion of our revenues in U.S. dollar terms, as well as increases the cost of a portion of the raw materials we require for production and any debt

obligations denominated in U.S. dollars, and thereby may negatively affect our results of

operations. Since the second half of 2008, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the U.S. Federal Reserve Board, during this period the exchange rate registered a low of Ps.9.91 to U.S.$1.00 in August 5, 2008, and a high of Ps.15.38 to U.S.$1.00 in March 9, 2009. In 2010 the exchange rate registered a low of Ps. 11.50 to U. S.$1.00 and a high of Ps. 12.25 to U.S.$1.00.

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

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

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

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the Mexican Central Bank was 6.5% for 2008, 3.6% for 2009 and 4.4% for 2010. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting demand for our products, increasing certain costs beyond levels that we could pass on to consumers, and by decreasing the benefit to us of revenues earned if the inflation rate exceeds the growth in our pricing levels.

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

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

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of NAFTA, increased economic activity between the two countries, and the remittance of funds from Mexican immigrants working in the United States to Mexican residents. Therefore, adverse economic conditions in the United States, the termination of, or modifications to, NAFTA or other related events could have a significant adverse effect on the Mexican economy. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our financial performance.

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

All Mexican companies must prepare their financial statements in accordance with MFRS which differs in certain significant respects from U.S. GAAP. Accordingly, Mexican financial statements and reported earnings are likely to differ from those of companies in other countries in this and other respects. See Note 24 to our consolidated financial statements included elsewhere herein for a description of certain principal differences between MFRS and U.S. GAAP

as they relate to us.

In March 2010, the Mexican National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores,* or CNBV) required a work plan to evaluate the incorporation of International Financial Reporting Standards (IFRS) into the financial reporting for public companies in Mexico beginning in the first quarter of 2012. Management is evaluating the effects of the adoption and implementation of IFRS.

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

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

Item 4. Information on the Company

A. History and Development of the Company

Overview

We are a diversified manufacturer, processor and distributor of SBQ steel and structural steel products with production and commercial operations in the United States, Mexico and Canada. We believe that in 2010 we were the largest producer of SBQ products in both the United States and Mexico, in each case in terms of sales volume. We also believe that in 2010 we were the largest 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.

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

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

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

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

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

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

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

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

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

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

In 2009 we incorporated two new wholly owned subsidiaries. Simec Acero, S.A. de C.V. distributes all Grupo Simec products in Mexico and Simec USA, Corp. is in charge of distribution of our products outside of Mexico.

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

On August 10, 2009, Simec International, S.A. de C.V. divested assets and liabilities to four new wholly owned Mexican subsidiaries named Siminsa A, S.A. de C.V., Siminsa B, S.A. de C.V., Siminsa C, S.A. de C.V. and Siminsa D, S.A. de C.V. After the 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 November 2, 2010, we acquired 100% of the shares of Lipa Capital, LLC. The total cost of this acquisition was of Ps. 187 million (U.S.$15.2 million). On December 9, 2010, Lipa Capital, LLC merged to Simec International 6, S. A. de C. V.

On February 3, 2011, two wholly owned Republic subsidiaries (Solon Wire Processing, LLC, formerly REP Acquisition, LLC and the newly formed Republic Memphis, LLC) entered into an agreement with BCS Industries, LLC and affiliates (Bluff City Steel) to acquire certain land, plants and equipment in an exchange for certain assets owned by us worth Ps. 74 (U.S.$6.0 million), Ps. 90 (U.S.$7.3 million) in accounts receivable owed to us by BCS Industries, LLC, less Ps. 16 (U.S.$1.3 million) in accounts payable owed to BCS Industries, LLC by us and a Ps. 30 (US$ 2.5 million) payment by us to pay off an outstanding note issued by BCS Industries, LLC held by Bank of America. The total value of the transaction was approximately Ps. 105 (U.S.$ 8.5 million). Under this agreement, Solon Wire Processing, LLC acquired the operating plant and certain equipment located in Solon, Ohio. The terms of this acquisition will be accounted for as a business combination and the operating results of the facility will be consolidated as a part of our consolidated financial statements beginning in 2011. Republic Memphis, LLC purchased the land, plant and certain equipment located in Memphis, Tennessee, under an assets purchase agreement. As a part of this assets purchase agreement (Memphis operation only), Republic Memphis LLC also entered into a three year

lease-sale arrangement with BCS Industries, LLC to lease the land, property and certain equipment back to BCS Industries, LLC, who is continuing ongoing and separate business operations at that

location. BCS Industries, LLC has an option as part of the agreement that allows it to repurchase the land, facility and equipment for a set price at the end of either the first or second year of the agreement.

On May 31, 2011, we sold our shares in Arrendadora Norte de Matamoros, S. A. de C. V. to Perfiles Comerciales Sigosa, S. A. de C. V.

In June 2011, Acero Transportes, S. A. de C. V. merged with Acero Transportes SAN, S. A. de C.V.

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 2011 will be approximately Ps. 258 million (U.S.$20.8 million), consisting of Ps. 75 million (U.S.$6 million) of estimated capital expenditures in our Republic facilities and Ps. 183 million (U.S.$14.8 million) of capital expenditures in our facilities in Mexico. Nevertheless, this estimate is subject to certain uncertainties and actual capital expenditures in 2011 may differ significantly from such estimate.

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

In 2009, we spent Ps. 84 million (U.S.$6.4 million) on capital investments for Republic s facilities, including Ps. 7 million (U.S.$0.5 million) at the Lorain, Ohio facility, Ps. 74 million (U.S.$5.7 million) at the Lackawanna, New York facility, and Ps. 3 million (U.S.$0.2 million) at the Hamilton, Ontario, Canada facility. We also spent Ps. 179 million (U.S.$13.7 million) on capital improvements at our facilities in Mexico, including Ps. 77 million (U.S.$5.8 million) at the Apizaco facility, Ps. 4 million (U.S.$0.3 million) at the Mexicali facility, Ps. 21 million (U.S.$1.6 million) at the Guadalajara facility, and Ps. 78 million (U.S.$6 million) at the San Luis facilities.

In 2008, we spent Ps. 331 million (U.S.$28 million) on capital investments for Republic s facilities, including Ps. 163 million (U.S.$13.8 million) at the Canton, Ohio facility, Ps. 30 million (U.S.$2.5 million) at the Lorain, Ohio facility, Ps. 112 million (U.S.$9.5 million) at the Lackawanna, New York facility, Ps. 12 million (U.S.$1 million) at the Massillon, Ohio facility, Ps. 1 million (U.S.$0.1 million) at the Gary, Indiana facility and Ps. 13 million (U.S.$1.1 million) at our corporate location in Fairlawn, Ohio. We also spent Ps. 149 million (U.S.$13 million) on capital improvements at our facilities in Mexico, including Ps. 24 million (U.S.$2 million) at the Apizaco facility, Ps. 71 million (U.S.$6 million) at the Mexicali facility, Ps. 15 million (U.S.$1 million) at the Guadalajara facility, Ps. 32 million (U.S.$3 million) at the San Luis facilities and Ps. 7 million (U.S.$1 million) in the acquisition of land in the state of Tamaulipas, Mexico.

B. Business Overview

In the United States and Mexico, 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 4.5 million tons and a combined annual installed rolling capacity of 3.5 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:

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

In 2010, we had net sales of Ps. 24.6 billion, gross margin of Ps. 4 billion and net income of Ps. 605 million. In 2010, approximately 55% of our consolidated sales were in the United States and Canada, approximately 44% were in Mexico, and approximately 1% 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, autopart 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. These figures reflect the sales of products manufactured at the San Luis facilities since June 1, 2008.

Steel Product Sales Volume

	Years ended December 31,	
2008	**2009**	**2010**
	(thousands of tons)	

I-Beams	66.2	76.8	70.3
Channels	61.4	51.0	66.8
Angles(1)	131.0	168.0	167.6
Hot-rolled bars (round, square and hexagonal rods)	1,210.8	724.6	926.2

Flat bar	106.8	67.2	91.5
Rebar	467.6	590.0	533.1
Cold finished bars	190.9	131.9	166.5
Semi-finished tube rounds	350.3	51.7	0.0
Other semi-finished trade products(2)	262.0	6.9	67.5
Electro-Welded wire mesh	16.7	48.9	47.8
Wire rod	14.9	64.2	63.0
Electro-Welded wire mesh panel	5.6	0.0	0.0
Other	40.0	58.8	40.8
Total steel sales	2,924.2	2,040.0	2,241.1

(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 2010, approximately 49.5% of our steel product sales represented SBQ steel products, of which we sold 41% to the auto part industry, 26% to service centers, 1% for hand tools, 4% for mining equipment and the remaining 28% to other industries. In 2010, the sales of rebar from our San Luis facility used in the construction sector increased 8.8%.

In 2009, direct sales to the automotive industry dropped by 37%, these sales increased by 40% in 2010. The collapse of the energy market had the largest impact on our business as the energy market accounted for 22% of our business in 2008 and less than 1% in 2009 as sales dropped by U.S.$350 million to US Steel alone. In 2010, we did not record any sales to this sector.

The following table sets forth, for the periods indicated, our Mexico, U.S. and Canada product sales as a percentage of our total product sales. These figures reflect the sales of products manufactured at our San Luis facilities starting since June 1, 2008.

Steel Product Sales By Region

	Mexico			**United States and Canada**		
	Years ended December 31,					
	2008	**2009**	**2010**	**2008**	**2009**	**2010**
I-Beams	92%	97%	95%	8%	3%	5%
Channels	58%	69%	59%	42%	31%	41%
Angles	77%	78%	78%	23%	22%	22%
Hot-rolled bars (round, square and hexagonal rods)	19%	32%	25%	81%	68%	75%
Rebar	81%	98%	96%	19%	2%	4%
Flat bar	86%	77%	88%	14%	23%	12%

Cold drawn finished bars	29%	24%	27%	71%	76%	73%
Semi-finished tube rounds	-	-	-	100%	100%	-
Other semi-finished trade products	-	-	-	100%	100%	100%
Electro-Welded wire mesh	100%	100%	100%	-	-	-
Wire rod	100%	100%	99%	-	-	1%
Electro-Welded wire mesh panel	100%	-	-	-	-	-
Other	100%	59%	100%	-	41%	-
Total (weighted average)	35%	63%	55%	65%	37%	45%

During 2010, approximately 38% of our sales by volume came from the U.S. market, with almost 100% of such sales representing SBQ products. The Mexican market represents approximately 62% of our sales by volume, with SBQ products representing approximately 20% of such sales and the remainder representing commercial steel products.

Approximately 15% 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 four full-time employees in Mexico dedicated exclusively to exports.

During 2009 and 2010, we received orders for our products in our Mexican facilities on average approximately two weeks before producing those products. We generally fill orders for our U.S. and Canadian SBQ steel products within one to 12 weeks of the order depending on the product, customer needs and other production requirements. Customer orders are generally cancelable without penalty prior to finish size rolling and depend on customers changing production schedules. Accordingly, we do not believe that backlog is a significant factor in our business. A substantial portion of our production is ordered by our customers prior to production. We cannot assure you that significant levels of preproduction sales orders will continue.

In our Republic plants, we have long term relationships with most of our major customers, in some cases for 10 to 20 years or longer. Our major direct and indirect customers include: leading automotive and industrial equipment manufacturers General Motors Corporation, Ford Motor Company, Chrysler LLC, Honda of America MFG, Inc. and Caterpillar Inc.; first tier suppliers to automotive and industrial equipment manufacturers such as American Axle & Manufacturing Holdings, Inc., ArvinMeritor, Inc., NTN Driveshaft, Inc., TRW Automotive Holdings Corp. and Hephaesus Holding Inc.; service centers which include AM Castle & Co., Earle M. Jorgensen Co., Thyssen Krupp Gerlach Company and Eaton Steel Bar Company; and tubular product manufacturer, U.S. Steel. In 2009, direct sales to the automative industry dropped by 37%, as we were able to offset some of the reduction in demand with the addition of new customers. The collapse of the energy market had the largest impact on our business as the energy market accounted for 22% of our business in 2008 and less than 1% in 2009 as sales dropped by $350 million to U.S. Steel alone.

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 dictate the type of transportation used for deliveries. The proximity of our rolling mills and cold finishing plants to our U.S. customers allows us to provide competitive rail and truck freight rates and flexible deliveries in order to satisfy just-in-time and other customer manufacturing requirements. We believe that the ability to meet the product delivery requirements of our customers in a timely and flexible fashion is a key to attracting and retaining customers as more SBQ product consumers reduce their in-plant

raw material inventory. We optimize freight costs by using our significantly greater scale of operations to maintain favorable

transportation arrangements, continuing to combine orders in shipments whenever possible and backhauling scrap and other raw materials.

Competition

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

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

Mexico

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

We believe that our competitors closest plants to the southern California market are: Nucor Steel, located in Plymouth, Utah; Schnitzer Steel (Cascade), located in McMimville, Oregon; Oregon Steel (Rocky Mountain Steel Mills), located in Pueblo, Colorado; Tamco Steel, located in Rancho Cucamanga, California; and Grupo Villacero (Border Steel), located in El Paso, Texas. We believe that we have an advantage over certain competitors due to the labor cost in our Mexican operations.

Based on information compiled by Mexico s National Steel and Iron Industry Chamber (*Cámara Nacional de la Industria del Hierro y del Acero*, or CANACERO), we believe that in 2010 we were the sole Mexican producer of 5 inch, 6 inch and 200 mm I-beams, and that during such period there was one other producer of 4-inch I-beams. These products accounted for approximately 72,356 tons, or approximately 3.2%, and approximately 70,648 tons, or approximately 3.4%, of our total finished product sales in 2010 and 2009, respectively. The revenue that we derived from I-beam products represented approximately 3.5% and 3.2% of our net sales in 2009 and 2010, respectively.

In 2010, we sold approximately 199,805 tons of I-beams, channels and angles at least three inches in width (including the 72,356 tons of I-beams described above) which represented approximately 9% of our total finished product sales for the year. We believe that the domestic competitors in the Mexican market for structural steel are Altos Hornos de Mexico, S.A. de C.V. (Ahmsa), Siderúrgica del Golfo, S.A. de C.V. (a wholly-owned subsidiary of

Industrias CH), Aceros Corsa, S.A. de C.V. (Corsa) and Gerdão, S.A. We estimate that our share of Mexican production of structural steel was 59% in 2010, according with information provided by CANACERO.

In 2010, we sold approximately 1,091,759 tons of hot rolled and cold finished steel bar. Our other major product lines are rebar and light structural steel (angles less than three inches in width and flat bar), for which our share of domestic production was 17% and 62%, respectively, in 2010. Rebar and light structural steel together accounted for approximately 731,486 tons, or 33%, of our total production of finished steel products in Mexico and the United States in 2010. We compete in the Mexican market with a number of producers of these products, including Ahmsa, Hylsamex, S.A. de C.V., Sicartsa, S.A. de C.V., Corsa, Aceros Tultitlán, S.A. de C.V., Commercial Metals Inc., Belgo Mineira Aceralia Perfiles Bergara, S.A., Chaparral Steel Company, Deacero, S.A. de C.V., Talleres y Acero, Nucor Corporation and Bayou Steel Corporation.

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

United States and Canada

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

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

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

Certifications

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

Our U.S. operations are currently ISO/TS 16949:2002 certified. The ISO/TS 16949:2002 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

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system of continuous improvement, defect prevention and reduction of variation and waste in the supply chain. It places greater emphasis on management s commitment to quality and customer focus.

Our Republic facilities are currently ISO 14001 and OHSAS 18001 certified. Through these certifications, Republic s Environmental, Health & Safety Management System is structured upon training, communication, employee participation, document control, objective and target setting, and management s periodic reviews to implement our commitments to environmental protection and providing a safe and clean workplace. Most of the automotive customers of our Republic facilities require ISO 14001 certification, however, OHSAS 18001 is voluntary. The ISO 14001 certification is effective until November 2013 and the OHSAS 18001 is effective until February 2012.

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 57% in 2008, decreased approximately 24% in 2009 and increased approximately 34% in 2010; and prices of ferroalloys increased approximately 19% in 2008, decreased approximately 43% in 2009 and increased approximately 22% in 2010. 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 2010, our direct cost of sales in Mexico, as a percentage of sales in Mexico, was 75%, compared to our U.S. operations where our direct cost of sales, as a percentage of sales in the United States, was 93%, and our consolidated direct cost of sales, as a percentage of consolidated sales, was 84%. The higher cost of sales of Republic facilities is mainly a result of higher labor costs prevailing in our U.S. operations, and the higher costs of the raw materials that our U.S. operations use in the production of SBQ steel.

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

Scrap metal. Scrap metal is among the most important components for our steel production and accounted for approximately 52% of our consolidated direct cost of sales in 2010 (60% of the direct cost in our Mexico operations and 44% of the direct cost in our U.S. operations), compared to 54% of our direct cost of sales in 2009 (63% of the direct cost in our Mexico operations and 45% of the direct 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 14.2% and 8% of our refined scrap tonnage in 2010 and 2009, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 85.4% and 0.4%, respectively, in 2010 and approximately 92% and 1%, respectively, in 2009 of our refined scrap metal requirements. We are a large scrap collector in the Mexicali, Tijuana and Hermosillo regions, and, by primarily dealing directly with small Mexican scrap collectors, we believe we have been able to purchase scrap at prices lower than those in the international and Mexican markets. We purchase scrap on the open market through a number of brokers or directly from scrap dealers for our U.S. and Canadian facilities. We do not depend on any single scrap supplier to meet our scrap requirements.

Iron Ore Pellets and Coke. Our U.S. and Canadian facilities purchase iron ore pellets and coke. These are the principal raw materials used in our blast furnaces. We made no purchases of these raw materials in 2009 and 2010, 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 11% of our direct cost of sales in 2010, compared to 13% in 2009, and they accounted for 18% of our direct cost of sales in 2010 and 2009 in our U.S. and Canadian facilities.

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

We obtain electrodes used to melt raw materials from Ucar Carbon Mexicana, S.A. de C.V., Graphite Electrode Sales and SGL Carbon, LLC.

Refractory products include firebricks, which line and insulate furnaces, ladles and other transfer vessels. We purchase our refractory products from RHI Refmex, S.A. de C.V., LWB de México, S.A. de C.V., Fedmet Resources Corp., Vesuvius de México, S.A. de C.V., Mayerton Refractories and Tecnologías Minerales de México, S.A. de C.V.

Electricity. In 2010, electricity accounted for approximately 8% of our consolidated direct cost of sales for the period, compared to 9% of our consolidated direct cost of sales for the period in 2009. Electricity accounted for 10% of our direct cost of sales in 2010 in our Mexico facilities and is supplied by the *Comisión Federal de Electricidad* (CFE). It accounted for 6% of direct costs of sales in 2010 in our U.S. and Canadian operations and is supplied by American Electric Power Company and Ohio Edison. We, like all other high volume users of electricity in Mexico, pay special rates to CFE for electricity. Energy prices in Mexico have historically been very volatile and subject to dramatic price increases in short periods of time. In the late 1990s, the CFE began to charge for electricity usage based on the time of use during the day and the season (summer or winter). As a result, we have modified our production schedule in order to reduce electricity costs by limiting production during periods when peak rates are in effect. We cannot assure that any future cost increases will not have a material adverse effect on our business.

Natural Gas. Natural gas (including combustoleo which is an oil derivative that is less refined than gasoline and diesel fuel oil that can be used instead of gasoline in our Mexicali plant) consisted of approximately 4% of our consolidated direct cost of sales (5% of the direct cost of our Mexican operations and 3% of the direct cost of our U.S. operations) in 2010, compared to 6% in 2009 (7% in Mexico and 4% in the United States). We use natural gas cash-flow exchange contracts or swaps where we receive a

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floating price and pay a fixed price to hedge our risk of from fluctuations in natural gas prices. Fluctuations in natural gas prices from volume consumed are recognized as part of our operating costs. As applicable, we recognized the fair value of instruments either as liabilities or assets. Such fair value and thus, the value of these assets or liabilities were restated at each month s-end. As indicated in Note 4(d) to our consolidated financial statements, derivative financial instruments are recognized in the balance sheet at fair value, which is initially represented by the amount of consideration agreed on. Such fair value is restated at the end of each month based on the new estimate. We periodically evaluate the changes in the cash flows of derivative instruments to analyze if the swaps are highly effective for mitigating the exposure to natural gas price fluctuations. In 2010, 2009 and 2008, the fair value of derivatives that did not qualify for hedge accounting was adjusted through statement of income. For the derivatives that qualified for hedge accounting, their fair value was adjusted through the stockholders equity under the caption fair value of derivative financial instruments until such time as the related item the derivative hedges is recognized as income.

We do not enter into contracts for speculation purposes. We account for these derivative instruments in accordance with Accounting Standards Codification Section 815, *Derivatives and Hedging* and with Mexican GAAP relating to Bulletin C-10 *Derivative Financial Instruments and Hedging.*

Regulation

U.S. and Canadian Operations

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

Environmental Matters

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

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

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

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

We do not believe that our facility in Lorain, Ohio is subject to the Maximum Achievable Control Technology (MACT) standard for Iron & Steel Manufacturers, because it does not emit hazardous air

pollutants above the regulatory threshold. However, it is possible that in the future the regulatory agency could disagree with our determination or that operations will change such that the applicability threshold is exceeded. In that event, or under similar circumstances, we could incur additional costs of compliance. In addition, it is anticipated that one or more of our facilities will be subject to the MACT standard for Industrial, Commercial and Institutional Boilers and Process Heaters once that rule is promulgated. Once effective, this may cause us to incur additional costs at these facilities in order to come into compliance.

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

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

In the United States, the federal environmental agency is developing a new rule that is expected, among other things, to impose a timeline for the phasing out of PCB-containing fluid in equipment that we currently use at many of our U.S. facilities. A preliminary notice regarding this future regulation was issued in April 2010, and a formal proposed rule is expected in mid-2012. While the specifics of the proposed rule are not yet known, the phase-out may take place over a period of 5 to 10 years following issuance of the final rule, with the complete elimination of equipment containing PCBs above 50 ppm by 2025. Thus, once a final rule is issued, we may have to incur significant costs at our facilities to remove and replace the existing PCB-containing equipment.

Also in the United States, the federal environmental agency recently tightened or is in the process of tightening several environmental air quality standards under the Clean Air Act. More stringent standards were adopted in 2010 for sulfur dioxide (SO2) and nitrogen oxide (NOx), and more stringent standards for ozone, carbon monoxide and particulate matter are in the proposal stage with final issuance expected in 2011. As these new more stringent standards are implemented through the different state programs, we are likely to experience higher costs associated with any preconstruction permitting of new or modified sources at our U.S. facilities in 2011 and 2012.

Mexican Operations

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

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

Environmental Matters

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

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

In addition to the foregoing, Mexican Official Rules, which are technical standards issued by applicable regulatory authorities pursuant to the General Normalization Law (*Ley General de Metrología y Normalización*) and to other laws that include the environmental laws described above, establish standards relating to air emissions, waste water discharges, the generation, handling and disposal of hazardous wastes and noise control, among others. Mexican Official Rules regarding soil contamination and waste management were enacted in order to protect this 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,

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concessions, licenses, permits or registries, administrative arrests, seizure of contaminating equipment, and in certain cases, temporary or permanent closure of facilities.

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

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

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

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

Water

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

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

Antitrust Matters

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

Measurements Law

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

Trade Regulation Matters

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

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

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

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

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

parts, electronics, machinery and heavy equipment, was released from any tariffs, as from the effective date of the Association, (ii) the Japanese steel that Mexico imports will be maintained without changes (13% and 18%) during the first five years as of the effective date (iii) the steel products coming from Japan will start paying less taxes gradually as from January 1, 2010 until

reaching a zero percent rate in 2015, (iv) the products to be imported from the under the programs established by the Association, will pay the tariffs pursuant to the fixed tariffs established in such Sector Programs, so the electronic and vehicles industries will be exempted as of the effective date of the Association.

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

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

C. Organizational Structure

The chart below sets forth a summary of our corporate structure

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

Operadora de Metales, S.A. de C.V. (100%); Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V. (100%); Arrendadora Simec S.A. de C.V. (99.5%); Arrendadora Norte de Matamoros, S.A. de

C.V. (85%); Siderúrgica de Baja California, S.A. de C.V. (99.95%); CSG Comercial, S.A. de C.V. (99.95%); Comercializadora de Productos de Acero de Tlaxcala, S.A. de C. V. (99.95%); Productos Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Comercializadora MSAN, S.A. de C.V. (100%); Comercializadora Aceros DM, S.A. de C.V. (100%); Promotora de Aceros San Luis, S.A. de C.V. (100%); Compañía Siderúrgica de Guadalajara S.A. de C.V. (99.99%); Simec Acero, S.A. de C.V. (100%); Undershaft investment N. V., (100%); Simec USA Corp. (100%); Pacific Steel Projects Inc. (100%); Simec Steel Inc. (100%), Simec International, S. A. de C. V.(100%) and Simec International 7, S. A. de C. V., (99.99%).

(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 are operated by Simec International 6, S.A. de C.V., and began operations in November 2010. 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. ceased operations as of November 2010.

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

(4) SimRep, Co. owns 100% of Republic Engineered Products, 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; Gary, Indiana, 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. (99.99%) and Subsidiaries, Abastecedora Siderúrgica, S. A. de C. V. (99.99%), Aceros DM, S. A. de C. V. (99.99%) Acero Transportes, S. A. de C. V. (99.99%), Acero Transportes SAN, S. A. de C. V. (99.99%), Aceros San Luis, S. A. de C. V. (99.99%, Malla San, S. A. de C. V., (99.99%), Procesadora Industrial San, S. A. de C. V. (99.95%) Simec international 45, S. A. de C. V. (99.99%), Simec International 5, S. A. de C. V. (99.99%), Acero Transportes, S. A. de C. V. (100.00%).

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

Name of Subsidiary	Country of Incorporation	Ownership Interest (%)
Simec International, S.A. de C.V	Mexico	100%
Undershaft Investments, N.V	Dutch Antillas	100%
Pacific Steel, Inc	United States	100%
SimRep Corporation and subsidiaries	United States	50.22%
Compañía Siderúrgica del Pacífico, S.A. de C.V	Mexico	99.99%
Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V	Mexico	100%
Comercializadora Simec, S.A. de C.V	Mexico	100%
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%
Sistemas de Transporte de Baja California, S.A. de C.V	Mexico	100%
Operadora de Metales, S.A. de C.V	Mexico	100%
Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V	Mexico	100%
Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V	Mexico	100%
Operadora de Servicios de la Industria		

Siderúrgica ICH, S.A. de C.V	Mexico	100%
Arrendadora Simec S.A. de C.V	Mexico	100%
Compañía Siderúrgica de Guadalajara S.A. de C.V	Mexico	99.99%
Arrendadora Norte de Matamoros, S.A. de C.V.	Mexico	100%

CSG Comercial, S.A. de C.V	Mexico	99.95%
Comercializadora de Productos de Acero de Tlaxcala, S.A. de C.V	Mexico	99.95%
Siderúrgica de Baja California, S.A. de C.V	Mexico	99.95%
Corporación Aceros DM, S.A. de C.V. and subsidiaries	Mexico	100%
Productos Siderúrgicos de Tlaxcala, S.A. de C.V	Mexico	100%
Comercializadora MSAN, S.A de C.V	Mexico	100%
Acero Transportes San, S.A. de C.V	Mexico	100%
Simec International 2, S. A. de C. V	Mexico	99.95%
Simec International 3, S. A. de C. V	Mexico	99.95%
Simec International 4, S. A. de C. V	Mexico	99.95%
Simec International 5, S. A. de C. V	Mexico	99.95%
Corporación ASL, S.A. de C.V	Mexico	99.99
Simec International 6, S. A. de C. V	Mexico	100%
Simec International 7, S. A. de C. V	Mexico	99.99%
Simec Acero, S. A. de C. V	Mexico	99.95%
Simec USA, Corp	United States	100%
Pacific Steel Projects, Inc	United States	100%
Simec Steel, Inc	United States	100%

D. Property, Plants and Equipment

Our Operations and Production Facilities

We conduct our operations at twelve facilities throughout North America. At December 31, 2010, our crude steel production capacity was 4.5 million tons, of which 1.2 million tons were based on an integrated blast furnace technology, and 3.3 million were based on electric arc furnace, or mini-mill, technology. Our Mexican facilities have 1.9 million tons of crude steel production capacity, operating five mini-mill facilities. Our U.S. operations have 2.6 million tons of crude steel production capacity. In addition, we have 3.5 million tons of rolling and finishing capacity, of which 1.8 million are located in Mexico, and 1.7 million are located in the United States and Canada.

We operate six mini-mills, five in Mexico and one in the United States. The Mexican mini-mills are located in Guadalajara, Jalisco; Apizaco, Tlaxcala; Mexicali, Baja California; as well as two in San Luis Potosi, San Luis Potosí. Our mini-mill in the United States is located in Canton, Ohio. We also operate an integrated blast furnace in Lorain, Ohio. We operate rolling and finishing facility in each of our mill facilities in Cholula and in the United States, (except in Canton, Ohio) and Canada.

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

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

conformed into final sections and sizes. The shapes are then cut into a variety of lengths. In addition, to producing billet, our Canton, Ohio facility also produces blooms.

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

The production levels and capacity utilization rates for our melt shops and rolling mills for the periods indicated are presented below. These figures reflect the sales of products manufactured at the San Luis facilities starting from June 1, 2008.

Production Volume and Capacity Utilization

	Years ended December 31,		
	2008	**2009**	**2010**
		(tons in thousands)	
Melt shops			
Steel billet production	3,228.3	2,110.0	2,458.3
Annual installed capacity(1)	4,532.2	4,532.2	4,532.2
Effective capacity utilization	76.2%	46.6%	54.2%
Rolling mills			
Total production	2,463.6	2,015.6	2,354.4
Annual installed capacity(1)	3,521.9	3,521.9	3,521.9
Effective capacity utilization	75.5%	57.2%	66,8%

(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. The percentage of effective capacity utilization for 2008 is determined in the case of San Luis facilities based on utilization over the period from June 1 to December 31, 2008.

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 2010.

Mexican Production per Facility by Product

Product	Location				
	Guadalajara	Mexicali	Apizaco/Cholula	San Luis	Total
			(Production %)		
I Beams	17.8%	0%	0%	0%	5.0%
Channels	12.6%	11.4%	0%	0%	4.8%
Angles	27.6%	32.9%	0%	0%	12.0%
Hot rolled bars (round, square and hexagonal rods)	27.0%	6.4%	54.4%	1.9%	19.8%
Rebar	2.2%	36.5%	10.5%	77.3%	38.2%
Flat bars	8.5%	6.8%	15.9%	0%	6.6%
Cold finished bars	4.1%	0.2%	19.2%	0%	4.9%
Electro-Welded wire mesh	0%	0%	0%	8.8%	3.4%
Wire rod	0%	0%	0%	11.5%	4.5%
Electro-Welded wire mesh panel	0%	0%	0%	0%	0%
Other	0.2%	5.8%	0%	0.5%	0.8%
Total	100%	100%	100%	100%	100%

Guadalajara. Our Guadalajara mini-mill facility is located in central western Mexico in Guadalajara, Jalisco which is Mexico s second largest city. Our Guadalajara facilities and equipment include one improved electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, five reheating furnaces and three rolling mills. The Guadalajara mini-mill has an annual installed capacity of 350,000 tons of billet and an annual installed capacity of finished product of 480,000 tons. In 2010, the Guadalajara mini-mill produced 310,890 tons of steel billet and 381,805 tons of finished product, operating at 89% capacity for billet production and 80% 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,		
	2008	2009	2010
Steel sales (thousands of tons)	377	344	393
Average finished product price per ton	Ps. 10,749	Ps 9,073	Ps 9,069
Average scrap cost per ton	3,799	3,129	4,072
Average manufacturing conversion cost per ton of finished product	2,862	2,922	2,892
Average manufacturing conversion cost per ton of billet	1,642	1,583	1,610

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 2010, the Mexicali mini-mill produced approximately 236,825 tons of billet, of which the Guadalajara mini-mill used 36,296 tons, and we sold 7,696 tons to third parties. In 2010, the Mexicali mini-mill produced 148,650 tons of finished product. In 2010 we operated the Mexicali mini-mill at 55% capacity for billet production and at 59% 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 2010, 37% of the products produced at the Mexicali mini-mill were rebar, 33% were angles, 6% were hot rolled bars (round, square and hexagonal rods) and the remaining 24% were other products, principally channels and flat bars.

Mexicali Mini-Mill

	Years ended December 31,		
	2008	**2009**	**2010**
Steel sales (thousands of tons)	212	199.8	177
Average finished product price per ton	Ps.9,944	Ps 7,812	Ps 9,090
Average scrap cost per ton	3,856	2,999	3,895
Average manufacturing conversion cost per ton of finished product	2,353	2,204	2,172
Average manufacturing conversion cost per ton of billet	1,548	1,456	1,584

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 400,000 tons of steel billet and an annual installed capacity of finished product of 480,000 tons. In 2010, the Apizaco mini-mill produced 362,154 and 372,362 tons of finished products. 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 60,000 tons. In 2010, the Cholula facility produced 53,972 tons of finished product, at 90% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2010, 11% of the products we produced at the Apizaco and Cholula facilities were rebar, 54% were hot rolled bars (round, square and hexagonals) and the remaining 35% were other products, flat merchant bar and cold finished products.

Apizaco Mini-Mill and Cholula Facility

	Years ended December 31,		
	2008	**2009**	**2010**
Steel sales (thousands of tons)	387	347.4	284
Average finished product price per ton	Ps. 10,561	Ps. 8,510	Ps. 10,651
Average scrap cost per ton	4,170	3,111	3,660
Average manufacturing conversion cost per ton of finished product	3,227	2,856	3,755
Average manufacturing conversion cost per ton of billet	1,950	1,714	2,105

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, 2010, these facilities had an annual installed capacity of 705,000 tons of billet and 620,000 tons of finished product. In 2010, the San Luis facilities produced 572,081 tons of steel billet and 547,452 tons of finished product operating at 81% capacity for billet production and 88% capacity for finished product production. Our San Luis facilities mainly produces rebar, light structurals and wire rod. In 2010, 77% of the products produced at the San Luis facilities were rebar, 12% wire rod, and the remaining 11% were other light structural.

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

	June 1 December 31,	Years ended December 31	
	2008	**2009**	**2010**
Steel sales (thousands of tons)	261	512.8	542
Average finished product price per ton	Ps. 9,701	Ps. 7,264	Ps. 8,164
Average scrap cost per ton	3,659	3,115	4,287
Average manufacturing conversion cost per ton of finished product	2,270	1,874	1,952
Average manufacturing conversion cost per ton of billet	1,571	1,382	1,511

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, 2010, these facilities had an annual installed capacity of 2,647,000 tons of billet and 1,692,000 tons of finished product. In 2010, Republic facilities produced 976,389 tons of steel billet, of which 66,860 tons were sold as semi-finished The remainder went to the Lorain, Ohio and Lackawanna, New York facilities for further processing. For the same period, Republic facilities produced 904,116 tons of hot-rolled bar, of which 555,297 tons were used by the cold finish facilities. Republic facilities produced 555,297 tons of cold finish bars. During this period, 74.6% of the products shipped from Republic facilities were hot-rolled bars, 13.6% were cold-finished bars, and 11.8% were other semi-finished trade products.

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

	Years ended December 31,		
	2008	**2009**	**2010**
Steel sales (thousands of tons)	1,687	636	845
Average finished product price per ton	Ps. 13,281	Ps. 12,373	Ps. 14,146
Average scrap cost per ton	4,644	3,494	4,944
Average iron ore pellet cost per ton	1,057	0	0
Average manufacturing conversion cost per ton of finished product(1)	6,499	11,906	6,240
Average manufacturing conversion cost per ton of billet(1)	5,028	3,975	3,641

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

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

Our Lorain facility had, at December 31, 2010, an annual installed capacity of 1,264,000 tons of steel billet and 838,000 tons of finished product. During 2010, the Lorain facility operated at 46% of capacity for 9-10 rolling mill and 36% of capacity for 20 mill finishing and shipping production, and it produced 348,818 tons of finished products. The facility did not produce any steel billets in 2010.

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