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

**FORM 20-F**

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

**OR**

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

**For the fiscal year ended December 31, 2020**

**OR**

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

**OR**

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

**Commission File Number 1-11176**

**GRUPO SIMEC, S.A.B. de C.V.**  
(Exact name of registrant as specified in its charter)

**GROUP SIMEC**  
(Translation of registrant's name into English)

**UNITED MEXICAN STATES**  
(Jurisdiction of incorporation or organization)

**Calzada Lázaro Cárdenas 601  
Colonia La Nogalera, Guadalajara,  
Jalisco, México 44440**  
(Address of principal executive offices)

**Mario Moreno Cortez, telephone number 011-52-33 3770-6700, e-mail mmoreno@gruposimec.com.mx**  
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

\* 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 capital or common stock as of the close of the period covered by the annual report:

**Series B Common Stock — 463,243,411 shares as of December 31, 2020**

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.:

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards<sup>†</sup> provided pursuant to Section 13(a) of the Exchange Act.

<sup>†</sup>The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

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

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17  Item 18

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

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## CERTAIN TERMS

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

References in this annual report to “U.S. dollars” or “U.S.\$” are to the lawful currency of the United States. References in this annual report to “pesos” or “Ps.” are to the lawful currency of Mexico. References in this annual report to “real” are to the lawful currency of Brazil. 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 into round square, or 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. 19.9352 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2020. On May 24, 2021, the interbank transactions rate for the peso was Ps. 19.8810 per U.S.\$1.00.

## FORWARD LOOKING STATEMENTS

This annual report contains certain statements regarding our business that may constitute “forward looking statements” within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. When used in this annual report, the words “anticipates,” “plans,” “believes,” “estimates,” “intends,” “expects,” “projects” and similar expressions are intended to identify forward looking statements, although not all forward looking statements contain those words. These statements, including, but not limited to, our statements regarding the ongoing effects of the coronavirus (COVID-19) pandemic on both our projected customer demand and supply chain, as well as our operations and financial performance, 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:

- the overall global economic environment and risks associated with the COVID-19 pandemic;
- factors relating to the steel industry (including the cyclicity of the industry, finished product prices, worldwide production capacity, the high degree of competition from Mexican, U.S. and foreign producers and the price of ferrous scrap, iron ore and other raw materials);
- our inability to operate at high capacity levels;
- the costs of compliance with Mexican, Brazilian and U.S. environmental laws;
- future capital expenditures and acquisitions;
- future devaluations of the peso and the real;
- the imposition by Mexico and Brazil 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 of this filing, and we undertake no obligation to publicly update or to revise any forward looking statements after the date of this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward looking events and circumstances discussed in this annual report might not occur.

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**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

**Item 2. Offer Statistics and Expected Timetable**

Not applicable.

**Item 3. Key Information****A. Selected Financial Data**

This annual report includes our consolidated financial statements as of December 31, 2019 and 2020 and for each of the three years ended December 31, 2018, 2019 and 2020, in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standard Board (IASB). We have adjusted the financial statements of our subsidiaries to conform to IFRS, and we have translated them to Mexican pesos, our reporting currency. See Note 4 to our consolidated financial statements included elsewhere herein.

Some of our operations have a different functional currency than the Mexican peso, our reporting currency. A functional currency is the currency of the primary economic environment of the foreign operation or, if different, the currency that mainly impacts its cash flows. The U.S. dollar was considered as the functional currency of all our U.S. subsidiaries and the Brazilian real was considered as the functional currency for all our Brazil plants; therefore, the financial statements of these subsidiaries were translated into Mexican pesos by applying:

- The exchange rates at the balance sheet date, to all assets, liabilities and stockholder's equity.
- The historical exchange rate at revenues, costs and expenses.

Translation differences are carried directly to the consolidated statements of comprehensive income as other comprehensive income under the caption "translation effects of foreign subsidiaries." Translation differences were carried directly to the consolidated statement of comprehensive income as part of the income of the year under the caption foreign exchange gain (loss).

The translation effect in the results of operations for the years ended December 31, 2018, 2019 and 2020 resulted from applying the following exchange rates (peso/dollar) to the active or passive monetary position in foreign currency:

<b>Year ended</b>	<b>Exchange Rate (pesos to U.S.\$1.00)</b>	<b>Change</b>
December 31, 2018	19.6566	(0.0788)
December 31, 2019	18.8727	(0.7839)
December 31, 2020	19.9352	1.0625

The following tables present the selected consolidated financial information as of and for each of the periods indicated. The selected financial and operating information as of and for the years ended December 31, 2016, 2017, 2018, 2019 and 2020 set forth below has been derived in part from our consolidated financial statements, which have been reported on by Marcelo de los Santos y Cía., S.C. a practice member of Moore Global Network Limited (before Moore Stephens). The financial and operating information of GV do Brasil Industria e Comercio de Aço LTDA, for the years ended December 31, 2016, 2017, 2018, 2019 and 2020, the financial and operating information of GV do Brasil Industria e Comercio de Aço LTDA have been reported by Moore Lima Lucchesi Auditores Independentes ("Moore Global-Lima"). 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.

<b>As of and for Year Ended December 31,</b>					
<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2020 <sup>(1)</sup></b>
(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)

**Selected Consolidated Statements of Comprehensive Income Data:**

	As of and for Year Ended December 31,					
	2016	2017	2018	2019	2020	2020 <sup>(1)</sup>
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)
Net sales	27,516	28,700	35,678	34,171	35,869	1,799
Cost of sales	22,776	23,994	30,563	30,067	29,212	1,465
Impairment of property, plant and equipment	-	-	-	-	-	-
Gross profit (loss)	4,740	4,706	5,115	4,104	6,657	334
Administrative expenses	879	954	923	1,417	1,597	101
Depreciation and amortization	398	285	157	220	422	21
Other (expense) income, net	(36)	7	15	(137)	547	27
Interest income	140	252	312	146	108	5
Interest expense	40	54	16	55	54	3
Foreign exchange gain (loss)	1,774	(654)	(147)	(785)	(363)	(18)
Income (loss) before taxes	5,301	3,018	4,199	1,636	4,876	245
Income tax expense	936	1,123	752	3,276	2,078	104
Net income (loss)	4,365	1,895	3,447	(1,640)	2,798	140
Non-controlling interest income (loss)	1,458	-	(206)	(4)	(-)	(0)
Controlling interest income (loss)	2,907	1,895	3,653	(1,636)	2,798	140
Net income (loss) per share <sup>(2)</sup>	5.97	3.84	7.46	(3.52)	6.04	0.30
Net income (loss) per ADS <sup>(2)</sup>	17.94	11.52	22.38	(10.56)	18.12	0.90
Weighted average shares outstanding (thousands) <sup>(2)</sup>	486,516	493,918	489,537	465,069	463,483	463,483
Weighted average ADSs outstanding (thousands) <sup>(2)</sup>	162,172	164,639	163,179	155,023	154,494	154,494

**Selected Consolidated Balance Sheet Data:**

Total assets	41,880	45,977	48,854	44,015	45,504	2,283
Total short-term liabilities	5,738	7,480	8,992	7,286	8,427	423
Total long-term liabilities <sup>(3)</sup>	2,910	4,179	4,353	4,118	4,058	204
Total stockholders' equity	33,232	34,318	35,509	32,610	33,019	1,656

**Selected Consolidated Statements of Cash Flows Data:**

Cash provided by operating activities	5,706	3,184	3,224	1,043	3,634	182
Cash provided by (used in) financing activities	898	(374)	(2,641)	(211)	(2,086)	(105)
Cash used in investing activities	(5,443)	(3,118)	(820)	(107)	(833)	(42)

**Other Data:**

Capital expenditures	3,100	3,040	1,994	1,271	951	48
Adjusted EBITDA <sup>(4)</sup>	4,892	4,933	5,147	3,576	6,090	305
Working capital <sup>(5)</sup>	14,497	15,386	17,109	16,695	15,930	799
Depreciation and amortization	1,429	1,466	1,112	1,109	1,452	73
Dividends declared	0	0	0	0	1,990	100

**Operational Data:**

(capacity and production in thousands of tons):

Annual installed capacity <sup>(6)</sup>	4,132	4,001	4,480	4,896	5,185	N/A
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	As of and for Year Ended December 31,					
	2016	2017	2018	2019	2020	2020 <sup>(1)</sup>
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)
Mexico	1,495	1,404	1,374	1,294	1,474	N/A
United States, Canada, Brazil and elsewhere outside Mexico	590	687	818	1,055	1,107	N/A
Total tons shipped	2,085	2,091	2,192	2,349	2,441	N/A
SBQ steel	761	733	706	618	616	N/A
Structural and other steel products	1,324	1,358	1,486	1,731	1,825	N/A
Number of employees	3,973	3,767	4,685	4,201	4,448	N/A
<b>Per Ton Data:</b>						
Net sales per ton <sup>(7)</sup>	13,197	13,725	16,276	14,547	14,695	737
Cost of sales per ton <sup>(7)</sup>	10,924	11,475	13,943	12,800	11,967	600
Adjusted EBITDA <sup>(4)</sup> per ton <sup>(7)</sup>	2,346	2,359	2,348	1,522	2,495	125

- (1) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 19.9352 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2020.
- (2) Our series B shares are listed on the Mexican Stock Exchange, and the ADSs are listed on the New York Stock Exchange. One American depositary share, or "ADS," represents three series B shares.
- (3) Total long-term liabilities include amounts relating to deferred taxes.
- (4) Adjusted EBITDA is not a financial measure computed under U.S. GAAP or IFRS. Adjusted EBITDA is derived from our IFRS financial information and means net income (loss) excluding: (i) depreciation, amortization and impairment expense; (ii) financial income (expense), net (which is composed of net interest expense and foreign exchange gain or loss); (iii) other income (expense); and (iv) income tax expense and employee statutory profit-sharing expense.

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

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

- 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 (loss) to Adjusted EBITDA is as follows:



	Year Ended December 31,					2020 <sup>(1)</sup>
	2016	2017	2018	2019	2020	(millions of U.S. dollars)
	(millions of pesos)					
Net income (loss)	4,365	1,895	3,447	(1,640)	2,798	140
Impairment of property, plant and equipment	-	-	-	-	-	-
Depreciation and amortization	1,429	1,466	1,112	1,109	1,452	73
Other (expense) income	(36)	7	15	(137)	547	27
Interest income	140	252	313	146	108	5
Interest expense	40	54	16	55	54	3
Foreign exchange gain (loss)	1,775	(654)	(147)	(785)	(363)	(18)
Income tax expense	936	1,123	752	3,276	2,078	96
Adjusted EBITDA	4,892	4,933	5,147	3,576	6,090	305

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

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

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

## Exchange Rates

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

Year Ended December 31,	High	Low	Average	Period End
2016	20.84	17.19	18.67	20.62
2017	21.89	17.48	18.88	19.64
2018	20.67	17.97	19.22	19.63
2019	20.12	18.76	19.25	18.86
2020	24.85	18.57	21.50	19.93
Month in 2021	High	Low	Average <sup>(1)</sup>	Period End
January	20.26	19.66	19.94	20.26
February	20.94	19.93	20.33	20.94
March	21.45	20.44	20.75	20.44
April	20.34	19.81	20.04	20.17
May (through May 24)	20.26	19.80	19.98	19.94

(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 our 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 depository of any cash dividends paid in pesos on series B shares represented by ADSs.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

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

**Risks Related to Our Business*****Our results of operations are significantly influenced by the cyclical nature of the steel industry.***

The steel industry is highly cyclical and sensitive to regional and global macroeconomic conditions. Global demand for steel as well as global production capacity levels significantly influence prices for our products, and changes in global demand or supply for steel in the future will likely impact our results of operations. Steel prices are sensitive to macroeconomic fluctuations in the global economy, and substantial price decreases during periods of economic weakness have not always been offset by price increases during periods of economic strength. The steel industry has suffered in the past, especially during downturn cycles, from substantial over-capacity relative to local demand. Currently, as a result of the increase in steel production capacity in recent years, there are signs of excess capacity in steel markets, which is impacting the profitability of the steel industry. Global steel prices recovered in 2016, 2017 and 2018. During 2019, global steel prices decreased, a trend which accelerated due to the global COVID-19 pandemic, during 2020, pricing levels have started to recover. We cannot give you any assurance as to prices of steel in the future.

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

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and may do so in the future. Significant increases in raw material prices could adversely affect our gross profit. During periods when prices for scrap metal, iron ore, ferroalloys, coking coal and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw material costs to customers by means of price increases. For example, prices of scrap metal in 2016 increased approximately 2%, in 2017 increased approximately 31%, in 2018 increased approximately 19%, in 2019 decreased approximately 20%, in 2020 increased approximately 9%; while prices of ferroalloys in 2016 decreased approximately 13%, in 2017 increased approximately 22%, in 2018 increased approximately 10%, in 2019 increased approximately 1% and in 2020 decreased approximately 20%. 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 materials either in the open market or from certain key suppliers. Both scrap metal and ferroalloy prices are negotiated on a monthly basis with our suppliers and are subject to market conditions. We cannot assure you that we will be able to continue to find suppliers of these raw materials in the open market, that the prices of these materials will not increase or that the quality will remain the same. In addition, if any of our key suppliers fails to deliver or we fail to renew our supply contracts, we could face limited access to some raw materials, or higher costs and delays resulting from the need to obtain our raw materials requirements from other suppliers.

***The inability to use our existing inventory in the future or impairments in the valuation of our inventory could adversely affect our business.***

As of December 31, 2020, we had 136,541 metric tons of coking coal inventory, which is one of the principal raw materials used in blast furnaces. We have not used this raw material in recent years because our Lorain, Ohio blast furnace facility has been idle since 2008. We intend to start using coking coal as a substitute for coal in our productive process in our other plants in Mexico and the United States. However, we cannot assure you that we will be able to effectively utilize such inventory.

We have assigned a fair market value of Ps. 953 million (U.S.\$47.8 million) to our coking coal inventory as of December 31, 2020. However, prices for coking coal have fluctuated significantly in the past and could continue to do so in the future and significant fluctuations in coking coal prices could adversely affect the value of our existing inventory.

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

Energy costs constitute a significant component of our costs of operations. Our energy cost was 13% of our manufacturing costs for 2020 compared to 14.3% for 2019, 12.4% for 2018, 13.1% for 2017, 13.5% for 2016 and 13% for 2015. Our energy costs are driven by the dependence of our production processes on adequate supplies of electricity and natural gas. A substantial increase in the cost of electricity or natural gas could have a material adverse effect on our gross profit. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales. Prices for electricity increased approximately 1.5% in 2016, in 2017 increased approximately 22%, in 2018 increased approximately 14%, in 2019 increased approximately 1% and in 2020 decreased approximately 9.8%; and prices for natural gas increased approximately 8% in 2016, increased approximately 22% in 2017, increased approximately 28% in 2018 and increased approximately 1.8% in 2019 and decreased approximately 18% in 2020.

We pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or “CFE”) for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, (“PEMEX”), the national oil company of Mexico, for natural gas used at our facilities in Mexico. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future, particularly in light of recent energy reforms in Mexico. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportation and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States, as appropriate. As of December 31, 2020, we have not entered into derivative financial instruments in Mexico, the United States or Brazil. We have not always been able to pass the effect of increases in our energy costs on to our customers and we cannot assure you that we will be able to pass the effect of these increases on to our customers in the future. We also cannot assure you that we will be able to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of electricity or natural gas would materially and adversely affect our business and results of operations.

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

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

A number of our competitors in Mexico and the United States 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 and the United States we also face competition from international steel producers. Increased international competition, especially when combined with excess production capacity, would likely force us to lower our prices or to offer increased services at a higher cost to us, which could materially reduce our profit margins.

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

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

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

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

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

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

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

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

We intend to continue to pursue a growth strategy, the success of which will depend in part on our ability to acquire and integrate additional facilities. Some of these acquisitions may be outside of Mexico and the United States. Acquisitions involve 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 identified material weaknesses in our internal controls over financial reporting from 2011 through 2018, which resulted in our conducting a thorough review and establishing remedial measures in 2019.***

In connection with the preparation of our financial statements as of and for each of the years ended December 31, 2016, 2017 and 2018, we and our auditors identified material weaknesses (as defined under standards established by the U.S. 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.

By letter dated February 13, 2017, the Securities and Exchange Commission (the "SEC") notified us that the SEC was conducting an informal, and non-public, inquiry into the Company in connection with our internal controls. After cooperating with the



SEC and engaging in a thorough review of our internal controls, we implemented remedial measures during 2019, and we settled internal controls charges with the SEC on January 29, 2019. We also agreed to retain an independent consultant and to pay a civil monetary penalty in the amount of U.S.\$200,000. Any failure to 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 could cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to implement improvements in our internal controls to address the identified weaknesses could result in our incurring substantial liability for not having met our legal obligation and could also cause investors to lose confidence in our reported financial information, which could have a material adverse impact on the trading price of our Series B shares or the ADSs.

For details about our internal control deficiencies and remediation, see Items 15.B “Controls and Procedures—Management’s Annual Report on Internal Control Over Financial Reporting – Material Weaknesses,” 15.C “Attestation Report of the Independent Registered Public Accounting Firms” and 15.D “Changes in Internal Control over Financial Reporting.”

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

International trade-related administrative proceedings, legal actions and restrictions pose a constant risk for our international operations and sales throughout the world. Countries may impose restrictive import duties and other restrictions on imports under various national trade laws. The timing and nature of the imposition of trade-related restrictions potentially affecting our exports are unpredictable. Trade restrictions on our exports could adversely affect our ability to sell products abroad and, as a result, our profit margins, financial condition and overall business could suffer.

One significant source of trade restrictions results from the imposition of “antidumping” and “countervailing” duties, as well as “safeguard measures.” These duties can severely limit or altogether prevent exports to relevant markets. For example, in October 2014, the United States International Trade Commission (USITC) determined that the U.S. steel industry was materially injured by imports of steel concrete reinforcing bars from Mexico that are sold in the United States at less than fair value, and from Turkey, that are subsidized by the government of Turkey. As a result of the USITC’s affirmative determinations, the U.S. Department of Commerce issued an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government-imposed tariffs of 66.7% against imports for rebar from Deacero, S.A.P.I de C.V. and us and tariffs of 20.58% for rebar imports from all other producers in Mexico, which tariffs were rescinded in June 2017. On January 16, 2020, a preliminary dumping rate of 6.75% was imposed on our exports of rebar to the United States of America; however, this dumping rate decreased to 1.46% following the U.S. Department of Commerce’s physical review carried out at our San Luis Potosi plant in February 2020.

Many of our products are subject to existing duties, tariffs, anti-dumping duties and quotas that may limit the quantity of some types of goods that we import into the United States. Furthermore, certain of our competitors may be better positioned than us to withstand or react to border taxes, tariffs or other restrictions on global trade and as a result we may lose market share to such competitors. Due to broad uncertainty regarding the timing, content and extent of any regulatory changes in the U.S. or elsewhere, we cannot predict the impact, if any, that these changes could have to our business, financial condition and results of operations. See “—Risks Related to Mexico—Developments in other countries could adversely affect the Mexican economy, our financial performance and the price of our shares.”

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

As of December 31, 2020, approximately 87% of our non-Mexican and 44% of our Mexican employees were members of unions. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. In addition, collective bargaining agreements are typically negotiated on a facility-by-facility basis for our Mexican facilities. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material and adverse effect on our business. Labor disruptions or significant negotiated wage increases could reduce our sales or increase our costs, which could in turn have a material adverse effect on our results of operations.

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

The operations of our Lackawanna facility depend upon certain service and utility arrangements and understandings with third parties relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. We have

entered into a written agreement, subject to automatic one-year renewals and terminable by either party, for the provision of compressed air to our Lackawanna facility and an option to purchase the equipment at various times and at stated prices. The water pump that services our plant is located on property owned and maintained by another third party, 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 property on which the compressed air equipment is located, is routed through our electric meter located at a substation on adjacent property owned by the third party providing the compressed air to our facility. In the event of a termination of any of our rights, either due to a failure to negotiate a satisfactory outcome with the third parties providing these services 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 2020, 2019, 2018, 2017 and 2016, sales to our ten largest customers in the United States accounted for approximately 68%, 65%, 68.4%, 68.7% and 62.1% of our consolidated revenues in the United States, respectively, and approximately 15.5%, 20.8%, 13.8%, 17.7% and 20% 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.

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

***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 (such as interruptions attributable to the COVID-19 pandemic). 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 certifications. All of the Mexican and U.S. facilities that sell to automotive parts customers are currently certified, as required. If the foregoing certifications are canceled, approvals are withdrawn or necessary additional standards are not obtained in a timely fashion, our ability to continue to serve our targeted market, retain our customers or attract new customers may be impaired. For example, our failure to maintain these certifications could cause customers to refuse shipments, which could materially and adversely affect our revenues and results of operations. We cannot assure you that we will be able to maintain these required certifications.

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

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

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

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

Our steel making operations in the United States and in Mexico use electric arc furnaces where carbon dioxide generation is primarily linked to energy use. In the United States, the Environmental Protection Agency has issued rules imposing inventory and reporting obligations to which some of our facilities are subject, and has also issued rules that will affect preconstruction permits for our facilities where increases in greenhouse gas pollutants are contemplated. The U.S. Congress has debated various measures for regulating greenhouse gas emission (such as carbon dioxide) and may enact them in the future. Such laws and regulations may also result in higher costs for coking coal, natural gas and electricity generated by carbon-based systems (such as coal-fired electric generating facilities). Such future laws and regulations, whether in the form of a cap-and-trade emissions permit system, a carbon tax or other regulatory regime may have a negative effect on our operations. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As signatories to the United Nations Framework Convention on Climate Change (the “UNFCCC”), Mexico became subject to the Paris Agreement to fight climate change, which was approved at the 21st session of the UNFCCC conference in 2015. In August 2017, the U.S. State Department officially informed the United Nations of the United States withdrawal from the Paris Agreement. As a result, some of our facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse emissions. More stringent greenhouse gas policies and regulations could adversely affect our business and results of operations. In February 2021 the United States returned to the Paris Agreement.

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

Certain of our U.S. facilities are currently engaged in the investigation and/or remediation of environmental contamination. Most of these investigations relate to legacy activities by prior owners. We may in the future be subject to similar investigations or required to undertake similar remediation measures at other facilities. We recognize a liability for environmental remediation when it becomes probable that such remediation will be required and the amount can be reasonably estimated. As estimated costs to remediate change, or when new liabilities become probable, we adjust the record liabilities accordingly. However, due to the numerous variables associated with the judgments and assumptions that are part of these estimates and changes in governmental regulations and environmental technologies over time, we cannot assure you that our environmental reserves will be adequate to cover such liabilities or that our environmental expenditures will not differ significantly from our estimates or materially increase in the future. Failure to comply with any legal obligations requiring remediation of contamination could result in liabilities, imposition of cleanup liens and fines, and we could incur large expenditures to bring our facilities into compliance. See Item 8. “Financial Information—Legal Proceedings.”

***We could incur losses due to product liability claims.***

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 it is possible that a defect in a vehicle could result in product liability claims against us. In accordance with normal commercial sales, some of our products include warranties that they meet certain agreed upon manufacturing specifications. We cannot assure you that future product liability claims will not be brought against us.



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

Industrias CH, which is controlled by the chairman of our board of directors, Rufino Vigil González, owns approximately 55.3% of our shares and Industrias CH and subsidiaries, 78%. Industrias CH nominated all current members of our board of directors and can exercise substantial influence and control over our business and policies, including the timing and payment of dividends. Industrias CH’s interests may differ significantly from those of other shareholders. Furthermore, as a result of Industrias CH’s significant equity position, there is currently limited liquidity in our series B shares and the ADSs.

Mr. Sergio Vigil González is the chief executive officer of Industrias CH, and he also functions in a senior management role for the Company, although he holds no formal title at the Company. In this function, Mr. Vigil directs business strategies for the Company, negotiates potential acquisitions and directs intercompany loans, among other things. Our board of directors is aware of Mr. Vigil’s role at the Company, and our board of directors authorizes him by specific authority as a signatory of the Company. Mr. Vigil is the brother of our controlling shareholder and chairman of our board of directors, Rufino Vigil González.

***We have had a number of related party transactions with our affiliates.***

Historically, we have engaged in a number and variety of transactions with our affiliates, including entities that Industrias CH owns or controls. While we believe that these transactions were made on terms that were not less favorable to us than those obtainable on an arm’s length basis, there was no independent determination of that fact. We expect that in the future we will continue to enter into transactions with our affiliates, and some of these transactions may be significant. See Item 7.B “Related Party Transactions.”

***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. In addition, we attribute much of the success of our growth strategy to our ability to retain most of the key senior management personnel of the companies and businesses that we have acquired. Competition for qualified personnel is significant, and we may not be able to find replacements with sufficient knowledge of, and experience in, the SBQ industry for our existing senior management or any of these individuals if their services are no longer available. Our business could be adversely affected if we cannot attract or retain senior management or other necessary personnel.

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

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

***If we are unable to protect our information systems against data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.***

We are increasingly dependent on information technology networks and systems to process, transmit and store electronic information. In particular, we depend on our information technology infrastructure for digital marketing activities and electronic communications among us and our clients, suppliers and also among our subsidiaries and facilities. Security breaches or infrastructure flaws can create system disruptions, shutdowns or unauthorized disclosures of confidential information. If we are unable to prevent such breaches or flaws, our operations could be disrupted, or we may suffer financial damage or loss because of lost or misappropriated information.



Cyber threats are rapidly evolving and those threats and the means for obtaining access to information in digital and other storage media are becoming increasingly sophisticated. Cyber threats and cyber-attackers can be sponsored by countries or sophisticated criminal organizations or be the work of a single “hacker” or small groups of “hackers.”

Insider or employee cyber and security threats are increasingly a concern for all companies, including ours. Nevertheless, as cyber threats evolve, change and become more difficult to detect and successfully defend against, one or more cyber-attacks might defeat our or a third-party service provider’s security measures in the future and obtain the personal information of customers or employees. Employee error or other irregularities may also result in a defeat of security measures and a breach of information systems. Moreover, hardware, software or applications we use may have inherent defects of design, manufacture or operations or could be inadvertently or intentionally implemented or used in a manner that could compromise information security. A security breach and loss of information may not be discovered for a significant period of time after it occurs. While we have no knowledge of a material security breach to date, any compromise of data security could result in a violation of applicable privacy and other laws or standards, the loss of valuable business data, or a disruption of our business. A security breach involving the misappropriation, loss or other unauthorized disclosure of sensitive or confidential information could give rise to unwanted media attention, materially damage to our customer relationships and reputation, and result in fines, fees, or liabilities, which may not be covered by our insurance policies.

## **Risks Related to Global Economic Conditions**

***The outbreak of COVID-19 and disruptions in the steel industry have had, and are expected to continue to have, an adverse effect on our results of operations, financial condition and cash flows.***

The ongoing global pandemic resulting from the spread of COVID-19 has had a significant effect on economies, businesses and individuals around the world. Efforts by governments around the world, including in the U.S. and Mexico, to contain COVID-19 have involved, among other things, border closings and other significant travel restrictions; mandatory stay-at-home and work-from-home orders; mandatory business closures; public gathering limitations; and prolonged quarantines. These efforts and other governmental, business and individual responses to the COVID-19 pandemic have led to significant disruptions to commerce, supply chains, credit losses, lower consumer demand for goods and services and general uncertainty regarding the near-term and long-term effects of COVID-19 on the domestic and international economy and on public health. Global steel production has been and will continue to be affected by volatility in the market due to the ongoing COVID-19 pandemic and uncertainty remains around the extent and duration of the pandemic, the emergence of new and more contagious variants of the virus and the effectiveness of vaccine programs. We expect steel consumption in the automotive and construction industries to be lower due to delays and reduced demand for steel products in North America and globally. These developments and other consequences of the COVID-19 outbreak have and could continue to materially adversely affect our results of operations, financial condition and cash flows.

On March 31, 2020, the Mexican Ministry of Health published an Administrative Ruling setting out certain “Essential Activities” that may continue to operate during the national state of sanitary emergency. In accordance with the Administrative Ruling and the Ministry of Health’s Technical Guidelines issued on April 6, 2020, we determined that our business qualified within the defined “Essential Activity” list. Similarly, the U.S. Department of Homeland Security guidance has identified our business as a critical infrastructure industry, essential to the economic prosperity, security and continuity of the United States. While restrictions continue to relax, we cannot predict the impact of future government measures on our business during the course of the ongoing pandemic. Although we continued to operate during 2020, we experienced, and are likely to continue to experience, significant reductions in demand and supply chain disruption. For example, the automotive industry, which is one of our significant end markets, has been experiencing a significant amount of disruption at a time of declining demand, resulting in a decline in profitability. We also may experience disruptions to our operations resulting from changes in government policy or guidance, including restrictions put in place to reduce the rate of infections and hospitalizations; quarantines of employees, customers and suppliers in areas affected by the COVID-19 outbreak; and closures of businesses or manufacturing facilities that are critical to our business or our supply chain.

The ongoing COVID-19 pandemic could also adversely affect our liquidity and ability to raise additional capital. Uncertainty regarding the duration of the COVID-19 pandemic and disruptions to the steel industry may, for example, adversely affect our ability to raise additional capital, or require additional capital, or require additional reductions in capital expenditures that are otherwise needed, to support working capital or continuation of our growth strategy. Additionally, government stimulus programs may not be available to us, our customers or our suppliers, or may prove to be ineffective. If we are unable to access additional capital at the levels we require, or the cost of credit is greater than expected, it could materially adversely affect our operating results.

The ongoing COVID-19 pandemic could negatively affect our internal controls over financial reporting as a portion of our workforce continues to be required to work from home and, therefore, new processes, procedures, and controls could be required to respond to changes in our business environment.

We may be susceptible to increased litigation related to, among other things, the financial effects of the COVID-19 pandemic on our business, our ability to meet contractual obligations due to the COVID-19 pandemic, employment practices or policies adopted during the health crisis, or litigation related to individuals contracting COVID-19 as result of alleged exposures on Company premises.



In addition, the COVID-19 outbreak continues to significantly increase economic and demand uncertainty. The current outbreak and continued spread of COVID-19 and the emergence of new and more contagious variants could cause a global recession, which would have a further material adverse effect on our results of operations, financial condition and cash flows. Global activity levels started to improve during the second half of 2020; however, the full extent to which the COVID-19 outbreak will affect our operations, and the steel industry generally, remains highly uncertain, differs from country to country and will ultimately depend on future developments which cannot be predicted at this time, including the duration and scope of the restrictions put in place in different locations to reduce the rate of infections and hospitalizations, the development and spread of variants of COVID-19 and the effectiveness of vaccines as new variants of COVID-19 appear and spread, levels of unemployment, the length of time required for demand to return and normal economic and operating conditions to resume. While some restrictions were lifted in the second and third quarters of 2020, new restrictions were implemented in the fourth quarter of 2020 due to second waves and are expected to continue or to be implemented in the first part of 2021. We cannot predict whether restrictions will be further relaxed, reinstated or made more stringent. The effects of the COVID-19 pandemic may also have the effect of exacerbating many of the other risks described in this Item 3.D. "Risk Factors."

***Global economic conditions, such as the financial crisis and economic recession relating to the COVID-19 pandemic and the financial crisis have in the past, and may continue to, significantly impact our business.***

The impact of global economic conditions on the steel industry may have a significant effect on our business, results of operations and financial condition. The COVID-19 outbreak continues to affect the countries in which we operate and has significantly impacted our workforce and our operations, including as a result of government mandates in certain countries to work from home to minimize the spread of the virus and measures we have taken to protect employees and contain the virus spread among them. In the countries where we have operations and where COVID-19 has been widespread, including our locations in Mexico, United States and Brazil, our ability to conduct business in those geographies has affected our operational and financial performance. We have experienced and expect to continue to experience unpredictable production, supply chain or operations interruptions related to the COVID-19 pandemic that could disrupt supply or delivery of, or demand for, our products in our end-markets. The current outbreak and continued spread of COVID-19 has significantly increased economic and demand uncertainty, and could cause a global recession, which would have a further material adverse effect on our results of operations, financial condition and financial condition. Similarly, 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 has reduced demand for steel products in North America and globally. These economic conditions significantly impacted, and will continue to significantly impact, 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 since the 2008-2009 global recession, and are beginning to show signs of recovery from the COVID-19 pandemic, the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. If global macroeconomic conditions deteriorate, however, the outlook for steel producers would be adversely affected. It is difficult to predict the duration or severity of a new global economic downturn, or to what extent it will affect us. An unsustainable recovery and persistently weak economic conditions in our key markets could depress demand for our products and adversely affect our business and results of operations. We sell our products to the automotive and construction-related industries, both of which reported substantially lower customer demand during and after the latest global recession and have recently exhibited reduced demand for steel products due to the ongoing COVID-19 pandemic. As a result, our operating levels in recent years declined compared to pre-recession levels. In 2016, we experienced a reduction in our sales in some of our end-product markets, in 2017 there was a slight increase in sales to the automotive industry compared to 2016, in 2018 we experienced a slight decrease in our sales to the automotive industry compared to 2017 and in 2020 and 2019 we experienced a decrease in our sales to the automotive industry compared to 2018.

In addition to slackening demand by end consumers, we believe that some of our customers continue to experience and may experience in the future difficulty in obtaining credit or maintaining their ability to qualify for trade credit insurance, resulting in a further reduction in purchases and an increase in our credit risk exposure. Moreover, if the COVID-19 global economic downturn continues for a prolonged period, or a new global financial crisis occurs, we may face increased risk of insolvency and other credit related issues of our customers and suppliers, as we faced with our customers and suppliers particularly in industries that were hard hit by the latest recession, such as automotive, construction and appliance. Also, there is the possibility that our suppliers may face similar risks. A decrease in available credit may increase the risk of our customers defaulting on their payment obligations to us and may cause some of our suppliers to be delayed in filling or to be unable to fill our needs. The impact of global economic conditions on these industries may have a significant effect on our results of operations.

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

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

Direct sales of our products to automotive assemblers and manufacturers accounted for approximately 49% of our net sales of our SBQ steel products in 2020. Demand for our products is affected by, among other things, the relative strength or weakness of the North American automotive industry. Any reduction in vehicles manufactured in North America, the principal market for Republic's SBQ steel products, has had and will continue to 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. Due to the COVID-19 pandemic, chips have been in short supply globally, and this affected our sales to the automotive sector.

***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 Mexican economy, as measured by gross domestic product, was growing until 2019: growing 2.9% in 2016, 2% in 2017 and in 2018, contracted by 0.1% in 2019 and in 2020, contracted by 8.5% (according to figures of the *Instituto Nacional de Estadística y Geografía* (INEGI)). Mexico has historically experienced prolonged periods of economic crises, caused by internal and external factors over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, changes in oil prices, economic contraction, a reduction of international capital flows, balance of payment deficits, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the Mexican economy, or periods of negative growth, or increases in inflation may result in lower demand for our products. The Mexican government recently cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial performance.

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

Political, social and other developments in Mexico may adversely affect our business. Social unrest, such as strikes, suspension of labor, demonstrations, acts of violence and terrorism in the Mexican states in which we operate could disrupt our financial performance. Additionally, the Mexican government has exercised, and continues to exercise, significant influence over the economy. Accordingly, Mexican federal governmental actions and policies concerning the economy, the regulatory framework, the social or political context, and state-owned and state-controlled entities or industries could have a significant impact on private sector companies and on market conditions, prices and returns of Mexican securities. In the past, governmental actions have involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports.

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

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

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

Mexican drug related violence and other organized crime have escalated significantly since 2006, when the Mexican federal government began increasing the use of the army and police to fight drug trafficking. Drug cartels have carried out attacks largely directed at competing drug cartels and law enforcement agents; however, they also target companies and their employees, including companies' industrial properties, including through extortion, theft from trucks or industrial sites, kidnapping and other forms of crime and violence. This increase in violence and criminal activity has led to increased costs for companies in the form of stolen products and added security and insurance. Corruption and links between criminal organizations and authorities also create conditions that affect our business operations, as well as extortion and other acts of intimidation, which may have the effect of limiting the level of action taken by federal and local governments in response to such criminal activity. We cannot assure you that the levels of violent crime in Mexico, over which we have no control, will not have an adverse effect on the country's economy and, as a result, on our financial performance.

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

The peso historically has been subject to significant depreciation against the U.S. dollar. Depreciation of the Mexican peso relative to the U.S. dollar decreases a portion of our revenues in U.S. dollar terms, as well as increases the cost of a portion of the raw materials we require for production and any debt obligations denominated in U.S. dollars, and thereby may negatively affect our results of operations. The Mexican Central Bank may from time to time participate in the foreign exchange market to minimize volatility and support an orderly market. The Mexican Central Bank and the Mexican government have also promoted market-based mechanisms for stabilizing foreign exchange rates and providing liquidity to the exchange market, such as using over-the-counter derivatives contracts and publicly-traded futures contracts on the Chicago Mercantile Exchange. However, the peso is currently subject to significant fluctuations against the U.S. dollar and may be subject to such fluctuations in the future. Since the second half of 2008, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the U.S. Federal Reserve Board, during this period the exchange rate registered a low of Ps. 9.91 to U.S.\$1.00 on August 5, 2008, and a high of Ps. 21.89 to U.S.\$1.00 on January 19, 2017. In 2018, the exchange rate registered a low of Ps. 17.98 to U.S.\$1.00 and a high of Ps. 20.72 to U.S.\$1.00. In 2019, the exchange rate registered a low of Ps. 18.76 to U.S.\$1.00 and a high of Ps. 20.12 to U.S.\$1.00. In 2020, the exchange rate registered a low of Ps.18.57 to U.S. \$1.00 and a high of Ps. 24.86.

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 and 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 impose restrictive exchange rate policies in the future.

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

On February 17, 2016, the Mexican Central Bank increased the reference rate from 3.25% to 3.75% and has been increasing the reference rate regularly since then, up to 8.25% in March 2019, then back down to 4% as of April 23, 2021. We cannot assure you that, as a result of future increases by U.S. Federal Reserve of the target range for the federal funds rate in the United States, the Mexican economy or the value of securities issued by Mexican companies will not be affected, including as a result of any precipitous unwinding of investments in emerging markets, depreciations and increased volatility in the value of their currency and higher interest rates.

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

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the INEGI was 3.4% for 2016, 6.8% for 2017, 4.8% for 2018, 2.8% for 2019 and 3.2% for 2020. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting demand for our products, increasing certain costs beyond levels that we could pass on to consumers, and by decreasing the benefit to us of revenues earned if the inflation rate exceeds the growth in our pricing levels.

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

The Mexican economy and the market value of Mexican companies may be, to varying degrees, affected by economic and market conditions globally, in other emerging market countries and major trading partners, in particular the United States. Although economic conditions in other countries may differ significantly from economic conditions in Mexico, investors' reactions to adverse developments in other countries may have an adverse effect on the market value of securities of Mexican issuers or of Mexican assets. In recent years, for example, prices of both Mexican debt securities and equity securities decreased substantially as a result of developments in Russia, Asia, Europe and Brazil. Also, credit issues in the United States have in the past resulted in significant fluctuations in global financial markets, including Mexico.

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

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

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

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

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

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

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

A principal objective of the securities laws of the United States, Mexico and other countries is to promote full and fair disclosure of all material corporate information, including accounting information. However, there may be different or less publicly available information about issuers of securities in Mexico than is regularly made available by public companies in countries with more highly developed capital markets, including the United States. The disclosure standards imposed by the Mexican Stock Exchange may be different than those imposed by securities exchanges in other countries or regions such as the United States. As a foreign private issuer, we are not subject to U.S. proxy rules and are exempt from certain reports under the U.S. Securities Exchange Act of 1934 (the "Exchange Act"), as we are not required to file annual, quarterly and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic reporting companies whose securities are registered under the Exchange Act. These exemptions and leniencies will reduce the frequency and scope of information and protections available to you in comparison to those applicable to a U.S. domestic reporting company.



## Risks Related to Brazil

***Brazilian political and economic conditions, and the Brazilian government's economic and other policies, may negatively affect our business, operations and financial condition.***

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

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

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;
- inflation;
- tax policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product ("GDP");
- changes in labor regulation;
- energy shortages;
- the Brazilian government's response to the COVID-19 pandemic and, among other things, its impacts on water consumption, labor laws and other regulations affecting our industry;
- social and political instability;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Brazilian markets have been experiencing heightened volatility due to the uncertainties derived from various ongoing investigations into allegations of money laundering and corruption, including the largest such investigation, known as *Lava Jato*, which are being conducted by the Office of the Brazilian Federal Prosecutor and other Brazilian public entities, and their impact on the Brazilian economy and political environment. Members of the Brazilian federal government and of the legislative branch, as well as senior officers of the state-owned oil company *Petróleo Brasileiro S.A. (Petrobras)*, have faced allegations of political corruption, resulting in the arrest or resignation of a number of senior politicians and officers of the major state-owned companies in Brazil and across Latin America.

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

Brazil has experienced extremely high rates of inflation in the past and has therefore implemented monetary policies that have resulted in one of the highest interest rates in the world. According to the National Extended Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), published by the IBGE, the Brazilian price inflation rates were 6.3% in 2016, 2.9% in 2017, 3.8% in 2018, 4.3% in 2019 and 4.5% in 2020. Brazil may experience substantial increases in inflation rates in future periods.

The Brazilian currency has been historically volatile and has been devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the

real is generally linked to the rate of inflation in Brazil, depreciation of the real occurring over shorter periods of time has resulted in significant variations in the exchange rate between the real, the U.S. dollar and other currencies.

On September 24, 2015, the Brazilian real fell to the lowest level since the introduction of the currency, at R\$4.1949 per U.S.\$1.00. In 2015, the Brazilian real depreciated 45%, reaching R\$3.9048 per U.S.\$1.00 on December 31, 2015. Conversely, in 2016, the Brazilian real went from R\$4.0387 per U.S.\$1.00 at the beginning of the year to R\$3.2591 per U.S.\$1.00 on December 31, 2016, corresponding to a 19.3% appreciation against the U.S. dollar. In 2017, the Brazilian real went from R\$3.2591 per U.S.\$1.00 at the beginning of the year to R\$3.3080 per U.S.\$1.00 on December 31, 2017, corresponding to a depreciation of 1.5% against the U.S. dollar. In 2018, the Brazilian real went from R\$3.3080 per U.S.\$1.00 at the beginning of the year to R\$3.8748 per U.S.\$1.00 on December 31, 2018, corresponding to a depreciation of 17.1% against the U.S. dollar. In 2019, the Brazilian real went from R\$3.8748 per U.S.\$1.00 at the beginning of the year to R\$4.0307 per U.S.\$1.00 on December 31, 2019, corresponding to a depreciation of 4% against the U.S. dollar. In 2020, the Brazilian real went from R\$4.0307 per U.S. \$1-00 on December 31, 2019 to R\$5.1942 per U.S. \$1.00 on December 31, 2020, corresponding to a depreciation of 29% against the U.S. dollar. There can be no assurance that the Brazilian real will not depreciate or appreciate further against the U.S. dollar.

Brazil's GDP recorded a 3.2% increase in 2020's fourth quarter compared with the third quarter, for a total of R\$ 7.4 trillions. Although, the year closed with a 4.1% loss, mainly from the Covid impact in the economy. This has been the largest annual loss since 1996. This data was issued on April 3, 2021 by the Instituto Brasileiro de Geografia y Estadística (IBGE). According to Refinitiv projections, Brazil's GDP was expected to grow 2.8% in the last quarter of 2020, compared with the previous quarter. The expected forecast was a GDP fall of 1.5% compared with the same quarter of 2019, the actual fall was of 1.1%.

The GDP fall in 2020, interrupted a 3 consecutive year growth from 2017 to 2019, when it accumulated a 4.6% growth. GDP per capita reached R\$ 35,172 last year, a record loss of 4.8%. This loss is the effect of the Covid pandemic when several economic activities were partially or totally shut down to control the virus from spreading. Even with social distancing measures relaxing, many people are still afraid to consume, especially services that could cause overcrowding.

In 2020, services contracted by 4.5% and industry by 3.5%. Together, these two sectors amounted to 95% of the economy. Only the agricultural sector grew by 2.0%. The loss of 3.5% in the industry sector was led by the construction industry, which decreased by 7.0% after a 1.5% growth in 2019. Manufacturing companies also contracted (a decrease of -4.35%), mainly due to a decrease in the manufacturing of motor vehicles, other transport equipment, clothing and metallurgy. Electricity, gas, water, sewerage and waste management activities fell by 0.4%. Extractive industries however grew by 1.3% due to the increase in oil and gas production that offset the fall in iron ore extraction.

The OECD (Organization for Economic Cooperation and Development) improved Brazil's growth projection for 2021. It forecasts a 3.7% increase in economic activity for 2021. Previously, the OECD forecast a 2.6% growth rate (1.1% less than their most recent forecast).

External factors have impacted the economic performance, among them the coronavirus pandemic and foreign policy matters. For example, last year, the growth forecast was 2.3% at the beginning of the year, but the shock brought by the coronavirus pandemic negatively impacted the economy. Brazil's GDP loss for 2020 is 4.26%.

The unemployment rate reached 14.6% in the third quarter of 2020, the highest ever recorded by the IBGE (Instituto Brasileiro de Geografia y Estadística) since 2012 when records began. During 2020, with emergency aid of R \$600, these rates reached 2.4% and 18.3%, respectively. Before the coronavirus pandemic, the rates were 6.5% and 24.5%. In other words, early next year, the situation will be even worse than the pre-pandemic. Next year, we will probably have a massive revenue loss with the end of the emergency aid and part of the middle class' savings already having been spent. We expect to see family consumption decreasing, affecting the housing sector, our main sales sector.

Before the coronavirus pandemic, the government's plan to present a "credible strategy" of fiscal rebalancing was based on the approval of a series of reforms. Among them are administrative reforms (which will reorganize the civil service), tax reforms, the Emergency PEC (Constitutional Amendment Proposal), activating a series of triggers to reduce expenses to allow the maintenance of the spending ceiling; and the Federative Pact PEC (which will reorganize the Union, States and Municipalities). Further, the Brazilian government enters 2021 with tense relations with the United States, China, Argentina and the European Union. Together, these four destinations accounted for 61% of Brazilian exports in 2020. The troubled relations with the United States and Europe is the environmental agenda.

We are not able to fully estimate the impact of global and Brazilian political and macroeconomic developments on our business. Recent economic and political instability has led to a negative perception of the Brazilian economy and increased volatility in the Brazilian markets, which also may adversely affect our business. Any continued economic instability and political uncertainty may materially adversely affect our business, results of operations, financial condition and prospects.

## 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 Brazil. We believe that, in 2016, 2017, 2018, 2019 and 2020, we were an important producer of SBQ products in both the United States and Mexico, in each case in terms of shipped volume. We also believe that in 2016, 2017, 2018, 2019 and 2020, we were an important producer of structural and light structural steel products in Mexico in terms of shipped 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 +52-33-3770-6700. The address of our website is [www.gsimec.com.mx](http://www.gsimec.com.mx).

The SEC maintains a website (<http://www.sec.gov>), which contains reports, information statements and other information regarding issuers that file electronically with the SEC.

#### Our History

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

In March 2001, Sidek consummated the sale of its entire approximate 62% controlling interest in our company to Industrias CH. Industrias CH subsequently increased its equity position in us through various conversions of debt to equity and capital contributions and currently holds, together with its direct, wholly-owned subsidiaries, approximately 82.5% of our series B shares.

In August 2004, we acquired 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.”

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.

On May 30, 2008, we acquired Aceros DM and certain affiliated companies (“Grupo San”), 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 have a production capacity of 700 thousand tons of finished products annually.

On September 3, 2010, we formed a Brazilian entity denominated GV do Brazil Indústria e Comércio de Aço Ltda. On August 5, 2011, we acquired 1,300,000 square meters of land on Pindamonhangaba, São Paulo State, Brazil, for the construction of a new steel facility. In November 2015, our steel plant in Brazil started operations. This facility has a production capacity of 450,000 tons of finished goods of rebar and wire, and 800 employees.

On January 16, 2015, we entered into a cooperation agreement with the government of the State of Tlaxcala, Mexico, to build a new steel facility on land adjacent to our existing plant in Tlaxcala with a production capacity of 600,000 tons of bar quality steel (SBQ). We started steelmaking operations at this facility in July 2018.

On May 1, 2018, one steel mill was acquired in Brazil from ArcelorMittal, which is located in Cariacica, Espiritu Santo and has a production capacity of 600 thousand tons a year. Another steel mill is being rented from ArcelorMittal in Itauna, Minas Gerais with a production capacity of 120 thousand tons a year. Upon closing the transaction, the group significantly increased its participation in the long steel market in Brazil; a confidentiality agreement was signed for this operation.

On January 1, 2019, Grupo Simec, S.A.B. de C.V. increased its equity position to 99.41% in SimRep Corporation, by acquiring 83,862 ordinary shares, priced at U.S.\$3.454 each, as repayment of outstanding debt, for a total subscription of U.S.\$290 million.

On February 6, 2018, Simec Siderurgicos, S.A. was incorporated. de C.V., with the following shareholders: Simec International 7, S.A. de C.V. with 49,999 shares and Grupo Simec, S.A.B. de C.V. 1 Share with a par value of \$ 1.00 each share.

## 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 2021 will be approximately Ps. 1,368.2 million (U.S.\$68.6 million), which consists of Ps. 167.2 million (U.S.\$8.4 million) of estimated capital expenditures in our Republic facilities, Ps. 780 million (U.S.\$39.1 million) consisting of capital expenditures in our facilities in Mexico and Ps. 421 million (U.S.\$21.1 million) consisting of capital expenditures in our facilities in Brazil. This estimate is subject to uncertainty and actual capital expenditures in 2021 may differ significantly from such estimate.

In 2020, we spent Ps. 49.5 million (U.S.\$2.5 million) on capital investments for Republic's facilities, including Ps. 10.8 million (U.S.\$0.5 million) at the Lorain, Ohio facility, Ps. 8.6 million (U.S.\$0.4 million) at the Lackawanna, New York facility, Ps. 21.5 million (U.S.\$1.1 million) at the Canton, Ohio facility and Ps. 8.6 million (U.S.\$0.4 million) at the Massillon, Ohio facility. We spent Ps. 270.2 million (U.S.\$13.6 million) on capital improvements at our facilities in Mexico, including Ps. 180 million (U.S.\$9 million) at the Apizaco facility, Ps. 32.2 million (U.S.\$1.6 million) at the Mexicali facility, Ps. 15 million (U.S.\$0.7 million) at the Guadalajara facility, and Ps. 43 million (U.S.\$2.1 million) at the San Luis facilities. We also spent Ps. 631.5 million (U.S.\$31.6 million) on capital investments at our steel facility in Pindamonhangaba, Sao Paulo State, Brazil.

In 2019, we spent Ps. 278.5 million (U.S.\$14.7 million) on capital investments for Republic's facilities, including Ps. 47.9 million (U.S.\$2.5 million) at the Lorain, Ohio facility, Ps. 44.1 million (U.S.\$2.3 million) at the Lackawanna, New York facility, Ps. 162.1 million (U.S.\$8.6 million) at the Canton, Ohio facility, Ps. 20.5 million (U.S.\$1.1 million) at the Solon, Ohio facility, and Ps. 3.9 million (U.S.\$0.2 million) at the Massillon, Ohio facility. We spent Ps. 785.8 million (U.S.\$41.6 million) on capital improvements at our facilities in Mexico, including Ps. 427.9 million (U.S.\$22.6 million) at the Apizaco facility, Ps. 294.2 million (U.S.\$15.6 million) at the Mexicali facility, Ps. 9.3 million (U.S.\$0.5 million) at the Guadalajara facility, and Ps. 54.4 million (U.S.\$2.9 million) at the San Luis facilities. We also spent Ps. 207.1 million (U.S.\$11 million) on capital investments at our steel facility in Pindamonhangaba, Sao Paulo State, Brazil.

In 2018, we spent Ps. 433.2 million (U.S.\$22.1 million) on capital investments for Republic's facilities, including Ps. 91.4 million (U.S.\$4.7 million) at the Lorain, Ohio facility, Ps. 107.6 million (U.S.\$5.5 million) at the Lackawanna, New York facility, Ps. 187 million (U.S.\$9.5 million) at the Canton, Ohio facility, Ps. 35.3 million (U.S.\$1.8 million) at the Solon, Ohio facility, and Ps. 11.9 million (U.S.\$0.6 million) at the Massillon, Ohio facility. We spent Ps. 1,552.5 million (U.S.\$78.9 million) on capital improvements at our facilities in Mexico, including Ps. 1,262.6 million (U.S.\$64.2 million) at the Apizaco facility, Ps. 15.9 million (U.S.\$0.8 million) at the Mexicali facility, Ps. 168.9 million (U.S.\$8.6 million) at the Guadalajara facility, and Ps. 105.1 million (U.S.\$5.3 million) at the San Luis facilities. We also spent Ps. 8.7 million (U.S.\$0.4 million) on capital investments at our steel facility in Pindamonhangaba, Sao Paulo State, Brazil.

## B. Business Overview

In the United States, Mexico and Brazil, we own and operate 15 state-of-the-art steel making, processing and/or finishing facilities with a combined annual crude steel installed production capacity of 4.8 million tons and a combined annual installed rolling capacity of 5.2 million tons. We own both mini-mill and integrated steel making facilities, which give us the flexibility to optimize our

production and reduce production costs based on the relative prices of raw materials (e.g., scrap for mini-mills and iron ore for blast furnace).

We currently own and operate:

- a mini-mill in Guadalajara, Jalisco, Mexico;
- a mini-mill in Mexicali, Baja California Norte, Mexico;
- two mini-mills in Apizaco, Tlaxcala, Mexico;
- a cold finishing facility in Cholula, Puebla, Mexico;
- two mini-mills in San Luis Potosí, San Luis Potosí, Mexico;
- 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 and Solon, Ohio, all of which we own through our majority-owned subsidiary, Republic, and
- a mini-mill and rebar and wire rod rolling mill in Pindamonhangaba, São Paulo (Brazil), a mini-mill in Cariacica, Espírito Santo (Brazil) and we own and operate rolling and finishing facilities in Itauna, Minas Gerais (Brazil).

In 2020, we had net sales of Ps. 35.9 billion, gross profit of Ps. 6.7 billion and net profit of Ps. 2.9 billion. In 2020, approximately 15% of our consolidated sales were in our segment in the United States, approximately 55% were in our segment in Mexico and approximately 30% were in our segment in Brazil.

## **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 continually 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. In our Brazil facilities, we produce rebars, I-beams, channels, structural and commercial angles. The following is a description of these products and their main uses:

- *I-beams*. I-beams, also known as standard beams, are “I” form steel structural sections with two equal parallel sides joined together by the center with a transversal section, forming 90° angles. We produce I-beams in our Mexican and Brazil facilities and they are mainly used by the industrial construction sector as structure supports.
- *Channels*. Channels, also known as U-Beams because of their “U” form, are steel structural sections with two equal parallel sides joined together by its ends with a transversal section, forming 90° angles. We produce channels in our Mexican and Brazil facilities, and they are mainly used by industrial construction sector as structure supports and for stocking systems.
- *Angles*. Angles are two equal sided sections joined by their ends with a 90° angle, in an “L” form. We produce angles in our Mexican and Brazil facilities, and they are used mainly by the construction and furniture industries as joist structures and framing systems.
- *Hot rolled bars*. Hot rolled bars are round, square and hexagonal steel bars that can be made of special or commodity steel. The construction, auto part and furniture industries mainly use the round and square bars. The hexagonal bars are made of special steel and are mainly used by the hand tool industry. We produce the steel sections in our Mexican and U.S. facilities.
- *Flat bars*. Flat bars are rectangular steel sections that can be made of special or commodity steel. We produce flat bars at our Mexican facilities. The auto part industry mainly uses special steel as springs, and the construction industry uses the commodity steel flat bars as supports.
- *Rebar*. Rebar is reinforced, corrugated round steel bars with sections from 0.375 to 1.5 inches in diameter, and we produced rebar in our Mexican facilities and in our Brazil 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 and U.S. facilities, primarily to supply the auto part industry.

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

#### Steel Product Sales Volume

	Years ended December 31,				
	2016	2017	2018	2019	2020
	(thousands of tons)				
I-Beams	81.7	76.6	72.5	86.6	95.3
Channels	65.8	54.3	48.7	54.3	40.0
Angles <sup>(1)</sup>	182.5	155.9	156.7	217.7	281.9
Hot-rolled bars (round, square and hexagonal rods)	600.4	560.0	564.9	534.6	535.8
Flat bar	129.7	150.0	168.7	188.4	80.3
Rebar	774.6	854.9	924.2	1,033.8	1,100.2
Cold finished bars	163.2	149.4	151.9	131.4	185.1
Other semi-finished trade products <sup>(2)</sup>	10.7	8.4	14.0	0.6	0.0
Electro-Welded wire mesh	22.3	18.7	18.5	14.0	18.6
Wire rod	24.8	34.9	48.7	57.9	32.3
Electro-Welded wire mesh panel	28.1	24.9	22.1	18.4	29.2
Other	1.1	3.2	0.9	11.2	42.1
Total steel sales	<u>2,084.9</u>	<u>2,091.2</u>	<u>2,191.8</u>	<u>2,348.9</u>	<u>2,440.8</u>

(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 2020, approximately 27% of our steel product sales in tons represented SBQ steel products, of which we sold 42% to the auto part industry, 23% to service centers and the remaining 35% to other industries.

In 2020, direct sales in tons to the automotive industry decreased by 43% compared to 2019. In 2019, direct sales in tons to the automotive industry decreased by 13% compared to 2018. In 2018, direct sales in tons to the automotive industry decreased by 4% compared to 2017. In 2018, 2019 and 2020 sales in tons to the energy sector accounted for 0.4%, 0% and 0%, respectively, of our sales of SBQ steel products.

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

### Steel Product Sales By Region

	Mexico					United States, Canada, Brazil and Other Countries				
	Years ended December 31,									
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
I-Beams	97%	98%	94%	82%	82%	3%	2%	6%	18%	18%
Channels	62%	55%	56%	44%	55%	38%	45%	44%	56%	45%
Angles	84%	83%	67%	52%	37%	16%	17%	33%	48%	63%
Hot-rolled bars (round, square and hexagonal rods)	42%	39%	32%	38%	48%	58%	61%	68%	62%	52%
Flat bar	95%	96%	68%	61%	72%	5%	4%	32%	39%	28%
Rebar	75%	63%	67%	56%	50%	25%	37%	33%	44%	50%
Cold drawn finished bars	73%	73%	77%	76%	46%	27%	27%	23%	24%	54%
Other semi-finished trade products	—	—	—	—	—	100%	100%	100%	100%	100%
Electro-Welded wire mesh	100%	100%	100%	100%	100%	—	—	—	—	—
Wire rod	96%	100%	100%	100%	89%	4%	—	—	—	11%
Electro-Welded wire mesh panel	100%	100%	100%	100%	100%	—	—	—	—	—
Other	76%	—	75%	0%	0%	24%	100%	25%	100%	100%
Total (weighted average)	68%	63%	60%	55%	51%	32%	37%	40%	45%	49%

During 2020, approximately 15% of our sales by volume came from the U.S. segment, with almost 100% of such sales representing SBQ product and 30% of our sales by volume came from the Brazil segment. The Mexican segment represents approximately 55% of our sales by volume, with SBQ products representing approximately 25% of such sales and the remainder representing commercial steel products.

During 2020, approximately 60% of our sales in the United States and Canadian markets came 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 were 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.

During 2020 and 2019, we received orders for our products in our Mexican facilities on average approximately two weeks before producing those products. We generally filled orders for our U.S. and Canadian SBQ steel products within one to 12 weeks of the order depending on the product, customer needs and other production requirements. Customer orders are generally cancelable without penalty prior to finishing size rolling and depending on customers' changing production schedules. Accordingly, we do not believe that backlog is a significant factor in our business. A substantial portion of our production is ordered by our customers prior to production.

In our Republic plants, we have long-term relationships with most of our major customers, in some cases for 10 to 20 years or longer. Our major direct and indirect customers include: leading automotive and industrial equipment manufacturers General Motors Corporation, Ford Motor Company, Chrysler LLC, Honda of America Mfg, Inc. and Nissan North America, Inc.; first tier suppliers to automotive and industrial equipment manufacturers such as American Axle & Manufacturing Holdings, Inc. and Nexteer, NSK and NTN Driveshafts, Inc.; service centers, which include AM Castle & Co., Earle M. Jorgensen Co., and Eaton Steel Bar Company.

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

Our first plant in Brazil began production in June 2015 with 30,000 tons and 4,000 tons sold in the same year, all of which correspond to rebar. Sales have increased since 2015, and by consolidating the expansion within the Brazilian territory, we have reached sales of approximately 870,000 tons for 2020, increasing the variety of products offered in the market. Our main objective is to sell our products through independent distributors, aimed at the construction market by providing the highest quality service and products, a key factor in attracting and retaining customers. We consider the demand for steel in Brazil to be distributed within the first three sectors as follows, 50% for civil construction, later the automotive industry with 14% and finally capital goods with 36%. Our sales policy in Brazil has been well accepted by our customers, and our sales increased steadily, creating an opportunity in the Brazilian steel market.

Our major customers in 2020 include: Marson Comercio e Distribuicao de Materiais de Construcao, Ltda, Aco e Aco Vergalhoes Ltda, Udiaco Comercio e Industria de Ferro e Aco Ltda, Comercio de Ferro Arevalo & Junior Eireli, Cimemprimo Dsistribuidora de Materiais de Construcao Ltda, A P Sobreira ME, H E Bonamigo Eireli ME, Aco Fera Com Ferro e Aco Ltda, SAE Towers Brasil Torres Trans LTDA and, Brametal MG Metalúrgica Ltda.

## 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, Mexico and Brazil 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, Brazil and the United States we also face competition from international steel producers. Increased international competition, especially when combined with excess production capacity, would likely force us to lower our prices or to offer increased services at a higher cost to us, which could materially reduce our profit margins.

### *Mexico*

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



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

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

In 2020, we sold approximately 417,200 tons of I-beams, channels and angles at least three inches in width which represented approximately 17% of our total finished product sales for the year. In 2019, we sold approximately 226,829 tons of I-beams, channels and angles at least three inches in width which represented approximately 10% of our total finished product sales for the year. We believe that the domestic competitors in the Mexican market for structural steel are Gerdau Corsa, Deacero, Grupo Acerero, S.A. de C.V., Grupo Collado, S.A. de C.V. and Siderúrgica del Golfo, S.A. de C.V. (a wholly-owned subsidiary of Industrias CH). We estimate that our share of Mexican production of structural steel was 17.6% in 2019 and 16.8% in 2018, according to information provided by the Cámara Nacional de la Industria del Hierro y del Acero (CANACERO).

In 2020, we sold approximately 616,079 tons of hot rolled and cold finished steel bars and 786,334 tons in 2019. 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 18.2%, respectively, in 2020 and 16.5% and 18.2%, respectively, in 2019. Rebar and light structural steel together accounted for approximately 1,100,229 tons, or 56%, of our total production of finished steel products in Mexico, the United States and Brazil in 2020. Rebar and light structural steel together accounted for approximately 1,235,117 tons, or 52.6%, of our total production of finished steel products in Mexico, the United States and Brazil in 2019. We compete in the Mexican market with a number of producers of these products, including Deacero, Talleres y Aceros, S.A., Grupo Acerero, S.A. de C.V., ArcelorMittal Lazaro Cardenas, S.A. de C.V., Ternium Mexico, S.A. de C.V., Grupo Acerero Fonderia, Suacero, S.A. de C.V. and Gerdau Corsa.

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

#### *United States*

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

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

We believe our principal competitors in the United States market, depending on the product, include Nucor, Corporation, Cascade Rolling Mills, Commercial Metals Company, Vinton Steel and Gerdau.

#### *Brazil*

Our main competitors in the Brazilian market are ArcelorMittal Brazil, CSN, Gerdau, Sinobras, Usiminas, Ternium Do Brasil, V & M do Brasil and Villares Metals.

The Brazilian steel industry is comprised of 14 private companies, controlled by 11 business groups and operating 32 mills in 10 Brazilian states, making Brazil the 8th largest producer in the world.

##### Plants in Sao Paulo:

- Gerdau Aços Especiais (Usina Pindamonhangaba)

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

We believe there are significant growth prospects in Brazil, as the Brazilian government continues to auction off infrastructure projects across sectors, including public-private partnerships, privatizations, concessions, and leases of airports, ports and railways and for the construction of schools, hospitals and highways to meet growing demand and a strong consumer market.

### **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 aspect 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/TS 16949:2009 certification from International Quality Certifications, effective until August 31, 2021.

As of May 14, 2021, all of Republic Steel's plants are certified to ISO9001:2015 and IATF16949:2016. In the case of our plants in Canton, Ohio, Lackawanna, New York, and Massillon, Ohio, all are certified to IATF16949, effective until January 2024 for Canton, Ohio, April 2024 for Lackawanna, New York and June 2021 for Massillon, Ohio. The plant in Solon, Ohio, is certified to ISO 9001:2015, and the current certification is effective until January 2024. The ISO/TS 16949:2009 standard, developed by the International Automotive Task Force, is the result of the harmonization of the supplier quality requirements of vehicle manufacturers worldwide and provides for a single quality management system of continuous improvement, defect prevention and reduction of variation and waste in the supply chain. It places greater emphasis on management's commitment to quality and customer focus. ISO 9001 is a set of international quality control standards for management and practices.

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.

### **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, coking coal 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 2% in 2016, 30.8% in 2017, 19.4% in 2018, decreased 20% in 2019 and increased 9% in 2020, and prices of ferroalloys decreased approximately 13% in 2016, increased approximately 22% in 2017, 9.7% in 2018, decreased approximately 1% in 2019 and decreased 20% in 2020. We may not be able to pass along these and other cost increases in the future and 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 purchase our raw material requirements either in the open market or from certain key suppliers. 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 2020, our cost of sales in Mexico, as a percentage of sales in Mexico, was 79%, compared to our U.S. operations where our cost of sales, as a percentage of sales in the United States, was 102%, as a percentage of sales in Brazil, was 76% and our consolidated cost of sales, as a percentage of consolidated sales, was 81%. The higher cost of sales of 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, 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 60% of our consolidated manufacturing conversion cost in 2020 (62% of the manufacturing conversion cost in our Mexico operations, 40% of the manufacturing conversion cost in our U.S. operations and 65% in our Brazil operations), compared to 52% of our consolidated manufacturing conversion cost in 2019 (55% of the manufacturing conversion cost in our Mexico operations, 40% of the manufacturing conversion cost in our U.S. operations and 57% in our Brazil 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 17.1% and 15.1% of our refined scrap tonnage in 2020 and 2019, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 81.5% and 1.4%, respectively, in 2020 and approximately 83.2% and 1.7%, respectively, in 2019 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. facilities. We purchase scrap on the open market through a number of brokers or directly from scrap dealers for our Brazil facilities. We do not depend on any single scrap supplier to meet our scrap requirements.

*Ferroalloys, Electrodes and Refractory Products.* In our Mexican operations, ferroalloys, electrodes and refractory products collectively accounted for approximately 13% of our manufacturing conversion cost in 2020, compared to 17% in 2019, in our U.S. facilities accounted for 24% of our manufacturing conversion cost in 2020, compared to 24% in 2019 and in our Brazil facilities accounted for approximately 9% of our manufacturing conversion cost in 2020 compared to 13% in 2019.

Ferroalloys are essential for the production of steel and are added to the steel during manufacturing process to reduce undesirable elements and to enhance its hardness, durability and resistance to friction and abrasion. For our Mexican operations, we buy most of our manganese ferroalloys from Compañía Minera Autlán, S.A., Elmet, S.A. de C.V., Autlán Metal Services, S.A. de C.V., Elmet, S.A. de C.V., Marco Metales de Mexico, S. de R.L. de C.V., Possehl México, S.A. de C.V. and Distribuidora de Aleaciones y Metales, S.A. de C.V. Our U.S. facilities purchase most of their ferroalloys from Affival, Gottlieb, Kennecott, Vale Americas, MineraiS U.S. LLC and Glencore LTD. Our Brazil facilities purchase most of their ferroalloys from Multiligas Eireli. Ltda, Comercial Cometa Industria y Comercio Ltda., Bozel Brasi, S.A., Fertileg Ferro Liga Ltda, Granha Ligas Ltda., Rima Industrial, S.A., Vale Manganés S.A. Starligas- Comercio Importacao e Exportacao de Ferroligas Ltda. Companhia Brasileira de Metalurgia, Cia de Ferro Ligas de Bahia Ferbasa and Barestre Industria e Comercio Ltda.

For our Mexican operations, we obtain electrodes used to melt raw materials (scrap metal) from Jilin Carbon Co. Ltd., Interfer Edelsthal H, Cimm Carbon Group Co, Dalian Wanlong Carbon Co., CNBM International Corp, Dalian Xihua Refractories, and Hebei metals Minerals Corp. Ltd. Our U.S. facilities purchase most of their electrodes from Sangraf, Tokai ATC and FedMet. Our Brazil facilities purchase most of their electrodes from Multiligas Eireli. Ltda, Comercial Cometa Industria y Comercio Ltda., Bozel Brasi, S.A., Fertileg Ferro Liga Ltda, Granha Ligas Ltda., Rima Industrial, S.A. e Vale Manganés S.A. Starligas- Vale Manganés S.A. Starligas- Comercio Importacao e Exportacao de Ferroligas Ltda. Companhia Brasileira de Metalurgia, Cia de Ferro Ligas de Bahia Ferbasa and Barestre Industria e Comercio Ltda.

Refractory products include firebricks, which line and insulate furnaces, ladles and other transfer vessels. We purchase our refractory products for our Mexican operations from Vesuvius de México, S.A. de C.V., Magnesita Refractories México, S.A. de C.V., Magna Refractorios México, S.A. de C.V., Fedmet Resources Corp., Calderys France S.A.S., and Refratechnik Steel GmbH. Our U.S. facilities purchase most of their refractory products from RHI Inc, Vesuvius USA, Corp., Magna Refractories Inc., Harbison-Walker Refractories Company and Magnesita Refractories Co. Our Brazil facilities purchase most of their refractory products from Magnesitas Navarrasm S.A., Vesuvius, Samboba and Magnesita Refractories Mexico S.A. de C.V.

*Electricity.* In 2020 and 2019, electricity accounted for approximately 10% of our consolidated manufacturing conversion cost. Electricity accounted for 11% in 2020 and 2019 of our manufacturing conversion in our Mexico facilities and is supplied by the

Comisión Federal de Electricidad (CFE). It accounted for 8% in 2020 and 9% in 2019 of the manufacturing conversion cost in our U.S. operations and is supplied by American Electric Power Company, Archer Energy, National Grid, The Illumination Company, New York Power and Ohio Edison. It accounted for 9% in 2020 and 2019 of the manufacturing conversion cost in our Brazil operations and is supplied by Ecom Energia Ltda. and Comercializadora de Energiaeletrica Ltda. We, like most high volume users of electricity in Mexico, pay special rates to CFE for electricity. Energy prices in Mexico have historically been very volatile and subject to dramatic price increases in short periods of time. In the late 1990s, the CFE began to charge for electricity usage based on the time of use during the day and the season (summer or winter). As a result, we have modified our production schedule in order to reduce electricity costs by limiting production during periods when peak rates are in effect. We cannot assure that any future cost increases will not have a material adverse effect on our business.

*Natural Gas.* Natural gas (including “combustoleo” fuel oil which is an oil derivative that is less refined than gasoline and diesel fuel oil that can be used instead of gasoline in our Mexicali plant) consisted of approximately 3% of our consolidated manufacturing conversion cost (3% of the manufacturing conversion cost of our Mexican operations, 2% of the manufacturing conversion cost of our U.S. operations and 3% of our Brazil operations) in 2020 and approximately 3% of our consolidated manufacturing conversion cost (3% of the manufacturing conversion cost of our Mexican operations, 3% of the manufacturing conversion cost of our U.S. operations and 5% of our Brazil operations) in 2019. In previous years we have entered into natural gas cash-flow exchange contracts or swaps where we receive a floating price and pay a fixed price to hedge our risk of from fluctuations in natural gas prices. Fluctuations in natural gas prices from volume consumed are recognized as part of our operating costs. As applicable, we recognized the fair value of instruments either as liabilities or assets. We periodically evaluated 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. At December 31, 2020 and 2019, we did not have natural gas cash-flow exchange contracts or swaps.

We do not enter into contracts for speculation purposes.

## **Regulation**

### ***U.S. Operations***

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

### ***Environmental Matters***

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

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

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

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

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



Our steelmaking operations in the United States and in Mexico use electric arc furnaces where carbon dioxide generation is primarily linked to energy use. In the United States, the federal environmental agency has issued rules imposing inventory and reporting obligations to which some of our facilities are subject, and has also issued rules that will affect preconstruction permits for our facilities where increases in greenhouse gas pollutants are contemplated. The U.S. Congress has debated various measures for regulating greenhouse gas emission (such as carbon dioxide) and may enact them in the future. Such laws and regulations may also result in higher costs for coking coal, natural gas and electricity generated by carbon-based systems (such as coal-fired electric generating facilities). Such future laws and regulations, whether in the form of cap-and-trade emissions permit system, a carbon tax or other regulatory regime may have a negative effect on our operations. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. As signatories to the UNFCCC, Mexico became subject to the Paris Agreement to fight climate change, which was taken by the parties at the 21st session of the UNFCCC conference of the Parties in 2015. In August 2017, the U.S. State Department officially informed the United Nations of the United States withdrawal from the Paris Agreement. As a result, some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse emissions. More stringent greenhouse policies and regulations could adversely affect our business and results of operations. In February 2021, the United States rejoined the Paris Agreement.

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 protection agency has in the past introduced regulation regarding the phasing out of polychlorinated biphenyl (“PCB”) containing fluid in equipment that we currently use at many of our U.S. facilities. If any such rules are enacted, our facilities may be required to reduce the levels of PCBs in our equipment, which will in turn may require us to incur costs for the removal and disposal of PCB containing oils, sampling and possible replacement of equipment in the event PCB levels cannot be reduced to acceptable levels.

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

### ***Mexican Operations***

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

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

### ***Environmental Matters***

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

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

*Agua*), also a branch of SEMARNAT; and (iv) the Federal Law on Environmental Responsibility (*Ley Federal de Responsabilidad Ambiental*), which is also administered by SEMARNAT and enforced by PROFEPA.

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

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

LGEEPA also mandates that companies that contaminate soil be responsible for the clean-up. Furthermore, the Law on Wastes provides that owners and lessors of real property with soil contamination are jointly and severally liable for the remediation of such contaminated sites, irrespective of any recourse or other actions such owners and lessors may have against the contaminating party, and aside from the criminal or administrative liability to which the contaminating party may be subject. The Law on Wastes also restricts the transfer of contaminated sites.

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

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

Companies in Mexico are required to obtain proper authorizations, concessions, licenses, permits and registrations 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.

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 USMCA. In this regard, any obligation to remedy environmental damages caused by us or any contaminated sites owned or leased by us could require significant unplanned capital expenditures and be materially adverse to our financial condition and results of operations.

#### *Water*

In Mexico, the National Waters Law regulates water resources. In addition, the Mexican Official Rules govern the quality of water. A concession granted by the National Waters Commission is required for the use and exploitation of national waters. Some of our facilities in Mexico have renewable concessions 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 contamination or pollution 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. In March 2018, the U.S. government imposed a 25% tariff on all steel products and a 10% tariff on all aluminum products imported into the United States under Section 232 of the Trade Expansion Act, which tariffs were removed in May 2019. Leaders from the United States, Canada and Mexico also commenced discussions regarding NAFTA on January 23, 2018 in Montreal, Canada. In November 2018, the United States, Mexico and Canada signed the United States-Mexico-Canada Agreement (the USMCA), which replaced NAFTA on July 1, 2020. See "Item 3.D. Risk Factors—Risks Related to Mexico—Developments in other countries could adversely affect the Mexican economy, our financial performance and the price of our shares." The new agreement has benefits on custom expenses, an orderly economic competition, clear rules for investment and its protection.

*Mexican-European Community Free Trade Agreement.* The Mexican-European Free Trade Agreement, or "MEFTA," became effective on July 1, 2000, and taxes applying to a large quantity of imported goods were eliminated or reduced. The goal of this trade agreement is to establish a bilateral and preferential, progressive and reciprocal framework to encourage the development of trade in goods and services, taking into account the sensitivity of certain products and services sectors, and in accordance with relevant rules of the World Trade Organization (WTO). The Joint Council is responsible for deciding the arrangements and timetable for the liberalization of duties and non-duty barriers to trade in goods, in accordance with the relevant WTO rules. This agreement was modified in 2018.

*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 steel products coming from Japan currently have a zero percent rate, (iii) 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. Venezuela stepped off the free trade agreement with Mexico and Colombia.

*Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).* On February 4, 2016, Mexico, along with Australia, Brunei, Canada, Chile, United States, Japan, Malaysia, New Zealand, Peru, Singapore and Vietnam, signed the Transpacific Partnership Trade Agreement, in the City of Auckland, New Zealand, which was intended to grant Mexican products access to six markets (Australia, Brunei, Malaysia, New Zealand, Singapore and Vietnam) with approximately 155 million of potential consumers, which were not covered by any other trade agreement. In January 2017, the United States withdrew from the agreement, after which the remaining 11 countries reached a revised agreement and renamed it the CPTPP. On December 30, 2018, it became effective without U.S. participation.

The CPTPP eliminates or reduces tariff and non-tariff barriers across substantially all trade in goods and services and covers the full spectrum of trade, including goods and services trade and investment, so as to create new opportunities and benefits for the businesses, workers, and consumers of the countries' members. The CPTPP is intended to facilitate the development of production and supply chains, and seamless trade, enhancing efficiency and supporting the goal of creating and supporting jobs, raising living standards, enhancing conservation efforts, and facilitating cross-border integration, as well as opening domestic markets. The CPTPP is intended to promote innovation, productivity, and competitiveness by addressing new issues, including the development of the digital economy, and the role of state-owned enterprises in the global economy. Finally, the CPTPP includes new elements that seek to ensure that economies at all levels of development and businesses of all sizes can benefit from trade. It also includes specific commitments on development and trade capacity building.

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

On September 11, 2013, the United States International Trade Commission (USITC) started an official anti-dumping investigation against rebar exports from Mexico and Turkey promoted by Nucor, Gerdau, Commercial Metals, and Cascade Steel Byer. On October 14, 2014, the USITC determined that the U.S. steel industry was materially injured by imports of steel concrete reinforcing bar from Mexico that are sold in the United States at less than fair value and from Turkey that are subsidized by the government of Turkey. As a result of the USITC's affirmative determinations, the U.S. Department of Commerce issued an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government-imposed tariffs of 66.7% against imports for rebar from Deacero, S.A.P.I de C.V. and us and tariffs of 20.58% for rebar imports from all other producers in Mexico, which tariffs were rescinded in June 2017.

On January 16, 2020, a preliminary dumping rate of 6.75% was imposed on our exports of rebar to the United States of America; however, this dumping rate decreased to 1.46%, because of the physical review carried out by the United States Department of Commerce at the plants of San Luis Potosí in February 2020, during which they did not find elements to apply the dumping rate.

### ***Brazil operations***

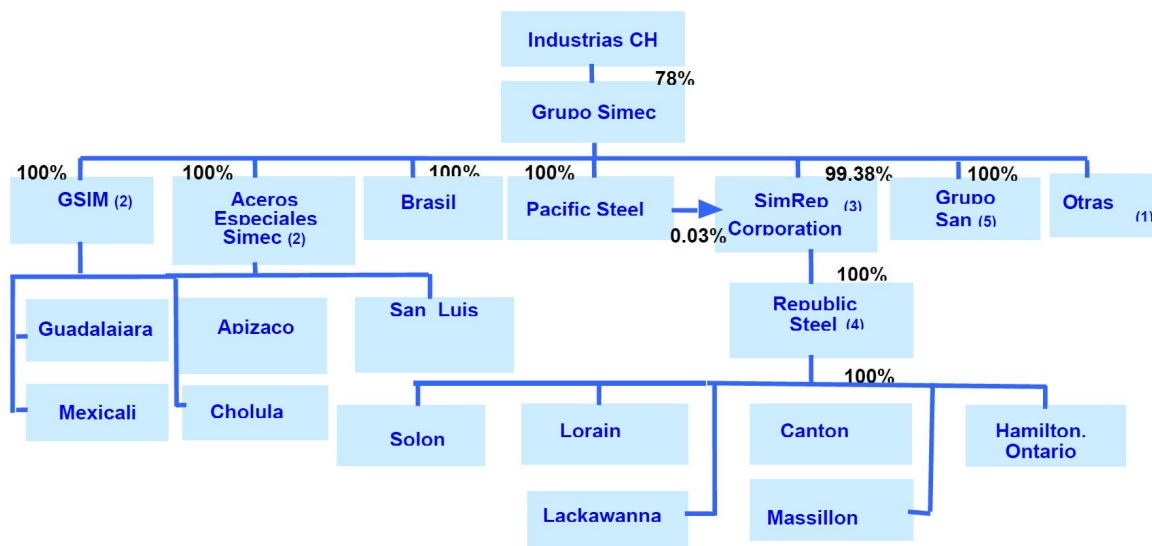
We produce according to the technical specifications of the Brazilian standard ABNT NBR 7480:2007 for steel bars and wires designed for the reinforcement for concrete structures. Our products are also registered with the Brazilian National Institute of Metrology, Quality and Technology (INMETRO), in accordance with Resolution CONMETRO No. 05, dated May 6, 2008, and comply with conformity assessment regulations, including Ordinance No. 73, dated March 17, 2010, and with compulsory product certification regulations.

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

*Labor.* In July 2017, the Brazilian government issued Law No.13,467 (Labor Reform Law), which resulted in significant changes to labor regulations. This law extends the workday from 8 hours to 12 hours, provided that there is a 36 hour break afterwards. With regard to negotiations with any labor union, Law No. 13,467 provides that certain rights, such as constitutional rights and women's rights, cannot be part of the negotiations, as the Constitution and existing law prevails over any collective bargaining agreement. In addition, Law No.13,467 allows companies to outsource any activity, including the company's principal activity and activities that a company's own employees are carrying out. Furthermore, the law provides that a claimant seeking to enforce his or her rights under this law will have to pay all costs and expenses related to the lawsuit and limits any compensation for moral damages subject to certain thresholds. We are currently in compliance with these labor regulations.

### C. Organizational Structure

The chart below sets forth a summary of our corporate structure.



- (1) Includes the following subsidiaries: Compañía Siderúrgica del Pacífico, S.A. de C.V. (99.99%); Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V. (100%); Industrias del Acero y del Alambre, S.A. de C.V. (99.99%); Procesadora Mexicali, S.A. de C.V. (99.99%); Servicios Simec, S.A. de C.V. (100%); Sistemas de Transporte de Baja California, S.A. de C.V. (100%); Operadora de Metales, S.A. de C.V. (100%); Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100%); Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V. (100%); Arrendadora Simec S.A. de C.V. (99.99%); CSG Comercial, 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 International6, S.A. de C.V. (100%); Corporativos G&DL, S.A. de C.V. (100%); Simec International 7, S.A. de C.V., (99.99%), Simec International 9, S.A.P.I. de C.V., (99.95%); Corporación ASL, S.A. de C.V. (99.99%); Siderúrgica del Occidente y Pacífico, S.A. de C.V. (100%); GS steel B.V. (100%) (liquidated in 2018), Gases Industriales de Tlaxcala, S.A. de C.V. (100%), Siderúrgicos Noroeste, S.A. de C.V., Fundiciones de Acero Estructural, S.A. de C.V. (100%) and Simec Siderúrgico, S.A. de C.V. (100%).
- (2) Our principal Mexican facilities consist of steel-making facilities in Guadalajara, Jalisco; Mexicali, Baja California; Apizaco, Tlaxcala, and San Luis Potosí; and cold finishing facilities in Cholula, Puebla. These facilities were operated by Simec International 6, S.A. de C.V. until October 31, 2012 (began operations in November 2010). Since November 1, 2012 these facilities were operated by Orge, S.A. de C.V. (incorporated in October 2012). These facilities were operated by RRLC, S.A.P.I. de C.V. (95.10%) (incorporated in 2015) and Grupo Chant, S.A.P.I. de C.V. (97.61%) (incorporated in 2015), since April 2015 and October 2015, respectively. These facilities were operated by GSIM de Occidente, S.A. de C.V. (incorporated in 2016) and Aceros Especiales Simec Tlaxcala, S.A. de C.V. (incorporated in 2015), since March 2016 to April 2017, Fundiciones de Acero Estructural, S.A. de C.V. (incorporated in 2017), from May 2017 to December 2017 respectively. Siderúrgicos Noroeste, S.A. de C.V. (incorporated in 2018), from May 2018 to April 2019, respectively. In 2018. These facilities were operated by Simec International 6, S.A. de C.V., Orge, S.A. de C.V. and Simec International 7, S.A. de C.V. Simec Siderúrgico, S.A. de C.V. (incorporated in 2019), from May 2019 to July 2019. In 2019, these facilities were operated by Simec International, S.A. de C.V. and Corporación ASL, S.A. de C.V., respectively. In 2020, these facilities were operated by Corporación ASL, S.A. de C.V., Simec International 6, S.A. de C.V., Aceros Especiales Simec Tlaxcala, S.A. de C.V., Fundiciones de Acero Estructural, S.A. de C.V. and Simec International, S.A. de C.V. respectively.
- (3) SimRep, Co. owns 100% of Republic Steel, Inc. Our principal U.S. 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 and Solon, Ohio; all, of which are owned directly by Republic.

- (4) Grupo San facilities are conformed by Corporacion Aceros DM, S.A. de C.V. (100%) and Subsidiaries, Aceros DM, S.A. de C.V. (99.99%) Acero Transportes SAN, S.A. de C.V. (99.99%), Aceros San Luis, S.A. de C.V. (99.99%), Malla San 1, S.A. de C.V. (99.98%), Malla San 2, S.A. de C.V. (99.98%) and Alambres Trefilados de San Luis Potosí, S.A. de C.V. (99.99%).
- (5) Our Brazil facilities are conformed by GV do Brasil Industria e Comercio de Aço LTDA., Companhia Siderúrgica do Espírito Santo, S.A. and the plant in Itauna, Minas Gerais, that is leased to a third party.

The following table identifies each of our significant operating subsidiaries, including its country of incorporation and our percentage ownership thereof at December 31, 2020:

Name of Subsidiary	Country of Incorporation	Ownership Interest (%)
Simec International, S.A. de C.V.	Mexico	100.00%
Undershaft Investments, N.V.	Curaçao	100.00%
Pacific Steel, Inc.	United States	100.00%
SimRep Corporation and subsidiaries (Republic)	United States	99.41%
Compañía Siderúrgica del Pacífico, S.A. de C.V.	Mexico	99.99%
Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V.	Mexico	100.00%
Industrias del Acero y del Alambre, S.A. de C.V.	Mexico	99.99%
Procesadora Mexicali, S.A. de C.V.	Mexico	99.99%
Servicios Simec, S.A. de C.V.	Mexico	100.00%
Sistemas de Transporte de Baja California, S.A. de C.V.	Mexico	100.00%
Operadora de Metales, S.A. de C.V.	Mexico	100.00%
Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	Mexico	100.00%
Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	Mexico	100.00%
Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V.	Mexico	100.00%
Arrendadora Simec, S.A. de C.V. (in liquidation)	Mexico	99.99%
Compañía Siderúrgica de Guadalajara, S.A. de C.V.	Mexico	99.99%
CSG Comercial, S.A. de C.V.	Mexico	100.00%
Corporación Aceros DM, S.A. de C.V. y subsidiarias	Mexico	100.00%
Corporación ASL, S.A. de C.V.	Mexico	99.99%
Simec International 6, S. A. de C. V.	Mexico	100.00%
Simec International 7, S. A. de C. V.	Mexico	99.99%
Simec International 9, S.A.P.I. de C. V.	Mexico	99.95%
Simec Acero, S. A. de C. V.	Mexico	100.00%
Simec USA, Corp.	United States	100.00%
Pacific Steel Projects, Inc.	United States	100.00%
Simec Steel, Inc.	United States	100.00%
Corporativos G&DL, S.A. de C.V.	Mexico	100.00%
GV do Brasil Industria e Comercio de Aço LTDA.	Brazil	100.00%
Orge, S.A. de C.V.	Mexico	99.99%
Siderúrgica del Occidente y Pacífico, S.A. de C.V.	Mexico	100.00%
RRLC, S.A.P.I. de C.V.	Mexico	95.10%
Grupo Chant, S.A.P.I. de C.V.	Mexico	97.61%
Aceros Especiales Simec Tlaxcala, S.A. de C.V.	Mexico	100.00%
Gases Industriales de Tlaxcala, S.A. de C.V.	Mexico	100.00%
GSIM de Occidente, S.A. de C.V.	Mexico	100.00%
Fundiciones de Acero Estructural, S.A. de C.V.	Mexico	100.00%
Siderúrgicos Noroeste, S.A. de C.V.	Mexico	100.00%
Companhia Siderúrgica do Espírito Santo, S.A.	Brazil	100.00%
Simec Siderúrgico, S.A. de C.V.	Mexico	100.00%

#### D. Property, Plants and Equipment

##### Our Operations and Production Facilities

We conduct our operations at 15 facilities throughout North and South America. At December 31, 2020, our crude steel production capacity was 4.8 million tons, of which 1.2 million tons were based on an integrated blast furnace technology, and 3.6 million were based on electric arc furnace, or mini-mill, technology. Our Mexican facilities have 2.6 million tons of crude steel production capacity, operating six mini-mill facilities. Our U.S. operations have 1.1 million tons of crude steel production capacity and our Brazil operations have 1.1 million tons of crude steel production capacity. In addition, we have 5.2 million tons of rolling and

finishing capacity, of which 2.6 million are located in Mexico, 1.7 million are located in the United States and Canada and 0.9 million are located in Brazil.

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

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

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

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

### Production Volume and Capacity Utilization

	Years ended December 31,				
	2016	2017	2018	2019	2020
	(tons in thousands)				
<b>Melt shops</b>					
Steel billet production	2,219.6	2,288.0	2,359.0	2,497.1	2,879.7
Annual installed capacity <sup>(1)</sup>	4,552.9	4,596.9	5,257.9	5,776.9	4,759.0
Effective capacity utilization	48.8%	49.8%	44.9%	43.2%	60.5%
<b>Rolling mills</b>					
Total production	2,211.4	2,171.6	2,306.7	2,513.4	2,581.6
Annual installed capacity <sup>(1)</sup>	4,131.8	4,000.0	4,480.0	4,896.0	5,185.0
Effective capacity utilization	53.5%	54.3%	51.5%	51.3%	49.8%

(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.

### *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 2020.

**Mexican Production per Facility by Product  
Location**

Product	Guadalajara	Mexicali	Apizaco/ Cholula	San Luis	Total
			Production (%)		
I-Beams	28.1%	0.5%	0%	0%	6.0%
Channels	7.5%	6.8%	0%	0%	2.8%
Angles	33.0%	11.1%	0%	0%	9.2%
Hot rolled bars (round, square and hexagonal rods)	23.8%	2.0%	56.9%	1.8%	19.8%
Rebar	0.4%	76.1%	1.1%	84.4%	44.9%
Flat bars	7.1%	3.5%	20.0%	0%	6.9%
Cold finished bars	0.1%	0%	18.2%	0%	4.4%
Electro-Welded wire mesh	0%	0%	0%	3.8%	1.4%
Wire rod	0%	0%	3.8%	4.1%	2.2%
Electro-Welded wire mesh panel	0%	0%	0%	5.9%	2.4%
Other	0%	0%	0%	0%	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

*Guadalajara.* Our Guadalajara mini-mill facility is located in central western Mexico in the state of Jalisco which is Mexico's second largest city. Our Guadalajara facilities and equipment include one improved electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, five reheating furnaces and three rolling mills. The Guadalajara mini-mill has an annual installed capacity of 370,000 tons of billet and an annual installed capacity of finished product of 480,000 tons. In 2020, the Guadalajara mini-mill produced 319,573 tons of steel billet and 310,971 tons of finished product, operating at 86% capacity for billet production and 65% 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 structural steel, SBQ steel, light structural steel and rebar.

**Guadalajara Mini-Mill**

	Years ended December 31,				
	2016	2017	2018	2019	2020
Steel sales (thousands of tons)	375	340	307	267	290
Average finished product price per ton	Ps. 10,779	Ps. 12,000	Ps. 13,896	Ps. 13,794	Ps. 13,235
Average scrap cost per ton	4,691	5,695	7,071	5,492	6,261
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	2,452	2,789	3,252	4,393	3,235
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	1,588	1,927	2,674	2,836	2,305

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

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

Our Mexicali facilities and equipment include one electric arc furnace utilizing water-cooled sidewalls and roof, one four-strand continuous caster, one walking beam reheating furnace, one SACK rolling mill, a Linde oxygen plant and a water treatment plant. This facility has an annual installed capacity of 430,000 tons of steel billet and an annual installed capacity of finished product of 250,000 tons. Excess billet produced at the Mexicali facility is used primarily by the Guadalajara facility. This allows us to increase the utilization of the Guadalajara facility's finishing capacity, which exceeds its production capacity. In 2020, the Mexicali mini-mill produced approximately 234,236 tons of billet, of which the Guadalajara mini-mill used 2,725 tons. In 2020, the Mexicali mini-mill produced 207,647 tons of finished products. In 2020 we operated the Mexicali mini-mill at 55% capacity for billet production and at 83% capacity for finished product production. Our facility is strategically located and has access to key markets in Mexico and the United States, stable public 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 structural steel, light structural steel and rebar. In 2020, 76% of the products produced at the Mexicali mini-mill were rebar, 11% were angles, 2% were hot rolled bars (round, square and hexagonal rods) and the remaining 11% were channels and flat bar.



**Mexicali Mini-Mill**

	<b>Years ended December 31,</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Steel sales (thousands of tons)	216	193	208	236	230
Average finished product price per ton	Ps. 9,935	Ps. 10,720	Ps. 13,538	Ps. 12,093	Ps. 13,126
Average scrap cost per ton	3,942	4,544	6,302	4,954	5,319
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	2,277	2,878	3,290	3,326	2,986
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	1,541	2,013	2,249	2,413	2,517

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

*Apizaco mini-mills (mini-mill 1 and mini-mill 2) and Cholula facility.* We have operated Apizaco mini-mill 1 and Cholula facility since August 1, 2004 and Apizaco mini-mill 2 since July, 2018. Mini-mill 1 and 2 are located in central Mexico in Apizaco, Tlaxcala. Our Apizaco facilities and equipment include two EBT Danieli electric arc furnace utilizing water-cooled sidewalls and roof, three ladle stations (two Danieli and the other Daido), two Daido degasification station, two Danieli four-strand continuous caster, three walking beam reheating furnaces and three rolling mills (two Danieli and the other Pomini). Mini-mill 1 has an annual installed capacity of 480,000 tons of steel billet and an annual installed capacity of finished product of 444,000 tons. In 2020, mini-mill 1 produced 269,091 tons of steel billet, of which the Guadalajara mini-mill used 2,725 tons. In 2020, mini-mill 1 produced 229,036 tons of finished products. In 2020, we operated mini-mill 1 at 56% capacity for billet production and at 52% capacity for finished product production. Mini-mill 2 has an installed capacity of 650,000 tons of steel billet and an installed capacity of finished product of 600,000 tons. In 2020, mini-mill 2 produced 132,251 tons of steel billet. In 2020, mini-mill 2 produced 123,199 tons of finished products. In 2020, we operated mini-mill 2 at 20% capacity for billet production and at 21% capacity for finished product production. Our Apizaco mini-mills are 1,112 miles from Mexicali and less than 124 miles from Mexico City. Our Apizaco facilities mainly produce SBQ steel, light structurals and rebar. Our Cholula facility is approximately 25 miles from our Apizaco facilities, which allows the integrated operations of the Apizaco mini-mills and Cholula facility. Our Cholula facilities and equipment include cold drawing and turning machines for peeling bars. This facility has an annual installed capacity of finished product of 120,000 tons. In 2020, the Cholula facility produced 59,977 tons of finished products, at 50% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2020, our plants in Apizaco and Cholula produced 401,342 tons of billet and 412,212 tons of finished product, operating at 36% of its billet capacity and 35% capacity for finished product.

In 2020, 57% of the products we produced at the Apizaco and Cholula facilities were hot rolled bars (round, square and hexagonals), 20% were flat merchant bar and 18% were cold finished products.

**Apizaco Mini-Mill and Cholula Facility**

	<b>Years ended December 31,</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Steel sales (thousands of tons)	350	331	321	318	318
Average finished product price per ton	Ps. 12,763	Ps. 15,426	Ps. 17,935	Ps. 16,726	Ps. 16,268
Average scrap cost per ton	4,376	5,725	6,383	5,271	5,933
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	3,321	4,524	5,604	5,916	5,639
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	2,168	2,796	3,767	4,047	3,446

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

*San Luis Operations and Facilities.* We have operated our San Luis facilities since we acquired them on May 30, 2008. The facilities are located in central Mexico in the city of San Luis Potosí, in the state of San Luis Potosí. 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, 2020, these facilities had an annual installed capacity of 660,000 tons of billet and 610,000 tons of finished product. In 2020, the San Luis facilities produced 563,905 tons of steel billet. In 2020, the San Luis facilities produced

543,534 tons of finished product, operating at 85% capacity for billet production and 89% capacity for finished product production. Our San Luis facilities mainly produce rebar, light structural steel and wire rod. In 2020, 84% of the products produced at the San Luis facilities were rebar, 14% were electro-welded wire mesh, wire rod and electro-welded wire mesh panel, and the remaining 2% were other light structural steel products.

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

	<b>Years ended December 31,</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2019</b>
Steel sales (thousands of tons)	554	540	538	546	496
Average finished product price per ton	Ps. 10,301	Ps. 10,870	Ps. 14,255	Ps. 12,225	Ps. 15,041
Average scrap cost per ton	4,628	5,859	6,822	5,378	6,407
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	2,032	2,414	3,094	3,026	2,719
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	1,571	1,857	2,481	2,381	2,113

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

### *U.S. Operations and Facilities*

We have operated our Republic facilities (in Ohio and New York) since we acquired them from the shareholders of PAV Republic, Inc. on July 22, 2005. As of December 31, 2020, these facilities had an annual installed capacity of 2,296,000 tons of billet and 1,763,000 tons of finished product. In 2020, Republic facilities produced 248,000 tons of steel billet. For the same period, Republic facilities produced 235,000 tons of hot-rolled bars. Republic facilities produced 40,000 tons of cold finish bars. In 2020, Republic facilities produced 22,000 tons of wire products.

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

	<b>Years ended December 31,</b>				
	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Steel sales (thousands of tons)	397	387	385	298	237
Average finished product price per ton	Ps. 23,526	Ps. 21,630	Ps. 24,016	Ps. 23,893	Ps. 23,511
Average scrap cost per ton	3,939	6,114	7,026	5,650	6,014
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	6,621	6,790	10,555	8,487	9,592
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	4,661	4,915	6,842	6,862	6,838

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

*Lorain, Ohio.* The Lorain facility operates an integrated steel mill, it has a blast furnace, two 220-ton basic oxygen furnaces, a 150-ton electric arc furnace, two ladle metallurgy facilities, a vacuum degasser, a five-strand continuous bloom caster, a six-strand billet caster, a billet rolling mill and two bar rolling mills.

Our Lorain facility had, at December 31, 2020, an annual installed capacity of 1,049,000 tons of steel billet and 900,000 tons of finished product. This facility did not produce any steel billets or finished steel bars in 2020 as it has been idled since 2016.

*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. As of December 2020, the Canton facility had annual installed capacity of 1,247,000 tons of steel billet. In 2020, this facility produced 248,000 tons of blooms, billets and other semi-finished trade product and was operated at 20% capacity of steel billet.





*Lackawanna, New York.* Our Lackawanna facility mainly produces SBQ steel and includes a three-zone walking beam billet reheat furnace, a recently upgraded 16 conventional stand mill with a 5 stand sizing mill and two saw lines capable of producing rounds, squares, and hexagons in both cut length and coils. This facility produces hot rolled bar sizes that range from 0.562" to 3.250" with coil weights up to 6,000 lb. Our Lackawanna facility's finishing equipment includes a QVL inspection line and three saw lines. We sell a portion of the hot rolled bars produced at our Lackawanna facility to trade customers, and we also ship a portion of the finished bars to our cold finishing operations for further processing. As of December 31, 2020, the Lackawanna facility had annual installed capacity of 653,000 tons of hot rolled bars. In 2020, this facility produced 235,000 tons of hot rolled bars and was operated at 36% capacity of finished product.

*Massillon, Ohio.* Our Massillon facility mainly produces SBQ steel and contains a cold finishing facility which includes the machinery and equipment to clean, draw, turn, chamfer, anneal, grind, straighten and saw bars. Our Massillon facility had, at December 31, 2020, an annual installed capacity of 138,000 tons of finished product. During 2020, the Massillon facility was operated at 29% capacity of finished product and produced 40,000 tons of cold finished bars.

*Solon, Ohio.* Our Solon facility, acquired in February 2011, mainly produce Cold Heading Quality (CHQ) wire products and have wire drawing and finishing facilities that include the machinery and equipment to clean and coat, draw, and anneal wire. As of December 31, 2020, the Solon facility had installed capacities of 72,000, for wire products. During 2020, the Solon facility produced and shipped 22,000 tons of wire products and was operated at 30.5% capacity of finished product.

*Hamilton, Ontario, Canada.* Our Hamilton facility was shut down permanently during 2020.

#### *Brazil.*

We have three plants in Brazil: a mini-mill and rebar and wire-rod rolling mill in Pindamonhangaba, São Paulo, a mini-mill in Cariacica, Espírito Santo and rolling and finishing facilities in Itauna, Minas Gerais, that is leased to a third party. Our plant located in Pindamonhangaba, State of Sao Paulo, is 87 miles from the city of Sao Paulo, and is 218 miles from Rio de Janeiro. Our Pindamonhangaba facility and equipment include an electric arc furnace and a rebar and wire rod rolling mill. Our facility in Pindamonhangaba began operations in July 2015 and currently produces rebar, while the plants in Cariacica and Itauna began operations in May 2018, and include an electric arc furnace and two rebar and wire rod rolling mills. As of December 31, 2020, our plant in Pindamonhangaba had installed capacity to produce 520,000 tons of billet and 450,000 tons of finished product per year capacity. In 2020 our plant in Pindamonhangaba produced 395,385 tons of billet and 428,742 tons of finished product, operating at 76% of its capacity for billet and 95% capacity for finished product. Our plant in Cariacica had installed capacity to produce 600,000 tons of billet and 348,000 tons of finished product. In 2020, our plant in Cariacica produced 442,240 tons of billet and 268,777 tons of finished product, operating at 74% of its capacity for billet and 77% capacity for finished product. The leased plant in Itauna had installed capacity to produce 120,000 tons of finished product. In 2020, our plant in Itauna produced 112,677 tons of finished product, operating at 94% capacity for finished product.

In 2020, our plants in Brazil produced 837,625 tons of billet and 810,196 tons of finished product, operating at 75% of its billet capacity and 88% capacity for finished product.

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

	Years ended December 31,				
	2016	2017	2018	2019	2020
Steel sales (thousands of tons)	193	300	433	684	871
Average finished product price per ton	Ps. 9,399	Ps. 10,680	Ps. 13,681	Ps. 12,456	Ps. 12,422
Average scrap cost per ton	3,679	4,846	6,553	5,290	5,420
Average manufacturing conversion cost per ton of finished product <sup>(1)</sup>	2,551	3,181	4,240	3,912	2,928
Average manufacturing conversion cost per ton of billet <sup>(1)</sup>	1,703	2,403	2,957	2,649	2,000

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

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

**Production per Facility by Product, Equipment and Volume**

<b>Location</b>	<b>Product (%)</b>	<b>Equipment</b>	<b>2020 Annual Production Volume (tons)</b>	<b>Finished Product Annual Installed Capacity (tons)</b>
Guadalajara	I-Beams (28%); Channels (7%); Angles (33%); Hot rolled bars (24%); Flat bars (7%), Cold drawn (1%)	electric arc furnace with continuous caster rolling mill and bar processing lines	310,971	480,000
Mexicali	Angles (11%); Rebar (76%); Channels (7%); Hot rolled bars (2%) Other (3%)	electric arc furnace with continuous caster and rolling mills	207,647	250,000
Apizaco and Cholula	SBQ (100%)	electric arc furnace with vacuum tank degasser, continuous caster, rolling mills, cold drawn and bar turning equipment	412,212	1,164,000
San Luis Potosí	Rebar (84%); Wire rod (4%); Electro-Welded wire mesh (4%); Electro- Welded wire mesh panel (6%); Bars (2%)	electric arc furnaces, whit continuous casters, rolling mill and wire rod rolling mill	394,654	410,000
Lorain <sup>(1)</sup>	SBQ (100%)	electric arc furnace, blast furnace, vacuum tank degasser, continuous caster, and rolling mills	0	900,000
Canton <sup>(2)</sup>	SBQ (100%)	electric arc furnace, vacuum tank degasser and continuous caster	Our billet and bloom for internal consumption	Our billet and bloom for internal consumption
Lackawanna	SBQ (100%)	rolling mill and wire rod rolling mill	253,000	653,000
Massillon	SBQ (100%)	cold drawn, bar turning and heat treating equipment	40,000	138,000
Solon	SBQ (100%)	equipment to clean and coat, draw, and anneal wire	22,000	72,000
Brazil	Rebar (58%); Angles (18%); Bars (11%); Flat bars (7%); Other (6%);	electric arc furnace, with continuous caster with rolling mills and wire rod rolling mill	810,196	918,000

(1) Production capacity is for rolling only.

(2) Production capacity is for billets only.

**Item 4A. Unresolved Staff Comments**

None.

**Item 5. Operating and Financial Review and Prospects**

The following discussion is derived from our audited consolidated financial statements, which are presented elsewhere in this annual report. This discussion does not include all of the information included in our financial statements. You should read our financial statements to gain a better understanding of our business and our historical results of operations. All of the statements in this Item 5 are subject to and qualified by the information set forth under “Forward Looking Statements.” In evaluating this discussion, you should also consider the factors discussed in Item 3.D. “Risk Factors” and elsewhere in this annual report and other factors that could cause results to differ materially from those expressed in such forward-looking statements.

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

The Mexican National Banking and Securities Commission (CNBV) has established the requirement that listed companies must disclose their financial information to the public, through the Mexican Stock Exchange (BMV) or the *Bolsa Institucional de Valores, S.A. de C.V.* (BIVA) (operating since July 25, 2018), and therefore, beginning in 2012, we prepare our financial information in accordance with IFRS, as issued by the IASB. IFRS differs in certain significant respects from U.S. GAAP. Accordingly, Mexican financial statements and reported earnings are likely to differ from those of companies in other countries in this and other respects.

**A. Operating Results****Overview**

We are producers of SBQ and structural steel products. Accordingly, our net sales and profitability are highly dependent on market conditions in the steel industry which is greatly influenced by general economic conditions in North America and globally. The sharp reduction in economic activity and consumer demand in general, and in the automotive, construction and manufacturing industries in particular, in North America starting in the fourth quarter of 2008 has had a significant negative impact on the demand and price levels for all steel products, including SBQ and structural steel products. These economic conditions have had an impact on all parts of our operations since the fourth quarter of 2008. Demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree, although the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. In 2018, the total increase in net revenue from sales of SBQ products compared to 2017 was 10%. In 2019, the total decrease in net revenue from sales of SBQ products compared to 2018 was 12%. In 2020, the total decrease in net revenue from sales of SBQ products compared to 2019 was 16%

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

We focus on controlling our cost of sales as well as our selling, general and administrative expenses. Our cost of sales largely consist of the costs of acquiring the raw materials necessary to manufacture steel, primarily scrap metal and ferroalloys. Market supply and demand generally determine scrap prices, and, as a result, we have limited ability to influence their cost or the costs of other raw materials, including energy costs; however, in 2018, 2019 and 2020, we did not purchase iron ore pellets or coking coal since our Lorain, Ohio blast furnace facility, which is our only facility that utilizes these materials, was idled during these periods. There is a correlation between the prices of scrap and iron ore and finished product prices, although the degree and timing of this correlation varies from time to time, so we may not always be able to fully pass along scrap and other raw material price increases to our customers. Therefore, our ability to decrease our cost of sales as a percentage of net sales is largely dependent on increasing our productivity. Our ability to control selling, general and administrative expenses, which do not correlate to net sales as closely as cost of sales do, is a key element of our profitability. Although our revenues and costs fluctuate from quarter to quarter, we do not experience large fluctuations due to seasonality.

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

The negative operating trends in our USA segment are primarily driven by under-utilized production capacity that severely impacts cost. The automotive sector was stable until 2019, after the pandemic-has suffered a significant drop.

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

Typically, about 60% of our business uses a fixed base price that is negotiated annually, plus monthly scrap and alloy surcharges. The remaining 40% is transaction business, where we can adjust the base pricing as required. Scrap metal and commodity prices increased significantly in 2018, in 2019, the prices of scrap decreased approximately 20% and in 2020 they increased by 9%. Financial resources will continue to be made available as our U.S. segment tackles the cost curve and restores the business to profitability.

### Sales Volume, Price and Cost Data, 2016 - 2020

	Year ended December 31,				
	2016	2017	2018	2019	2020
Shipments (thousands of tons)	2,085	2,091	2,192	2,349	2,441
Guadalajara and Mexicali	591	533	515	503	519
Apizaco and Cholula	350	331	321	318	318
San Luis facilities	554	540	538	546	496
Republic facilities	397	387	385	298	237
Brazil	193	300	433	684	871
Net sales (Ps. millions)	27,516	28,700	35,678	34,171	35,869
Guadalajara and Mexicali	6,188	6,149	7,082	6,537	6,914
Apizaco and Cholula	4,467	5,106	5,757	5,319	5,222
San Luis facilities	5,707	5,870	7,669	6,675	7,525
Republic facilities	9,340	8,371	9,246	7,120	5,549
Brazil	1,814	3,204	5,924	8,520	10,659
Cost of sales (Ps. millions)	22,776	23,994	30,563	30,067	29,212
Guadalajara and Mexicali	5,364	4,703	5,710	5,364	5,311
Apizaco and Cholula	3,635	3,607	3,948	4,001	4,148
San Luis facilities	4,726	5,030	6,058	5,569	6,000
Republic facilities	7,332	7,814	9,294	7,753	5,677
Brazil	1,719	2,840	5,553	7,380	8,075
Average price per ton (Ps.)	13,197	13,725	16,276	14,547	14,666
Guadalajara and Mexicali	10,470	11,537	13,751	12,996	13,321
Apizaco and Cholula	12,763	15,426	17,935	16,726	16,421
San Luis facilities	10,301	10,870	14,255	12,225	15,171
Republic facilities	23,526	21,630	24,016	23,893	23,437
Brazil	9,399	10,680	13,681	12,456	12,237
Average cost per ton (Ps.)	10,924	11,475	13,943	12,800	11,968
Guadalajara and Mexicali	9,076	8,824	11,087	10,664	10,138
Apizaco and Cholula	10,386	10,897	12,299	12,582	13,044
San Luis facilities	8,531	9,315	11,260	10,200	12,107
Republic facilities	18,469	20,191	24,140	26,017	25,996
Brazil	8,907	9,467	12,824	10,789	10,785

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



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

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

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

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

We sell our steel products to the automotive, construction, manufacturing and other related industries. These industries are generally cyclical, and their demand for steel is impacted by the stage of their industry market cycles and the country's economic performance. Mexico's GDP in 2020 was negative by 8.5% (according to preliminary figures of the INEGI) and 0.1% in 2019 (according to preliminary figures of the INEGI). The U.S. GDP decreased 3.5% in 2020 (according to preliminary figures of the U.S. Department of Commerce) and increased 2.3% in 2019. Deterioration in economic conditions in the countries in which we operate is likely to adversely affect our results of operation.

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

Steel prices are generally set by reference to world steel prices, which are determined by global supply and demand trends. Our average steel price increased approximately 4% in 2017 compared to 2016. Our average steel price increased approximately 18.6% in 2018 compared to 2017. Our average steel price decreased approximately 10.6% in 2019 compared to 2018. Our average steel price increased approximately 1% in 2020 compared to 2019.

During the last two decades the steel industry has been consolidating. Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures or idling, as the ones observed recently in the United States by Mittal Steel, U.S. Steel and others. Consolidation may result in increased competition and could adversely affect our results.

*Our results are affected by competition from imports.*

Our ability to sell our products is influenced, to a certain degree, by global trade for steel products, particularly trends in imports of steel products into the Mexican and U.S. markets. During 2005, the Mexican government, at the request of CANACERO, implemented several measures to prevent unfair trade practices such as dumping in the steel import market. These measures include initiating anti-dumping and countervailing duty proceedings, temporarily increasing import tariffs for countries with which Mexico does not have free trade agreements. As a result, the competitive price pressure from dumping declined, contributing to a general upward trend in domestic Mexican steel prices. In 2018, imports to Mexico in tons increased 4.5% compared to 2017 according to information of CANACERO. In 2019, imports to Mexico in tons increased 0.2% compared to 2018 according to information of CANACERO. In 2020, imports to Mexico in tons decreased 13.1% compared to 2019 according to information of CANACERO.

Steel imports to the United States accounted for an estimated 18% of the domestic U.S. steel market in 2020 and an estimated 19% in 2019. Foreign producers typically have lower labor costs, and in some cases are owned, controlled or subsidized by their governments, allowing production and pricing decisions to be influenced by political and economic policy considerations as well as prevailing market conditions. Increases in future levels of imported steel in the United States could reduce future market prices and demand levels for steel in the United States. To this extent, the U.S. Department of Commerce and the U.S. International Trade Commission are currently conducting five year "sunset" reviews of existing trade relief in several different steel products. Imports represent less of a threat to SBQ producers like us in the United States than to commodity steel producers because of the high quality requirements and standard required by buyers of SBQ steel products.

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

We purchase substantial quantities of raw materials, including scrap metal, and ferroalloys for use in the production of our steel products. The availability and price of these inputs vary according to general market and economic conditions and thus are influenced by industry cycles. As a result of the 2008 financial crisis that continues to affect the international markets, the prices of these inputs have remained highly volatile. For example, prices of scrap metal increased approximately 2% in 2016, increased

approximately 31% in 2017, increased approximately 19.4% in 2018, decreased 20% in 2019 and increased 9% in 2020; and prices of ferroalloys decreased approximately 13% in 2016, in 2017 increased approximately 22%, increased approximately 9.6% in 2018, decreased approximately 1% in 2019 and decreased approximately 20% in 2020. As with other raw materials, iron ore and coking coal prices fluctuate significantly. However, in 2016, 2017, 2018, 2019 and 2020 we did not purchase coking coal or pellets since our Lorain, Ohio blast furnace facility was idle during this period.

In addition to raw materials, electricity and natural gas are both relevant components of our cost structure. We purchase electricity and natural gas at prevailing market prices in Mexico and the United States. These prices are impacted by general demand and supply for energy in the United States and Mexico as economic activity fueled energy demand and the supply and price of oil was impacted by geopolitical events. While natural gas and electricity prices in the United States and Mexico decreased in response to the financial crisis, they have remained highly volatile. Prices for electricity increased approximately 1.5% in 2016, increased approximately 22% in 2017, increased approximately 14% in 2018, increased approximately 0.1% in 2019 and decreased 10% in 2020; and prices for natural gas increased approximately 8% in 2016, increased approximately 22% in 2017, increased approximately 28% in 2018, increased approximately 1.8% in 2019 and decreased 18% in 2020.

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

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the INEGI was 3.4% for 2016, 6.8% for 2017, 4.8% for 2018, 2.8% for 2019 and 3.2% in 2020. High inflation rates could adversely affect our business and results of operations by increasing certain costs, such as the labor costs of our Mexican facilities, beyond levels that we could pass on to our customers and reducing consumer purchasing power, thereby adversely affecting demand for our products.

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

Depreciation of the Mexican peso relative to the U.S. dollar may negatively affect our results of operations. Since the second half of 2008, the value of the Mexican peso relative to the U.S. dollar has fluctuated significantly. According to the Mexican Central Bank (*Banco de Mexico*), during the period from 2018 to 2020, the exchange rate registered a low of Ps. 9.92 per U.S.\$1.00 at August 6, 2008, and a high of Ps. 20.84 per U.S.\$1.00 at January 13, 2017. The depreciation of the Mexican peso relative to the U.S. dollar in 2020 was 5.6%. The exchange rate at December 31, 2020 was 19.9352 compared to 18.8727 at December 31, 2019. At April 23, 2021, the exchange rate was Ps. 19.8740 per U.S.\$1.00.

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

## Segment Information

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

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

- our Mexican segment represents the results of our operations in Mexico, including our plants in Mexicali, Guadalajara, Tlaxcala and San Luis Potosi;
- our U.S. segment represents the results of our operations of Republic, including its five plants, located in the United States; and
- our Brazil segment represents the results of our operations in three plants located in Brazil, one of which started operations in June 2015 and two of which started to consolidate operations in May 2018.



The following information shows other results by segment.

<b>For the year ended December 31, 2020</b>					
	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
	(in thousands of pesos)				
Net sales	19,660,889	5,549,366	10,659,059	—	35,869,314
Cost of sales	15,459,258	5,677,213	8,075,253	—	29,211,724
Gross profit (loss)	4,201,631	(127,847)	2,583,806	—	6,657,590
Administrative expenses	1,117,817	240,726	660,785	—	2,019,328
Other expense (income), net	(52,655)	(505,946)	11,854	—	(546,747)
Interest income	(107,605)	(222)	—	—	107,827
Interest expense	5,108	16,104	66,007	(33,473)	53,746
Exchange (loss) gain, net	(483,822)	1,510	(1,096,416)	(1,215,564)	(363,164)
Income (loss) before income tax	2,755,144	123,001	748,744	1,249,037	4,875,926
Income tax	1,747,568	118,926	211,350	—	2,077,844
Net (loss) income	<u>1,007,576</u>	<u>4,075</u>	<u>537,394</u>	<u>1,249,037</u>	<u>2,798,082</u>
<b>Other Data</b>	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
Depreciation and amortization	693,362	332,186	426,723	—	1,452,271
Total assets	33,386,043	9,237,831	5,807,121	(2,927,348)	45,503,647
Total liabilities	6,944,579	4,797,682	3,670,075	(2,927,348)	12,484,988
Additions of property, plant and equipment, net	278,700	41,054	631,451	—	951,205

<b>For the year ended December 31, 2019</b>					
	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
	(in thousands of pesos)				
Net sales	18,530,672	7,120,360	8,520,169	—	34,171,201
Cost of sales	14,934,575	7,752,776	7,379,790	—	30,067,141
Gross profit (loss)	3,596,097	(632,416)	1,140,379	—	4,104,060
Administrative expenses	848,495	267,756	521,174	—	1,637,425
Other expense (income), net	175,412	(71,324)	32,494	—	136,582
Interest income	145,729	266	—	—	145,995
Interest expense	3,438	(84,621)	(110,919)	137,053	(55,049)
Exchange (loss) gain, net	(628,044)	2,745	(177,314)	18,030	(784,583)
Income (loss) before income tax	2,093,313	(910,458)	298,478	155,083	1,636,416
Income tax	3,505,015	(236,598)	7,857	—	3,276,274
Net (loss) income	<u>(1,411,702)</u>	<u>(673,860)</u>	<u>290,621</u>	<u>155,083</u>	<u>(1,639,858)</u>

<b>Other Data</b>	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
Depreciation and amortization	577,048	260,760	270,821	—	1,108,629
Total assets	32,935,743	8,419,771	6,002,701	(3,343,456)	44,014,759
Total liabilities	7,253,713	4,219,817	3,274,908	(3,343,456)	11,404,982
Additions of property, plant and equipment, net	785,818	278,467	207,135	—	1,271,420

**For the year ended December 31, 2018**

	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
	(in thousands of pesos)				
Net sales	20,507,794	9,246,444	5,924,015	—	35,678,253
Cost of sales	15,715,761	9,294,352	5,553,202	—	30,563,315
Gross profit (loss)	4,792,033	(47,908)	370,813	—	5,114,938
Administrative expenses	592,218	267,905	219,889	—	1,080,012
Other (income) expense, net	(11,367)	(3,685)	—	—	(15,052)
Interest income	307,279	5,542	—	—	312,821
Interest expense	52,226	(99,985)	(103,141)	134,389	(16,511)
Exchange gain (loss), net	445,289	7,522	(602,747)	3,040	(146,896)
Income (loss) before income tax	5,015,976	(399,049)	(554,964)	137,429	4,199,392
Income tax	905,482	7,145	(160,165)	—	752,462
Net income (loss)	4,110,494	(406,194)	(394,799)	137,429	3,446,930

<b>Other Data</b>	<b>Mexico</b>	<b>United States</b>	<b>Brazil</b>	<b>Operations between Segments</b>	<b>Total</b>
Depreciation and amortization	587,407	268,635	256,376	—	1,112,418
Total assets	40,617,874	10,181,967	6,733,362	(8,679,380)	48,853,823
Total liabilities	8,458,465	10,815,692	2,750,043	(8,679,380)	13,344,820
Additions of property, plant and equipment, net	1,552,587	433,154	8,724	—	1,994,465

Our net sales by product during 2018, 2019 and 2020 were as follows:

**SALES BY PRODUCT**  
(in thousands of pesos)

	<b>2018</b>	<b>2019</b>	<b>2020</b>
Light structural	1,654,720	1,396,632	1,529,216
Structural	2,441,079	3,304,178	3,677,441
Bars	1,575,291	2,220,264	2,061,053
Rebar	12,363,530	12,370,490	14,081,399

Flat bar	2,271,347	1,833,576	1,851,960
Hot rolled bars	9,549,286	8,226,613	7,548,939
Cold drawn bars	3,779,385	3,102,544	2,139,938
Other	2,043,615	1,716,904	2,989,368
Total	35,678,253	34,171,201	35,869,314

Our net sales by country or region during 2018, 2019 and 2020 are as follows:

**SALES BY COUNTRY OR REGION**  
(in thousands of pesos)

	2018	2019	2020
Mexico	20,421,529	17,873,633	18,122,828
USA	8,975,585	7,544,078	6,555,642
Brazil	5,932,297	8,500,592	10,608,151
Canada	267,606	175,686	311,761
Latin America	60,578	60,672	253,096
Other (Europe and Asia)	20,658	16,540	17,836
Total	35,678,253	34,171,201	35,869,314

**Consolidated Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2019 and 2020**

*Net Sales*

Net sales increased 5%, to Ps. 35,869 million in 2020 compared to Ps. 34,171 million in 2019. This increase resulted primarily from a 1% increase in the average price per ton of steel products and an increase of 92,000 tons in shipments of finished steel products. Total sales outside of Mexico increased 9%, to Ps. 17,746 million in 2020 compared to Ps. 16,297 million in 2019. Total sales in Mexico increased 1%, from Ps. 17,874 million in 2019 to Ps. 18,123 million in 2020.

Shipments of finished steel products increased 4%, to 2.441 million tons in 2020, compared to 2.349 million tons in 2019. Total sales volume outside of Mexico of finished steel products increased 14% to 1.202 million tons in 2020, compared to 1.055 million tons in 2019, while total Mexican sales decreased 4%, from 1.294 million tons in 2019, compared to 1.239 million tons in 2020. The average price of steel products increased 1% in 2020 compared to 2019.

*Cost of Sales*

Our cost of sales decreased 3%, from Ps. 30,067 million in 2019 to Ps. 29,212 million in 2020, which decrease is mainly attributable to a 6.5% decrease in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 81% in 2020 and 88% in 2019. We experienced higher cost of sales at our Republic facilities, mainly as a result of (i) higher labor costs corresponding to our U.S. operations, and (ii) the higher cost of raw materials, which our U.S. operations use in the production of SBQ steel. Hourly wages at our Mexican operations were approximately U.S.\$1.9 (Ps. 37) per hour in 2020 and U.S.\$1.9 (Ps. 36) per hour in 2019, compared to U.S.\$34 (Ps. 678) and U.S.\$50.6 (Ps. 954) per hour for 2020 and 2019, respectively, at our U.S. operations. Although raw material costs are similar in the United States and Mexico, our U.S. operations produce higher value-added SBQ steel, which requires more expensive raw materials such as chromium, nickel, molybdenum and other alloys. Our Mexican operations require these alloys to a lesser extent, because they produce commodity steel as well as SBQ steel.

*Gross Profit*

Our gross profit was Ps. 6,658 million in 2020 compared to a Ps. 4,104 million gross profit in 2019. This increase in gross profit is attributable mainly to an increase of 92,000 tons of finished steel products shipped, a 1% increase in the average price of steel products sold, and a 6.5% decrease in the average cost per ton of steel products sold. As a percentage of net sales, our gross profit was 18% in 2020 and our gross profit was 12% in 2019.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) increased 23%, to Ps. 2,019 million in 2020, compared to Ps. 1,637 million in 2019. The variation of Ps. 382 million corresponds to the increase of Ps. 270 million in the Mexican segment (mainly expenses originated from depreciation and legal expenses) and the increase of Ps. 140 million in the Brazil segment (expenses from new companies and higher depreciation expenses). In 2020 and 2019, our general and administrative expenses

included Ps. 11.2 million and 10 million of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Republic.

Administrative expenses as a percentage of net sales were 6% in 2020 and 5% in 2019. Depreciation and amortization expense were Ps. 422 million in 2020 compared to Ps. 220 million in 2019.

#### *Other (Income) Expense, Net*

We recorded other expense, net, of Ps. 547 million in 2020, reflecting (i) income of Ps. 232 million related to the sale of scrap, (ii) income of Ps. 257 million from a tax benefit in our operations in Brazil.

We recorded other income, net, of Ps. 137 million in 2019, reflecting (i) income of Ps. 3 million related to the sale of scrap, (ii) expense of Ps. 125 million for debugging accounts, (iii) income of Ps. 6 million for recovery of insurance companies and (iv) expense related to other financial operations of Ps. 21 million.

#### *Interest Income*

We recorded interest income of Ps. 108 million in 2020 compared to Ps. 146 million in 2019. This decrease is attributable mainly to interest charged to affiliated companies.

#### *Interest Expense*

We recorded interest expense of Ps. 54 million in 2020 compared to Ps. 55 million in 2019. This decrease is attributable mainly to the lower use of financial services.

#### *Foreign Exchange Loss (Gain)*

We recorded a foreign exchange loss of Ps. 363 million in 2020 compared to a foreign exchange loss of Ps. 785 million in 2019; this foreign exchange loss reflected the 6% depreciation of the peso against the dollar in 2020, compared to the 4% appreciation of the Mexican peso against the dollar in 2018.

#### *Income Tax*

In 2020 we recorded an income tax provision of Ps. 2,078 million, which included an income tax provision of Ps. 1,831 million (includes Ps. 554.4 million of the income tax derived from a review of the Tax Administration System) (SAT) and an income tax provision for deferred income taxes of Ps. 247 million. In 2019 we recorded an income tax provision of Ps. 3,276 million, which included an income tax provision of Ps. 2,324 million (includes Ps. 2,324 million of the income tax derived from a review of the Tax Administration System) (SAT) and an income tax provision for deferred income taxes of Ps. 202 million.

Our effective income tax rates for 2020 and 2019 were 27.9% and 58.2%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2020 and years thereafter is 30%. We have implemented the practice of recognizing the benefit derived from the amortization of tax losses for the period in which such losses are actually amortized. In 2020 and 2019, we amortized tax losses which generated a benefit on income tax of approximately Ps. 17 million and Ps. 987 million, respectively. These effects caused our effective tax rates during 2020 to be lower than the statutory tax rate.

#### *Net Income (Loss)*

We recorded net profit of Ps. 2,798 million in 2020, compared to net loss of Ps. 1,640 million in 2019. The net profit for the year 2020 compared to the net loss in 2019 is mainly as a result of (i) a 1% increase in the average price of steel products sold, (ii) a 3% decrease in the average cost per ton of steel products sold, (iii) the decrease in the foreign exchange loss in 2020 to Ps. 363 million compared to Ps. 785 million in 2019 and (iv) the decrease in the provision of income taxes in 2020 to Ps. 1,919 million compared to Ps. 3,276 million in 2019.

### **Mexican Segment**

#### **Statements of Comprehensive Income**

#### **Comparison of Years Ended December 31, 2019 and 2020**

#### *Net Sales*

Net sales increased 6%, to Ps. 19,661 million in 2020 compared to Ps. 18,531 million in 2019. This increase resulted principally from a 8.8% increase in the average price per ton of steel products in 2020 compared to 2019.

Shipments of finished steel products decreased 2.5%, to 1.332 million tons in 2020, compared to 1.367 million tons in 2019.

#### *Cost of Sales*

Our cost of sales increased 3.5%, from Ps. 14,935 million in 2019 to Ps. 15,459 million in 2020, which increase is mainly attributable to the increase in the average cost per ton of steel products sold. As a percentage of net sales, our cost of sales was 79% in 2020, compared to 81% in 2019.

#### *Gross Profit*

Our gross profit increased 17%, to Ps. 4,202 million in 2020 compared to Ps. 3,596 million in 2019. This increase is attributable mainly to an increase of 9% in the average price of steel products sold. As a percentage of net sales, our gross profit was 21% in 2020, compared to 19% in 2019.

#### *Administrative Expenses*

Our administrative expenses (including depreciation and amortization) increased 31.7%, to Ps. 1,118 million in 2020, compared to Ps. 848 million in 2019. The increase of Ps. 270 million were mainly expenses originated by depreciation and legal costs.

Administrative expenses as a percentage of net sales were 6% in 2020 and 5% in 2019. Depreciation and amortization expense were Ps. 283 million in 2020 compared to Ps. 147 million in 2019.

#### *Other Expense (Income), Net*

We recorded other income, net, of Ps. 53 million in 2020, reflecting an income related to the sale of scrap,

We recorded other expense, net, of Ps. 175 million in 2019, reflecting (i) an income of Ps. 3 million related to the sale of scrap, (ii) income of Ps. 6 million for recovery of insurance companies, (iii) other expense of Ps. 130 million for debugging accounts and (iv) other expense, net, related to other financial operations of Ps. 54 million.

#### *Interest Income*

We recorded interest income of Ps. 107 million in 2020 compared to Ps. 146 million in 2019. This interest income corresponds mainly to affiliates.

#### *Interest Expense*

We recorded interest expense of Ps. 5 million in 2020, corresponding mainly to related party transactions that are eliminated in the consolidated statement of income, compared to Ps. 3 million of interest income in 2019.

#### *Foreign Exchange Gain (Loss)*

We recorded a foreign exchange loss of Ps. 484 million in 2020 compared to a foreign exchange gain of Ps. 628 million in 2019; this foreign exchange reflected the 5.6% depreciation of the Mexican peso against the dollar in 2019.

#### *Income Tax*

In 2020, we recorded an income tax provision of Ps. 1,748 million, which included an income tax provision of Ps. 1,460 million and an income tax provision for deferred income taxes of Ps. 288 million. In 2019, we recorded an income tax provision of Ps. 3,505 million, which included an income tax provision of Ps. 3,492 million (includes Ps. 2,733 million of the income tax derived from a review of the Tax Administration System) (SAT) and an income tax provision for deferred income taxes of Ps. 13 million.

According to the Income Tax Law in Mexico, the tax rate for 2020 and thereafter is 30%.

#### *Net Income*

We recorded net income of Ps. 1,008 million in 2020, compared to net loss of Ps. 1,412 million in 2019. This variance is attributable mainly to; (i) an increase of 8% in the average price of steel products sold, (ii) the increase of Ps. 269 million in our administrative expenses, (iii) a foreign exchange loss of Ps. 484 million in 2020 compared to Ps. 628 million of foreign exchange loss in 2019 and (iv) the decrease in the provision of income taxes in 2020 to Ps. 1,748 million compared to Ps. 3,505 million in 2019.



**USA Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2019 and 2020**

*Net Sales*

Net sales decreased 22%, to Ps. 5,549 million in 2020 compared to Ps. 7,120 million in 2019. This decrease resulted principally from a decrease of 61,000 tons in shipments of finished steel products.

Shipments of finished steel products decreased 20%, to 237,000 tons in 2020, compared to 298,000 tons in 2019.

The average price of steel products in pesos decreased 2.1% in 2020 compared to 2019.

*Cost of Sales*

Our cost of sales decreased 26.7%, from Ps. 7,753 million in 2019 to Ps. 5,677 million in 2020, the decrease is mainly due to a decrease of approximately 20% in tons of shipments of finished steel products and the 8% decrease in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 102% in 2020, compared to 109% in 2019.

*Gross Profit (Loss)*

Our gross loss was Ps. 128 million in 2020 compared to a Ps. 632 million gross loss in 2019. As a percentage of net sales, our gross loss was (2%) in 2020, mainly attributable to a decrease of approximately 20% in tons of shipments of finished steel products and a decrease of 8%, approximately, in the average cost per ton of steel products sold, compared to a gross loss of (9%) in 2019. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of raw material purchases as a result of the time lag between the production and sales cycles.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) was Ps. 241 million in 2020, compared to Ps. 268 million in 2019.

Administrative expenses as a percentage of net sales were 4% in 2020 and 4% in 2019. Depreciation and amortization expense were Ps. 25 million in 2020 compared to Ps. 50 million in 2019.

*Other Income, Net*

We recorded other income, net, of Ps. 506 million in 2020, related to scrap metal sold during the period.

We recorded other income, net, of Ps. 71 million in 2019, reflecting (i) other income, net, of Ps. 38 million for debugging accounts and (ii) other income, net, of Ps. 33 million related to other financial operations.

*Interest Income*

We recorded an interest income of Ps. 0 million in 2020 compared to Ps. 0 million in 2019.

*Interest Expense*

We recorded an interest expense of Ps. 16 million in 2020 compared to Ps. 85 million in 2019.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange gain of Ps. 2 million in 2020 compared to a foreign exchange gain of Ps. 3 million in 2019.

*Income Tax*

In 2020, we recorded an income tax profit provision of Ps. 1,528 million and an income tax profit provision for deferred income taxes of Ps. 220 million for deferred income taxes. In 2019, we recorded an income tax profit provision of Ps. 237 million.

*Net loss*

We recorded a net profit of Ps. 4 million in 2020, compared to a net loss of Ps. 674 million in 2019. Our net income in 2020 is attributable mainly to a decrease in the average cost of steel tons produced. This compared to 2019, which was mainly impacted due to a decrease of 61,000 tons in shipments of finished steel products and a decrease of 8% in the average cost of steel products sold.

**Brazil Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2019 and 2020**

*Net Sales*

Net sales increased 25% to Ps. 10,659 million in 2020 compared to Ps. 8,520 million in 2019. This increase resulted principally from an increase of 186,000 tons of shipments of finished steel products.

Shipments of finished steel products increased to 870,500 tons in 2020 compared to 684,000 tons in 2019 (including the shipment of the new plants acquired in 2018, Cariacica and Itauna).

The average price of steel products in pesos decreased 1.7% in 2020 compared to 2019.

*Cost of Sales*

Our cost of sales increased to Ps. 8,075 million in 2020 compared to Ps. 7,380 million in 2019, which increase is mainly attributable to the increase of the shipments of finished steel products of 186,000 tons in 2020.

The average cost per ton of steel products sold decreased 14% compared to 2019. Cost of sales as a percentage of net sales was 76% in 2020, compared to 87% in 2019.

*Gross Profit*

Our gross profit was Ps. 2,584 million in 2020 compared to Ps. 1,140 million of gross profit in 2019. This increase in gross profit is attributable mainly to an increase of 186,000 tons of finished steel products shipped, a 1.7% decrease in the average price of steel products sold, and a 14% decrease in the average cost per ton of steel products sold. As a percentage of net sales, our gross profit was 24% in 2020, compared to 13% of gross profit in 2019.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) were Ps. 661 million in 2020 compared to Ps. 521 million in 2019. Operating expenses as a percentage of net sales were 6% in 2020 and 2019. Expenses for new companies acquired in 2018 increased the administrative expenses.

Depreciation and amortization expenses were Ps. 220 million in 2020 compared to Ps. 126 million in 2019.

*Other Expense, Net*

We recorded other expense, net of Ps. 12 million in 2020.

We recorded other expense, net, of Ps. 32 million in 2019, for debugging accounts.

*Interest Expense*

We recorded an interest expense of Ps. 66 million in 2020 compared to Ps. 111 million in 2019.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange loss of Ps. 1,096 million in 2020. This foreign exchange loss reflected the 29% depreciation of the Brazilian real against the dollar in 2020 compared to 2019 compared to a foreign exchange loss of Ps. 177 million in 2019.



### *Income Tax*

In 2020 we recorded an income tax provision for deferred income taxes of Ps. 211 million compared to Ps. 8 million of income tax provision in 2019.

### *Net Income (Loss)*

We recorded a net income of Ps. 537 million in 2020 compared to a net income of Ps. 291 million in 2019. The net income for the year 2020 compared to the net income in 2019 is mainly as a result of an increase of 186,000 tons of finished steel products shipped.

## **Consolidated Statements of Comprehensive Income Comparison of Years Ended December 31, 2018 and 2019**

### *Net Sales*

Net sales decreased 4%, to Ps. 34,171 million in 2019 compared to Ps. 35,678 million in 2018. This decrease resulted primarily from a 11% decrease in the average price per ton of steel products and an increase of 157,000 tons in shipments of finished steel products. Total sales outside of Mexico increased 7%, to Ps. 16,297 million in 2019 compared to Ps. 15,257 million in 2018. Total sales in Mexico decreased 12%, from Ps. 20,421 million in 2018 to Ps. 17,874 million in 2019.

Shipments of finished steel products increased 7%, to 2.349 million tons in 2019, compared to 2.192 million tons in 2018. Total sales volume outside of Mexico of finished steel products increased 24% to 1.055 million tons in 2019, compared to 0.853 million tons in 2018, while total Mexican sales decreased 3%, from 1.339 million tons in 2018, compared to 1.294 million tons in 2019. The average price of steel products decreased 11% in 2019 compared to 2018.

### *Cost of Sales*

Our cost of sales decreased 2%, from Ps. 30,563 million in 2018 to Ps. 30,067 million in 2019, which decrease is mainly attributable to a 8% decrease in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 88% in 2019 and 86% in 2018. We experienced higher cost of sales at our Republic facilities, mainly as a result of (i) higher labor costs corresponding to our U.S. operations, and (ii) the higher cost of raw materials, which our U.S. operations use in the production of SBQ steel. Hourly wages at our Mexican operations were approximately U.S.\$1.9 (Ps. 36) per hour in 2019 and U.S.\$1.9 (Ps. 36) per hour in 2018, compared to U.S.\$50.6 (Ps. 954) and U.S.\$55.3 (Ps.1,087) per hour for 2019 and 2018, respectively, at our U.S. operations. Although raw material costs are similar in the United States and Mexico, our U.S. operations produce higher value-added SBQ steel, which requires more expensive raw materials such as chromium, nickel, molybdenum and other alloys. Our Mexican operations require these alloys to a lesser extent, because they produce commodity steel as well as SBQ steel.

### *Gross Profit*

Our gross profit was Ps. 4,104 million in 2019 compared to a Ps. 5,115 million gross profit in 2018. This decrease in gross profit is attributable mainly to an increase of 157,000 tons of finished steel products shipped, an 11% decrease in the average price of steel products sold, and a 8% decrease in the average cost per ton of steel products sold. As a percentage of net sales, our gross profit was 12% in 2019 and our gross profit was 14% in 2018.

### *Administrative Expenses*

Our administrative expenses (including depreciation and amortization) increased 52%, to Ps. 1,637 million in 2019, compared to Ps. 1,080 million in 2018. The variation of Ps. 557 million corresponds to the increase of Ps. 256 million in the Mexican segment (mainly expenses originated from the review carried out by the tax authorities) and the increase of Ps. 301 million in the Brazil segment (expenses for new companies acquired in May 2018 were not for the entire year and in 2019 they were for the entire year). In 2019 and 2018, our general and administrative expenses included Ps. 10 million of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Republic.

Administrative expenses as a percentage of net sales were 5% in 2019 and 3% in 2018. Depreciation and amortization expense were Ps. 220 million in 2019 compared to Ps. 157 million in 2018.

### *Other (Income) Expense, Net*

We recorded other expense, net, of Ps. 136 million in 2019, reflecting (i) income of Ps. 3 million related to the sale of scrap, (ii) expense of Ps. 125 million for debugging accounts, (iii) income of Ps. 6 million for recovery of insurance companies and (iv) expense related to other financial operations of Ps. 20 million.

We recorded other income, net, of Ps. 15 million in 2018, reflecting (i) income of Ps. 10 million related to the sale of scrap, (ii) expense of Ps. 9 million in land remediation at Pacific Steel, (iii) income of Ps. 6 million for recovery of insurance companies and (iv) income related to other financial operations of Ps. 8 million.

### *Interest Income*

We recorded an interest income of Ps. 146 million in 2019 compared to Ps. 313 million in 2018. This decrease is attributable mainly to interest charged to affiliated companies.

### *Interest Expense*

We recorded an interest expense of Ps. 55 million in 2019 compared to Ps. 16 million in 2018. This increase is attributable mainly to the higher use of financial services.

### *Foreign Exchange Loss (Gain)*

We recorded a foreign exchange loss of Ps. 785 million in 2019 compared to a foreign exchange loss of Ps. 147 million in 2018; this foreign exchange loss reflected the 4% appreciation of the peso against the dollar in 2019, compared to the 0.4% appreciation of the Mexican peso against the dollar in 2017.

### *Income Tax*

In 2019 we recorded an income tax provision of Ps. 3,276 million, which included an income tax provision of Ps. 3,478 million (includes Ps. 2,324 million of the income tax derived from a review of the Tax Administration System) (SAT) and an income tax profit provision for deferred income taxes of Ps. 202 million. In 2018 we recorded an income tax provision of Ps. 752 million, which included an income tax provision of Ps. 511 million and an income tax provision for deferred income taxes of Ps. 241 million.

Our effective income tax rates for 2019 and 2018 were 54.3% and 16.9%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2019 and years thereafter is 30%. We have implemented the practice of recognizing the benefit derived from the amortization of tax losses for the period in which such losses are actually amortized. In 2019 and 2018, we amortized tax losses which generated a benefit on income tax of approximately Ps. 987 million and Ps. 1,238 million, respectively. These effects caused our effective tax rates during 2018 to be lower than the statutory tax rate.

### *Net Income (Loss)*

We recorded net loss of Ps. 1,640 million in 2019, compared to net income of Ps. 3,447 million in 2018. The net loss for the year 2019 compared to the net income in 2018 is mainly as a result of (i) an increase of 157,000 tons of finished steel products shipped, a 11% decrease in the average price of steel products sold, and a 8% decrease in the average cost per ton of steel products sold, (ii) in the year 2018 we had Ps. 313 million of interest income compared to the year 2019 where we had Ps. 146 million of interest income, net, (iii) the increase in the foreign exchange loss in 2019 to Ps. 785 million compared to Ps. 147 million in 2018 and (iv) the increase in the provision of income taxes in 2019 to Ps. 3,276 million compared to Ps. 752 million in 2018.

## **Mexican Segment Statements of Comprehensive Income Comparison of Years Ended December 31, 2018 and 2019**

### *Net Sales*

Net sales decreased 10%, to Ps. 18,531 million in 2019 compared to Ps. 20,508 million in 2018. This decrease resulted principally from a 9% decrease in the average price per ton of steel products in 2019 compared to 2018.

Shipments of finished steel products decreased 0.5%, to 1.367 million tons in 2019, compared to 1.374 million tons in 2018.

### *Cost of Sales*

Our cost of sales decreased 5%, from Ps. 15,716 million in 2018 to Ps. 14,935 million in 2019, which decrease is mainly attributable to a 4% decrease in the average cost per ton of steel products sold. As a percentage of net sales, our cost of sales was 81% in 2019, compared to 77% in 2018.



### *Gross Profit*

Our gross profit decreased 25%, to Ps. 3,596 million in 2019 compared to Ps. 4,792 million in 2018. This decrease is attributable mainly to an increase of 9% in the average price of steel products sold. As a percentage of net sales, our gross profit was 19% in 2019, compared to 23% in 2018.

### *Administrative Expenses*

Our administrative expenses (including depreciation and amortization) increased 43%, to Ps. 848 million in 2019, compared to Ps. 592 million in 2018. The increase of Ps. 256 million were mainly expenses originated by the review carried out by the tax authorities.

Administrative expenses as a percentage of net sales were 5% in 2019 and 3% in 2018. Depreciation and amortization expense were Ps. 147 million in 2019 compared to Ps. 129 million in 2018.

### *Other Expense (Income), Net*

We recorded other expense, net, of Ps. 175 million in 2019, reflecting (i) an income of Ps. 3 million related to the sale of scrap, (ii) income of Ps. 6 million for recovery of insurance companies, (iii) expense of Ps. 130 million for debugging accounts and (iv) other expense, net, related to other financial operations of Ps. 54 million.

We recorded other income, net, of Ps. 11 million in 2018, reflecting (i) an income of Ps. 10 million related to the sale of scrap, (ii) income of Ps. 6 million for recovery of insurance companies, (iii) other expense of Ps. 9 million in the land treatment at Pacific Steel and (iv) other income, net, related to other financial operations of Ps. 4 million.

### *Interest Income*

We recorded an interest income of Ps. 146 million in 2019 compared to Ps. 307 million in 2018. This interest income corresponds mainly to affiliates.

### *Interest Expense*

We recorded an interest expense of Ps. 3 million in 2019, corresponding mainly to related party transactions that are eliminated in the consolidated statement of income, compared to Ps. 52 million of interest expense in 2018.

### *Foreign Exchange Gain (Loss)*

We recorded a foreign exchange loss of Ps. 628 million in 2019 compared to a foreign exchange gain of Ps. 445 million in 2018; this foreign exchange reflected the 4% appreciation of the Mexican peso against the dollar in 2019.

### *Income Tax*

In 2019, we recorded an income tax provision of Ps. 3,505 million, which included an income tax provision of Ps. 3,492 million (includes Ps. 2,733 million of the income tax derived from a review of the Tax Administration System) (SAT) and an income tax provision for deferred income taxes of Ps. 13 million. In 2018, we recorded an income tax provision of Ps. 905 million, which included an income tax provision of Ps. 497 million and an income tax provision for deferred income taxes of Ps. 408 million.

According to the Income Tax Law in Mexico, the tax rate for 2019 and thereafter is 30%.

### *Net Income*

We recorded net loss of Ps. 1,412 million in 2019, compared to net income of Ps. 4,110 million in 2018. This decrease is attributable mainly to; (i) a decrease of 9% in the average price of steel products sold, (ii) the increase of Ps. 256 million in our administrative expenses, (iii) a foreign exchange loss of Ps. 628 million in 2019 compared to Ps. 445 million of foreign exchange gain in 2018 and (iv) the increase in the provision of income taxes in 2019 to Ps. 3,505 million compared to Ps. 905 million in 2018.

**USA Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2018 and 2019**

*Net Sales*

Net sales decreased 23%, to Ps. 7,120 million in 2019 compared to Ps. 9,246 million in 2018. This decrease resulted principally from a decrease of 87,000 tons in shipments of finished steel products.

Shipments of finished steel products decreased 23%, to 298,000 tons in 2019, compared to 385,000 tons in 2018.

The average price of steel products in pesos decreased 0.5% in 2019 compared to 2018.

*Cost of Sales*

Our cost of sales decreased 17%, from Ps. 9,294 million in 2018 to Ps. 7,753 million in 2019, the decrease is mainly due to a decrease of approximately 23% in tons of shipments of finished steel products and the 8% increase in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 109% in 2019, compared to 101% in 2018.

*Gross Profit (Loss)*

Our gross loss was Ps. 632 million in 2019 compared to a Ps. 48 million gross loss in 2018. As a percentage of net sales, our gross loss was (9%) in 2019 mainly attributable to a decrease of approximately 23% in tons of shipments of finished steel products and an increase of 8%, approximately, in the average cost per ton of steel products sold, compared to a gross loss of (1%) in 2018. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of raw material purchases as a result of the time lag between the production and sales cycles.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) was Ps. 268 million in 2019, compared to Ps. 268 million in 2018.

Administrative expenses as a percentage of net sales were 4% in 2019 and 3% in 2018. Depreciation and amortization expense were Ps. 50 million in 2019 compared to Ps. 25 million in 2018.

*Other Income, Net*

We recorded other income, net, of Ps. 71 million in 2019, reflecting (i) other income, net, of Ps. 38 million for debugging accounts and (ii) other income, net, of Ps. 33 million related to other financial operations.

We recorded other income, net, of Ps. 4 million in 2018, related to other financial operations.

*Interest Income*

We recorded an interest income of Ps. 0 million in 2019 compared to Ps. 6 million in 2018.

*Interest Expense*

We recorded an interest expense of Ps. 85 million in 2019 compared to Ps. 100 million in 2018.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange gain of Ps. 3 million in 2019 compared to a foreign exchange gain of Ps. 8 million in 2018.

*Income Tax*

In 2019, we recorded an income tax profit provision of Ps. 237 million which included an income tax profit provision of Ps. 13 million and an income tax profit provision for deferred income taxes of Ps. 224 million for deferred income taxes. In 2018 we recorded an income tax provision of Ps. 7 million for deferred income taxes.

*Net loss*

We recorded a net loss of Ps. 674 million in 2019, compared to a net loss of Ps. 406 million in 2018. Our net loss in 2019 is attributable mainly to a decrease of 87,000 tons in shipments of finished steel products and an increase of 8% in the average cost of

steel products sold, compared to 2018, which impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of raw material purchases as a result of the time lag between the production and sales cycles.

**Brazil Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2018 and 2019**

*Net Sales*

Net sales increased 44% to Ps. 8,520 million in 2019 compared to Ps. 5,924 million in 2018. This increase resulted principally from an increase of 251,000 tons of shipments of finished steel products.

Shipments of finished steel products increased to 684,000 tons in 2019 compared to 433,000 tons in 2018 (including the shipment of the new plants acquired in 2018, Cariacica and Itauna

The average price of steel products in pesos decreased 9% in 2019 compared to 2018.

*Cost of Sales*

Our cost of sales increased to Ps. 7,380 million in 2019 compared to Ps. 5,553 million in 2018, which increase is mainly attributable to the increase of the shipments of finished steel products of 251,000 tons in 2019.

The average cost per ton of steel products sold decreased 16% compared to 2018. Cost of sales as a percentage of net sales was 87% in 2019, compared to 94% in 2018.

*Gross Profit*

Our gross profit was Ps. 1,140 million in 2019 compared to Ps. 371 million of gross profit in 2018. This increase in gross profit is attributable mainly to an increase of 251,000 tons of finished steel products shipped, a 9% decrease in the average price of steel products sold, and a 16% decrease in the average cost per ton of steel products sold. As a percentage of net sales, our gross profit was 13% in 2019, compared to 6% of gross profit in 2018.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) were Ps. 521 million in 2019 compared to Ps. 220 million in 2018. Operating expenses as a percentage of net sales were 6% in 2019 compared to 4% in 2018. Expenses for new companies acquired in 2018 were not for the entire year and in 2019 they were for the entire year.

Depreciation and amortization expenses were Ps. 23 million in 2019 compared to Ps. 3 million in 2018.

*Other Expense, Net*

We recorded other expense, net, of Ps. 32 million in 2019, for debugging accounts.

We did not record other expense, net, in 2018.

*Interest Expense*

We recorded an interest expense of Ps. 111 million in 2019 compared to Ps. 103 million in 2018.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange loss of Ps. 177 million in 2019 this foreign exchange loss reflected the 4% depreciation of the Brazilian real against the dollar in 2019 compared to 2018 compared to a foreign exchange loss of Ps. 603 million in 2018. This foreign exchange loss reflected the 17.1% depreciation of the Brazilian real against the dollar in 2018 compared to 2017.

*Income Tax*

In 2019 we recorded an income tax provision for deferred income taxes of Ps. 8 million compared to Ps. 160 million of income tax provision in 2018 which included an income tax provision of Ps. 15 million and an income tax profit provision for deferred income taxes of Ps. 175 million.





### *Net Income (Loss)*

We recorded a net income of Ps. 291 million in 2019 compared to a net loss of Ps. 395 million in 2018. The net income for the year 2019 compared to the net loss in 2018 is mainly as a result of (i) an increase of 251,000 tons of finished steel products shipped, a 9% decrease in the average price of steel products sold, and a 16% decrease in the average cost per ton of steel products sold, (ii) the decrease in the foreign exchange loss in 2019 to Ps. 177 million compared to Ps. 603 million in 2018.

### **Consolidated Statements of Comprehensive Income Comparison of Years Ended December 31, 2017 and 2018**

#### *Net Sales*

Net sales increased 24%, to Ps. 35,678 million in 2018 compared to Ps. 28,700 million in 2017. This increase resulted primarily from a 19% increase in the average price per ton of steel products and an increase of 101,000 tons in shipments of finished steel products. Total sales outside of Mexico increased 27%, to Ps. 15,257 million in 2018 compared to Ps. 11,987 million in 2017. Total sales in Mexico increased 22%, from Ps. 16,713 million in 2017 to Ps. 20,421 million in 2018.

Shipments of finished steel products increased 4.8%, to 2.192 million tons in 2018, compared to 2.091 million tons in 2017. Total sales volume outside of Mexico of finished steel products increased 14.8% to 0.853 million tons in 2018, compared to 0.743 million tons in 2017, while total Mexican sales decreased 0.7%, from 1.348 million tons in 2017, compared to 1.339 million tons in 2018. The average price of steel products increased 18.6% in 2018 compared to 2017.

#### *Cost of Sales*

Our cost of sales increased 27%, from Ps. 23,994 million in 2017 to Ps. 30,563 million in 2018, which increase is mainly attributable to a 21.5% increase in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 86% in 2018 and 84% in 2017. We experienced higher cost of sales at our Republic facilities, mainly as a result of (i) higher labor costs corresponding to our U.S. operations, and (ii) the higher cost of raw materials, which our U.S. operations use in the production of SBQ steel. Hourly wages at our Mexican operations were approximately U.S.\$1.9 (Ps. 36) per hour in 2018 and U.S.\$ 1.6 (Ps. 31) per hour in 2017, compared to U.S.\$55.3 (Ps.1,087) and U.S.\$56.4 (Ps. 1,113) per hour for 2018 and 2017, respectively, at our U.S. operations. Although raw material costs are similar in the United States and Mexico, our U.S. operations produce higher value-added SBQ steel, which requires more expensive raw materials such as chromium, nickel, molybdenum and other alloys. Our Mexican operations require these alloys to a lesser extent, because they produce commodity steel as well as SBQ steel.

#### *Gross Profit*

Our gross profit was Ps. 5,115 million in 2018 compared to a Ps. 4,706 million gross profit in 2017. This increase in gross profit is attributable mainly to an increase of 101,000 tons of finished steel products shipped, a 18.6% increase in the average price of steel products sold, and a 21.5% increase in the average cost per ton of steel products sold. As a percentage of net sales, our gross profit was 14% in 2018 and our gross profit was 16% in 2017.

#### *Administrative Expenses*

Our administrative expenses (including depreciation and amortization) decreased 13%, to Ps. 1,080 million in 2018, compared to Ps. 1,239 million in 2017. The variation of Ps. 159 million corresponds to the decrease of Ps. 162 million in the Mexican segment, the increase of Ps. 11 million in the United States segment and a decrease of Ps. 8 million in the Brazil segment. In 2018 and 2017, our general and administrative expenses included Ps. 10 million of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Republic and Ps. 125 million, of amortization of the tangible and intangible assets registered principally in connection with the acquisition of Grupo San, respectively.

Administrative expenses as a percentage of net sales were 3% in 2018 and 4% in 2017. Depreciation and amortization expense were Ps. 157 million in 2018 compared to Ps. 285 million in 2017.

#### *Other (Income) Expense, Net*

We recorded other income, net, of Ps. 15 million in 2018, reflecting (i) income of Ps. 10 million related to the sale of scrap, (ii) expense of Ps. 9 million in land remediation at Pacific Steel, (iii) income of Ps. 6 million for recovery of insurance companies and (iv) income related to other financial operations of Ps. 8 million.

We recorded other income, net, of Ps. 7 million in 2017, reflecting (i) income of Ps. 10 million related to the sale of scrap, (ii) expense of Ps. 7 million in land remediation at Pacific Steel and (iii) income related to other financial operations of Ps. 4 million.

#### *Interest Income*

We recorded an interest income of Ps. 313 million in 2018 compared to Ps. 252 million in 2017. This increase is attributable mainly to higher interest rates in the U.S. and Mexico.

#### *Interest Expense*

We recorded an interest expense of Ps. 16 million in 2018 compared to Ps. 54 million in 2017. This decrease is attributable mainly to the lesser use of financial services.

#### *Foreign Exchange Loss (Gain)*

We recorded a foreign exchange loss of Ps. 147 million in 2018 compared to a foreign exchange loss of Ps. 654 million in 2017; this foreign exchange loss reflected the 0.4% appreciation of the peso against the dollar in 2018, compared to the 4.5% appreciation of the Mexican peso against the dollar in 2017.

#### *Income Tax*

In 2018 we recorded an income tax provision of Ps. 752 million, which included an income tax provision of Ps. 511 million and an income tax provision for deferred income taxes of Ps. 241 million. In 2017 we recorded an income tax provision of Ps. 1,123 million, which included an income tax provision of Ps. 45 million and an income tax provision for deferred income taxes of Ps. 1,078 million.

Our effective income tax rates for 2018 and 2017 were 16.9% and 38.9%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2018 and years thereafter is 30%. We have implemented the practice of recognizing the benefit derived from the amortization of tax losses for the period in which such losses are actually amortized. In 2018 and 2017, we amortized tax losses which generated a benefit on income tax of approximately Ps. 1,238 million and Ps. 115 million, respectively. These effects caused our effective tax rates during 2018 to be lower than the statutory tax rate.

#### *Net Income (Loss)*

We recorded net income of Ps. 3,447 million in 2018, compared to net income of Ps. 1,895 million in 2017. The increase in net income for the year 2018 compared to 2017 is mainly as a result of (i) an increase of 101,000 tons of finished steel products shipped, a 18.6% increase in the average price of steel products sold, and a 21.5% increase in the average cost per ton of steel products sold, (ii) in the year 2017 we had Ps. 198 million of interest income compared to the year 2018 where we had Ps. 297 million of interest income, net, (iii) the decrease in the foreign exchange loss in 2018 to Ps. 151 million compared to Ps. 654 million in 2018 and (iv) the decrease in the provision of income taxes in 2018 to Ps. 752 million compared to Ps. 1,123 million in 2017.

### **Mexican Segment Statements of Comprehensive Income Comparison of Years Ended December 31, 2017 and 2018**

#### *Net Sales*

Net sales increased 20%, to Ps. 20,508 million in 2018 compared to Ps. 17,125 million in 2017. This increase resulted principally from a 22% increase in the average price per ton of steel products in 2018 compared to 2017.

Shipments of finished steel products decreased 2%, to 1.374 million tons in 2018, compared to 1.404 million tons in 2017.

#### *Cost of Sales*

Our cost of sales increased 18%, from Ps. 13,340 million in 2017 to Ps. 15,716 million in 2018, which increase is mainly attributable to a 20% increase in the average cost per ton of steel products sold. As a percentage of net sales, our cost of sales was 77% in 2018, compared to 78% in 2017.

### *Gross Profit*

Our gross profit increased 27%, to Ps. 4,792 million in 2018 compared to Ps. 3,785 million in 2017. This increase is attributable mainly to an increase of 22% in the average price of steel products sold. As a percentage of net sales, our gross profit was 23% in 2018, compared to 22% in 2017.

### *Administrative Expenses*

Our administrative expenses (including depreciation and amortization) decreased 21%, to Ps. 592 million in 2018, compared to Ps. 754 million in 2017. In 2018 our general and administrative expenses included Ps. 0 million of amortization of the tangible and intangible assets and in 2017 our general and administrative expenses included Ps. 103 million, of amortization of tangible and intangible assets registered principally in connection with the acquisition of Grupo San.

Administrative expenses as a percentage of net sales were 3% in 2018 and 4% in 2017. Depreciation and amortization expense were Ps. 129 million in 2018 compared to Ps. 211 million in 2017.

### *Other Expense (Income), Net*

We recorded other income, net, of Ps. 11 million in 2018, reflecting (i) an income of Ps. 10 million related to the sale of scrap, (ii) income of Ps. 6 million for recovery of insurance companies, (iii) other expense of Ps. 9 million in the land treatment at Pacific Steel and (iv) other income, net, related to other financial operations of Ps. 4 million.

We recorded other expense, net, of Ps. 99 million in 2017, reflecting (i) an income of Ps. 10 million related to the sale of scrap, (ii) other expense of Ps. 108 million related to the transportation and other expenses of acquired equipment by the Tlaxcala plant from the Republic plant, (iii) other expense of Ps. 8 million in the land remediation at Pacific Steel and (iv) other income, net, related to other financial operations of Ps. 7 million.

### *Interest Income*

We recorded an interest income of Ps. 307 million in 2018 compared to Ps. 252 million in 2017. This increase is attributable mainly to higher interest rates in the U.S. and Mexico.

### *Interest Expense*

We recorded an interest income of Ps. 52 million in 2018, corresponding mainly to related party transactions that are eliminated in the consolidated statement of income, compared to Ps. 7 million of interest expense in 2017.

### *Foreign Exchange Gain (Loss)*

We recorded a foreign exchange gain of Ps. 445 million in 2018 compared to an exchange loss of Ps. 1,292 million in 2017; this foreign exchange reflected the 0.4% appreciation of the Mexican peso against the dollar in 2018.

### *Income Tax*

In 2018, we recorded an income tax provision of Ps. 905 million, which included an income tax provision of Ps. 497 million and an income tax provision for deferred income taxes of Ps. 408 million. In 2017, we recorded an income tax provision of Ps. 787 million, which included an income tax provision of Ps. 131 million and an income tax provision for deferred income taxes of Ps. 656 million.

According to the Income Tax Law in Mexico, the tax rate for the year 2018 and years thereafter is 30%.

### *Net Income*

We recorded net income of Ps. 4,110 million in 2018, compared to net income of Ps. 1,098 million in 2017. This increase is attributable mainly to; (i) an increase of 22% in the average price of steel products sold, and (ii) a foreign exchange gain of Ps. 445 million in 2018 compared to Ps. 1,292 million of foreign exchange loss in 2017.

**USA Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2017 and 2018**

*Net Sales*

Net sales increased 10%, to Ps. 9,246 million in 2018 compared to Ps. 8,371 million in 2017. This increase resulted principally from an increase of 11% in the average price of steel products.

Shipments of finished steel products decreased 0.5%, to 385,000 tons in 2018, compared to 387,000 tons in 2017.

The average price of steel products in Mexican pesos increased 11% in 2018 compared to 2017.

*Cost of Sales*

Our cost of sales increased 19%, from Ps. 7,814 million in 2017 to Ps. 9,294 million in 2018, which increase is mainly attributable to an increase of 20%, approximately, in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 101% in 2018, compared to 93% in 2017.

*Gross Profit (Loss)*

Our gross loss was Ps. 48 million in 2018 compared to a Ps. 557 million gross profit in 2017. As a percentage of net sales, our gross loss was (1%) in 2018 mainly attributable to an increase of 20%, approximately, in the average cost per ton of steel products sold, compared to a 7% gross profit in 2017. The selling steel prices throughout the year also impacted our margin since prices for steel products charged to our customers were gradually lower than our costs of raw material purchases as a result of the time lag between the production and sales cycles.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) increased 4%, to Ps. 268 million in 2018, compared to Ps. 257 million in 2017.

Administrative expenses as a percentage of net sales were 3% in 2018 and 3% in 2017. Depreciation and amortization expense were Ps. 25 million in 2018 compared to Ps. 37 million in 2017.

*Other Income, Net*

We recorded other income, net, of Ps. 4 million in 2018, related to other financial operations.

We recorded other income, net, of Ps. 106 million in 2017, reflecting (i) other income, net, of Ps. 108 million related to the sale of plant and equipment by Republic to the Tlaxcala plant and (ii) other expense, net, of Ps. 2 million related to other financial operations.

*Interest Income*

We recorded an interest income of Ps. 6 million in 2018 compared to Ps. 0 million in 2017.

*Interest Expense*

We recorded an interest expense of Ps. 100 million in 2018 compared to Ps. 51 million in 2017.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange gain of Ps. 7 million in 2018 compared to an exchange loss of Ps. 26 million in 2017.

*Income Tax*

In 2018 we recorded an income tax provision of Ps. 7 million for deferred income taxes. In 2017 we recorded an income tax provision of Ps. 322 million for deferred income taxes.

*Net Income (Loss)*

We recorded a net loss of Ps. 406 million in 2018, compared to a net income of Ps. 6 million in 2017. Our net loss in 2018 is attributable mainly to an increase of 20% in the average cost of steel products sold, compared to 2017, which impacted our margin since

prices for steel products charged to our customers were gradually lower than our costs of raw material purchases as a result of the time lag between the production and sales cycles.

**Brazil Segment**  
**Statements of Comprehensive Income**  
**Comparison of Years Ended December 31, 2017 and 2018**

*Net Sales*

Net sales increased to Ps. 5,924 million in 2018 compared to Ps. 3,204 million in 2017. This increase resulted principally from an increase of 133,000 tons of shipments of finished steel products and the 28% increase in the average price per ton of steel products.

Shipments of finished steel products increased to 433,000 tons in 2018 (including the shipment of the new plants acquired in 2018, which began to consolidate operations in May 2018: Cariacica with 115,000 tons and Itauna with 41,000 tons) compared to 300,000 tons in 2017.

*Cost of Sales*

Our cost of sales increased to Ps. 5,553 million in 2018 compared to Ps. 2,840 million in 2017, which increase is mainly attributable to the increase of the shipments of finished steel products of 133,000 tons in 2018 and a 35% increase in the average cost per ton of steel products sold compared to 2017. Cost of sales as a percentage of net sales was 94% in 2018, compared to 89% in 2017.

*Gross Profit*

Our gross profit was Ps. 371 million in 2018 compared to Ps. 364 million of gross profit in 2017. The gross profit in the year 2018 remains practically the same as in 2017 due to the fact that the increase by 133,000 tons shipped and the increase in prices of 28% in the tons shipped did not offset the increase of 35% in the average cost of steel products sold. As a percentage of net sales, our gross profit was 6% in 2018, compared to 11% of gross profit in 2017.

*Administrative Expenses*

Our administrative expenses (including depreciation and amortization) were Ps. 220 million in 2018 compared to Ps. 228 million in 2017. Operating expenses as a percentage of net sales were 4% in 2018 compared to 7% in 2016.

Depreciation and amortization expenses were Ps. 3 million in 2018 compared to Ps. 36 million in 2017.

*Other Expense, Net*

We did not record other expense, net, in 2018 or 2017.

*Interest Expense*

We recorded an interest expense of Ps. 103 million in 2018 compared to Ps. 65 million in 2017.

*Foreign Exchange Gain (Loss)*

We recorded a foreign exchange loss of Ps. 603 million in 2018 compared to an exchange gain of Ps. 2 million in 2017. This foreign exchange loss reflected the 17.1% depreciation of the Brazilian real against the dollar in 2018 compared to 2017.

*Income Tax*

In 2018 we recorded an income tax profit provision of Ps. 160 million, which included an income tax provision of Ps. 15 million and an income tax profit provision for deferred income taxes of Ps. 175 million, compared to Ps. 13 million of income tax provision in 2017.

*Net Income (Loss)*

We recorded a net loss of Ps. 395 million in 2018 compared to Ps. 59 million of net income in 2017. Our net loss in 2018 is attributable mainly to a foreign exchange loss of Ps. 603 million in 2018 compared to an exchange gain of Ps. 2 million in 2017.

## Critical Accounting Policies

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

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

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

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

Management has no near-term plans to restart the facility. The expectation is that it will be restarted when market conditions improve substantially, particularly in the oil and gas industry. We have property, plant and equipment with a net book value of approximately U.S.\$41.5 (Ps. 827 million) as of December 31, 2020 and U.S.\$41.5 million (Ps. 783 million) as of December 31, 2019, pertaining to the Lorain, Ohio, facility after recording the impairment charge of U.S.\$130.7 million (Ps. 2,701 million) in 2015 (the impairment charge did not impact the cash flows, as it was not a cash expenditure). Management further assessed if there were any impairments at the Company's other asset groups in accordance with IFRS and determined that as of December 31, 2020, no other asset groups were impaired based on current projections. No further impairment was considered necessary or appropriate.

As discussed in note 9 to our audited financial statements included elsewhere in this Annual Report, management periodically evaluates the potential degradation of coke inventory to determine whether it remains suitable as a blast furnace input for our operations or, alternatively, should be made available for sale to other companies using other blast furnaces. Each year we hire a third-party expert to evaluate the impairment of coke and determine its fair value. The fair value of coke has been decreasing, as can be seen in the following table, and its valuation is impacted by the exchange rate of the peso against the U.S. dollar:

		Net Tons	Metric Tons	U.S.\$ Cost <sup>(1)</sup>	Cost U.S.\$/MT	Market U.S.\$/MT <sup>(2)</sup>	Market Value <sup>(1)</sup>
12/31/2018	Coke inventory	150,509	136,541	U.S.\$99,932,739.59	U.S.\$731.88	U.S.\$355.00	U.S.\$48,463,173.95
2019	Sale of coke	0	0	0			
12/31/2019	Coke inventory	150,509	136,541	U.S.\$99,932,739.59	U.S.\$731.88	U.S.\$290.00	U.S.\$39,602,543.72
2020	Sale of coke	0	0	0			
12/31/2020	Coke inventory	150,509	136,541	U.S.\$99,932,739.59	U.S.\$731.88	U.S.\$350.00	U.S.\$47,789,350.00

-1 In 2020, the applicable exchange rate was 19.95 pesos per 1 U.S. dollar. In 2019, the applicable exchange rate was 18.87 pesos per 1 U.S. dollar. In 2018, the applicable exchange rate was 19.66 pesos per 1 U.S. dollar.

-2 Market price of Furnace coke quoted by Platts "SBB STEEL MARKETS DAILY" - 66/65 CCSR - FOB N.China

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

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

Other intangible assets are mainly comprised of trademarks, customer list and non-competition agreements. When impairment indicators exist, or at least annually for indefinite live intangibles, we determine our projected revenue streams over the estimated useful life of the asset. In order to obtain undiscounted and discounted cash flows attributable to each intangible asset, such revenues are adjusted for operating expenses, changes in working capital and other expenditures as applicable, and discounted to net present value using the risk adjusted discount rates of return. As of December 31, 2019 and 2020, there was no impairment charge to other intangible assets.

As a result of the downturn in the construction industry in Mexico during 2009 and the negative impact the downturn had on our operations mainly at the San Luis facilities, in which goodwill resides we adjusted the key assumptions used in the valuation model. As of December 31, 2019 and 2020, there was no impairment charge related to the San Luis facilities.

As of December 31, 2020, the main key assumptions used in the valuation models of the San Luis reporting unit are as follows:

- discount rate: 9.5%
- sales: an increase of 46.68% was estimated in sales volume, considering that the increase in operations of the plant for fabrication of industrial wires will be consolidated; for sales prices, only has been considered an increase proportional to the estimated inflation rate has been considered. For the valuation model purposes, starting in the year 2022, the same volumes and sales prices determined for the 2021 budget had been considered; this is, that the figures are maintained constant for the years.

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



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

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

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

## **New Accounting Pronouncements**

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

### *Amendments applicable as of 2021*

In August 2020, the IASB issued a document entitled “Reform of the Interest Rate Benchmark - Phase 2, which modify IFRS 4.- Insurance Contracts, IFRS 7.- Financial Instruments: Disclosures, IFRS 9.- Financial Instruments, IFRS 16.- Leases and IAS 39.- Financial Instruments: Recognition and Measurement. Amendments for Phase 2 introduce matters that could affect financial information during the reform of a benchmark interest rate, including the effects of changes in contractual cash flows or hedging relationships arising from the replacement of a benchmark interest rate with an alternative interest rate. The Phase 2 amendment objectives are:

- Assist companies in applying Standards when changes are made to contractual cash flows or hedging relationships because of the interest benchmark rate reform; and
- Providing useful information to users of financial statements.

### *Amendments applicable as of 2022*

In May 2020, the following amendments were issued:

- Reference to the conceptual framework:  
IFRS 3.- Business Combinations, the amendments correspond only to references to the conceptual framework.
- Onerous contracts: Cost of fulfilling a contract:  
IAS 37.- Provisions, Contingent Liabilities and Contingent Assets; this standard defines an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.
- Property, plant and equipment: Revenues from the use previously foreseen  
IFRS 16.- Property, plant and equipment, this amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- Annual improvements to IFRS Standards 2018-2020 were issued, effective January 1, 2022:  
IFRS 1 First-time Adoption of International Financial Reporting Standards - some options are established for the application of the Standards to Subsidiaries as a first-time adopter of IFRS

IFRS 9 Financial Instruments - this IFRS establishes that a substantial modification of the current conditions of an existing financial liability or part thereof shall be accounted for as a cancellation of the original financial liability and the recognition of a new financial liability. This amendment establishes that the conditions will be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability

*Amendments applicable as of 2023*

In January 2020, the IASB issued an amendment to IAS 1.- Presentation of Financial Statements, which clarifies that in order to reclassify a current liability as a non-current liability, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. At the effective date of this amendment, July 2020, it was deferred until January 1, 2023.

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

**B. Liquidity and Capital Resources**

On December 31, 2020, our total consolidated debt was Ps. 6,020 million (U.S.\$302,000) of 8 7/8% medium-term notes (“MTNs”) due 1998, which remained outstanding after we conducted exchange offers for the MTNs in October 1997 and August of 1998. We could not identify the holders of such MTNs at the time of the exchange offers and as a result such MTNs, which matured in 1998, have not been paid and remain outstanding.

On September 6, 2006, Industrias CH and its subsidiaries and affiliates made available a line of credit in favor of Republic. Effective January 1, 2009, Industrias CH reduced the interest rate from 5.23% to 0.25% per annum. As of December 31, 2018, the credits to Industrias CH and its subsidiaries and affiliates were liquidated and as of December 31, 2018, Republic had Ps. 985 million (comprised of U.S.\$38 million and Ps. 227 million, including interest), respectively, outstanding under this line of credit. See Note 18 to our consolidated financial statements included elsewhere herein.

We depend heavily on cash generated from operations as our principal source of liquidity. Other sources of liquidity have included financing made available to us by our parent Industrias CH (primarily in the form of equity or debt, substantially all of which was subsequently converted to equity), primarily for the purpose of repaying third party indebtedness, as well as limited amounts of vendor financing. On February 8, 2007, we completed a public offering of ADSs and series B shares and raised cash proceeds of approximately Ps. 2,421 million (U.S.\$214 million). As of December 31, 2018, we had cash and cash equivalents of Ps. 6,987 million and as of December 31, 2019 we had cash and cash equivalents of Ps. 7,446 million. As of December 31, 2020 we had cash and cash equivalents of Ps. 7,728 million. We believe that this amount of cash generated from operations will be sufficient to satisfy our currently anticipated cash requirements, including our currently anticipated capital expenditures.

Our principal use of cash has generally been to fund our operating activities, to acquire businesses and to fund our capital expenditure programs. The following is a summary of cash flows for the three years ended December 31, 2018, 2019 and 2020:

**Principal Cash Flows**

	<b>Years ended December 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
	(millions of pesos)		
Funds provided by operating activities	3,224	1,043	3,634
Funds used in investing activities	(820)	(107)	(833)
Funds used in financing activities	(2,641)	(211)	(2,086)

Our net funds provided by operations were Ps. 3,634 million in 2020 compared to Ps. 1,043 million of net funds provided by operations in 2019. The decrease of Ps. 1,110 million in the net funds provided by operations between 2019 and 2018 originated mainly from the net loss for the year 2019. Our net funds provided by operations were Ps. 3,224 million in 2018 compared to Ps. 3,184 million of net funds provided by operations in 2017. The increase of Ps. 40 million in the net funds provided by operations between 2018 and 2017 originated mainly from the higher net income for the year 2018.

We attribute our net funds used in investing activities primarily to the acquisition of new facilities, property, plant and equipment and other non-current assets. Our net funds used in investing activities were Ps. 833 million in 2020 compared to Ps. 107 million in 2019. In 2020 the acquisition of property, plant and equipment was Ps.951 million, we had interest income of Ps. 108 million and other non-current assets used of Ps. 11 million. Our net funds used in investing activities were Ps. 107 million in 2019

compared to Ps. 820 million in 2018. In 2019, the acquisition of property, plant and equipment was Ps. 1,271 million, we received payments for loans granted to related parties for Ps. 1,071 million, we had interest income of Ps. 145 million and other non-current assets used of Ps. 52 million.

Our net funds used by financing activities in 2020 were Ps. 2,086 million, compared to Ps. 211 million used by financing activities in 2019. In 2020, there was an increase of Ps. 42 million in the buy-back of our own shares, we paid dividends of Ps. 1,990 and we paid interest of Ps. 54 million. Our net funds used by financing activities in 2019 were Ps. 211 million, compared to Ps. 2,641 million used by financing activities in 2018. In 2019, there was an increase of Ps. 156 million in the buy-back of our own shares, and we paid interest of Ps. 55 million.

As of December 31, 2020, we have the following commitments for capital expenditures:

In January 2013, the Company entered into a 15-year product supply agreement with Air Products and Chemicals, Inc. The agreement required Air Products and Chemicals to construct and install a plant for the production of oxygen, nitrogen and argon gas on the premises of the Lorain, Ohio facility. In August of 2016, the Company entered into an agreement with Air Products and Chemicals, Inc. whereby the plant was purchased for U.S.\$30 million (Ps. 592 million) and the supply agreement cancelled in its entirety. The purchase price is repayable over 6 years in equal monthly installments of U.S.\$0.4 million (Ps. 7.9 million) after an initial payment of U.S.\$1.2 million (Ps. 23 million) and carries no interest cost. Obligations are secured by certain physical assets (operating, manufacturing, and storage equipment, buildings and machinery) at the Company's Canton facility.

In January 2018, the Company entered into a contract with the supplier ECOM, LTDA, for an amount of U.S.\$6.3 million (Ps. 124 million) for the purchase of 10,000 MWH of energy per month, for its subsidiary GV do Brasil Industria e Comercio de Aço LTDA. The monthly payments expire 6 days after the closing date of the month. The contract ended in February 2020.

On February 22, 2018, a contract was signed with Primental Technologies of Italy, the United States and Mexico for the reconstruction of the rolling mill and the supply of a new reheating furnace for the Mexicali plant, which will increase capacity of finished product manufacturing from 17,500 to 22,500 tons per month. An advance of 20% has already been paid for U.S.\$1.67 million (Ps. 33 million) and the placement of the letters of credit is in process. The term of execution of the project is 16 months. The budget already exercised for 2020 corresponds to U.S.\$ 24 million. The last adjustments are being made to start the production of bars from January 2021, rebar in May and profiles in June.

In order to maintain and increase the continuity and quality of the electric supply in all the Group's clans, the scheme changed from Basic Supply (SSB) to Qualified Supply Service (SSC), with the provision of acquiring energy in the wholesale electricity market. With the implementation of this project, which only requires modernization of the set of equipment that records the consumption measurements of the electrical substations of each plant, we are seeking to achieve a more efficient, safe, clean and transparent electrical service and more competitive prices than our current pricing. We estimate the cost of this project is U.S.\$1.850 million, which we expect to complete by November 2021.

### C. Research and Development, Patents and Licenses

The San Luis facilities are registered with the Mexican Institute of Industrial Property ("IMPI") for the trademarks "SAN" and "Aceros San Luis." The trademark "Grupo Simec" is registered with the IMPI. On October 11, 2017, Simec International 6, S.A. de C.V., concluded the registration of the patent "*Fabricación de Aceros de Mecanizado Fácil con Plomo en la Máquina de Colada Continua*" (Manufacture of Easy Machining Steels with Lead in Continuous Casting Machine) in the IMPI.

### D. Trend Information

In the first quarter of 2021, net sales increased by 31% as compared to the fourth quarter of 2020. Sales in tons of finished steel increased by 13% in the first quarter of 2021 as compared to the fourth quarter of 2020. Prices of finished products sold in the first quarter of 2021 increased by approximately 16% as compared to the fourth quarter of 2020.

### E. Off-Balance Sheet Arrangements

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

### F. Tabular Disclosure of Contractual Obligations

The table below sets forth our significant short-term and long-term contractual obligations as of December 31, 2020:

**Maturity**

	<b>Less than 1</b>			<b>More than</b>	
	<b>year</b>	<b>1– 3 years</b>	<b>3– 5 years</b>	<b>5 years</b>	<b>Total</b>
	(millions of pesos)				
Short-term debt obligations	6	—	—	—	6
Long-term contractual obligations (see paragraph below)	1		—	—	1
Total	7		—	—	7

Republic leased certain equipment, office space and computers through operating contracts under non-cancelable operating leases. These lease contracts expired during 2020. During 2020 and 2019, the expenses for operating leases were Ps. 0 million (U.S.\$0.0 million) and Ps. 5.8 million (U.S.\$0.3 million), respectively. As of December 31, 2019, total future minimum lease payments under non-cancelable operating leases are Ps. 0.1 million (U.S.\$0.006 million) in 2020. Currently there are no additional obligations after 2020.

In January 2013, Republic entered into an agreement with EnerNOC which enables Republic to receive payments for reducing the electricity consumption during a dispatch declared by PJM Interconnection as an emergency. The agreement is for 5 years, effective January 31, 2013 and expired on May 31, 2018. The agreement was extended in 2018 through May 31, 2021. Republic recognized income of Ps. 21.9 million (U.S.\$1.1 million) and of Ps. 34.7 million (U.S.\$1.8 million) from this agreement in 2020 and in 2019, respectively.

**G. Safe Harbor**

All information that is not historical in nature and disclosed under Item 5. “Operating and Financial Review and Prospects” is deemed to be a forward-looking statement. See “Forward Looking Statements.”

**Item 6. Directors, Senior Management and Employees****A. Directors and Senior Management****Our Board of Directors**

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

*Election of the Board of Directors*

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

The current members of our board of directors were nominated and elected to such position at the 2020 general meeting of shareholders as proposed by Industrias CH. We expect that Industrias CH will be in a position to continue to elect the majority of our directors and to exercise substantial influence and control over our business and policies and to influence us to enter into transactions with Industrias CH and affiliated companies. However, our by-laws provide that at least 25% of our directors must be independent from us and our affiliates, and our board of directors has passed a resolution requiring the approval of at least two independent directors for certain transactions between us and our affiliates which are not our subsidiaries.

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

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



*Authority of the Board of Directors*

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

- our general strategy;
- annual approval of the business plan and the investment budget;
- capital investments not considered in the approved annual budget for each fiscal year;
- proposals to increase our capital or that of our subsidiaries;
- with input from the Audit Committee, on an individual basis: (i) any transactions with related parties, subject to certain limited exceptions, (ii) our management structure and any amendments thereto, and (iii) the election of our chief executive officer, his compensation and removal for justified causes; (iv) our financial statements and those of our subsidiaries, (v) unusual or non-recurrent transactions and any transactions or series of related transactions during any calendar year that involve (a) the acquisition or sale of assets with a value equal to or exceeding 5% of our consolidated assets or (b) the giving of collateral or guarantees or the assumption of liabilities, equal to or exceeding 5% of our consolidated assets, and (vi) contracts with external auditors and the chief executive officer annual report to the shareholders' meeting;
- calling shareholders' meetings and acting on their resolutions;
- any transfer by us of shares in our subsidiaries;
- creation of special committees and granting them the power and authority, provided that the committees will not have the authority which by law or under our by-laws is expressly reserved for the board of directors or the shareholders;
- determining how to vote the shares that we hold in our subsidiaries; and
- the exercise of our general powers in order to comply with our corporate purpose.

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

*Duty of Care and Duty of Loyalty*

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

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

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

Liability actions for damages and losses resulting from the violation of the duty of care or the duty of loyalty may be exercised solely for our benefit and may be brought by us, or by shareholders representing 5% or more of our capital stock, and

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

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

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

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

Name	Director Since
Rufino Vigil González	2001
Raúl Arturo Pérez Trejo	2003
Luis García Limón	2011
Rodolfo García Gómez de Parada	2001
Alfonso Barragán Galindo	2019

#### *Biographical Information of our Board of Directors*

**Alfonso Barragán Galindo.** Mr. Barragán was born in 1953. He is an independent director for purposes of Mexican law and has been appointed to our board of directors and the Audit Committee in 2019. Mr. Barragán is a labor lawyer and since 1978 has worked at La Comer, a group of self-service stores for which he is the Director of the Legal Department since 2016.

**Rodolfo García Gómez de Parada.** Mr. García was born in 1953. He has been a member of our board of directors since 2001 and is an independent director for purposes of Mexican law. He has been the tax advisor of Industrias CH since 1991 and also serves as member of the board of directors of a group of retail stores since 1990.

**Luis García Limón.** Mr. García was born in 1944. He is our chief executive officer and has been a member of our board of directors since 2011. From 1982 to 1990 he was general director of Compañía Siderúrgica de Guadalajara, S.A. de C.V. ("CSG"), from 1978 to 1982 he was Operation Director of CSG, from 1974 to 1978 he was general manager of Moly Cop and Pyesa, and from 1969-1974 he was Engineering Manager of CSG. In addition, from 1967 to 1969 Mr. García was the director of electrical installation of a construction company.

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

**Rufino Vigil González.** Mr. Vigil was born in 1948. He is currently the chairman of our board of directors and our chief executive officer and has been a member of the board of directors since 2001. Since 1973, Mr. Vigil has been chief executive officer of Operadora de Manufacturera de Tubos, S.A. de C.V., a steel related products corporation. From 1988 to 1993, Mr. Vigil was a member of the board of directors of a Mexican investment bank and from 1971 to 1973 he was a construction corporation manager. In December 2019 he was appointed general director.

#### **Executive Officers**

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

Name	Position	Position Held Since
Rufino Vigil González	Chief Executive Officer	2001
Mario Moreno Cortez	Coordinator of Finance	2012
Juan José Acosta Macías	Chief Operating Officer	2004





**Rufino Vigil González.** Mr. Vigil was born in 1948. He is currently the chairman of our board of directors and our chief executive officer and has been a member of the board of directors since 2001. Since 1973, Mr. Vigil has been chief executive officer of Operadora de Manufacturera de Tubos, S.A. de C.V., a steel related products corporation. From 1988 to 1993, Mr. Vigil was a member of the board of directors of a Mexican investment bank and from 1971 to 1973 he was a construction corporation manager. In December 2019 he was appointed general director.

**Mario Moreno Cortez.** Mr. Moreno was born in 1968. He is currently our Finance coordinator. From 1998 to 2010, he was the general accountant within the main subsidiaries of Grupo Simec. Previously Mr. Moreno worked in various departments of the financial area within certain of our principal subsidiaries.

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

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

#### **Role of Mr. Sergio Vigil González:**

Mr. Sergio Vigil González, the brother of our controlling shareholder and our chairman and Chief Executive Officer, Rufino Vigil González, is the chief executive officer of Industrias CH, which, together with its wholly-owned subsidiaries, currently hold approximately 52% of our series B shares. Mr. Vigil also functions in a senior management role for the Company, although he holds no formal title at the Company. In this function, Mr. Vigil directs business strategies for the Company, negotiates potential acquisitions and directs intercompany loans, among other things. Our board of directors is aware of Mr. Vigil's role at the Company and he is formally authorized by specific authority on a case-by-case basis of our board of directors as a signatory of the Company. For example, in May 2018, Mr. Sergio Vigil executed contracts on behalf of the Company with respect to the acquisition and lease transfer of two plants in Brazil from Arcelor Mittal Brasil, S.A. Mr. Vigil does not receive any compensation for his role.

#### **B. Compensation**

For the years ended December 31, 2020 and 2019, we paid no fees to our five directors, and the aggregate compensation our executive officers earned was approximately Ps. 90.6 million and Ps. 106.6 million, respectively. We do not provide pension, retirement or similar benefits to our directors in their capacity as directors. Our executive officers are eligible for retirement and severance benefits required by Mexican law on the same terms as all other employees, and we do not separately set aside, accrue or determine the amount of our costs that is attributable to executive officers.

#### **C. Board Practices**

As described in Item 6.A above, our board of directors is responsible for managing our business. The current members of our board of directors were elected to such position at our annual ordinary shareholders' meeting held on April 23, 2021, for a term of one year. None of our directors or executive officers are entitled to benefits upon termination under their service contracts with us, except for what is due to them according to the Mexican Federal Labor Law (*Ley Federal del Trabajo*).

#### **Committees**

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

##### *Audit and Corporate Practices Committee*

Our audit and corporate practices committee ("Audit Committee") is governed by our bylaws and Mexican law. Our by-laws provide that the audit and corporate practices committee shall be at least three members, all of which must be independent directors.

The chairman of the audit and corporate practices committee is elected by our shareholders' meeting, and the board of directors appoints the remaining members.

The audit and corporate practices committee is currently composed of three members. Raúl Arturo Pérez Trejo was appointed as chairman of the audit and corporate practices committee at our annual ordinary shareholders' meeting held on April 23, 2021, and Alfonso Barragán Galindo and Rodolfo García Gómez de Parada were re-elected as members. Raúl Arturo Pérez Trejo has been ratified as the "audit committee financial expert."

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

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

Our audit and corporate practices committee met at least quarterly in 2020.

#### **D. Employees**

As of December 31, 2020, we had 4,448 employees (2,436 were employed at our Mexico facilities, of whom 1,063 were unionized, 773 were employed at Republic facilities, of whom 599 were unionized and 1,239 were employed at our Brazil plants, of whom 1,148 were unionized) compared to 4,201 employees as of December 31, 2019 (2,439 were employed at our Mexico facilities, of whom 1,071 were unionized, 836 were employed at Republic facilities, of whom 662 were unionized and 926 were employed at our Brazil plant, of whom 842 were unionized).

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

- *Guadalajara facilities*: Sindicato de Trabajadores en la Industria Siderúrgica y Similares en el Estado de Jalisco. The contract expires on February 18, 2022.
- *Mexicali facilities*: Sindicato de Trabajadores de la Industria Procesadora y Comercialización de Metales de Baja California. The contract expires on January 15, 2022.
- *Apizaco facilities*: Sindicato Nacional de Trabajadores de Productos Metálicos, Similares y Conexos de la República Mexicana. The contract expires on January 15, 2022.
- *Cholula facilities*: Sindicato Industrial "Acción y Fuerza" de Trabajadores Metalúrgicos Fundidores, Mecánicos y Conexos CROM del Estado de Puebla. The contract expires on January 31, 2022.
- *San Luis facilities*: At the Aceros San Luis facility: Sindicato de Empresas adherido a la CTM, the contract expires on January 15, 2022; and at the Aceros DM facility: Sindicato de Trabajadores de la Industria Metal Mecánica, Similares y Conexos del Estado de San Luis Potosi CTM, the contract expires on January 23, 2022.

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

Republic is the only subsidiary of the Group which offers other benefits and pension plans to their employees. Republic's benefit plans to its employees are described below.

### **Collective Bargaining Agreements**

As of December 31, 2020, 77% of Republic's workers are covered by a collective bargaining agreement with the United Steelworkers (USW) that was extended in August 2019 through August 15, 2022. The extended agreement renews all the provisions, understandings and agreements set forth in the January 1, 2012 Basic Labor Agreement. The extended agreement provides that the Company's quarterly contributions to fund the Republic Retirement VEBA Benefit Trust (the "Benefit Trust") be reduced from U.S.\$2.6 million (Ps. 51 million) to U.S.\$0.25 million (Ps. 5 million) beginning in August 15, 2016 through June 30, 2019. Effective July 1, 2019, the Company's contribution to the Benefit Trust changed to U.S.\$4.00 (Ps. 83) per hour for each hour worked by USW represented employees. Effective August 16, 2019, the Company is no longer obligated to fund the Benefit Trust.

For the Mexican operations, approximately 44% of the employees are under collective bargaining agreements, which expire as described above.

For the Brazil operations, approximately 93% of the employees are under collective bargaining agreements, with *Sindicato dos Metalúrgicos de Pindamonhangaba, Moreira César e Roseira afiliado a CUT*, which expires on August 31, 2020 (plant in Pindamonhangaba) and *Sindicato dos Trabalhadores nas Industrias Metalúrgicas, Mecânicas, de Material Elétrico e Eletrônico do Estado do Espírito Santo* (plant in Cariacica), which expires on September 30, 2021.

### **Defined Contribution Plans**

#### **Steelworkers Pension Trust**

Republic participates in the Steelworkers Pension Trust (SPT), a defined benefit multi-employer pension plan. While this plan provides defined benefits as a result of lack of information, the Company accounts for the plan as a defined contribution plan. Specifically, the plan does not maintain accounting records for purposes of IFRS presentation and does not provide enough information to allocate amounts between participating employers.

The Company's obligations to the plan are based upon fixed contribution requirements. The Company contributes a fixed dollar amount of U.S.\$1.68 (Ps. 33) per hour for each covered employee's contributory hours, as defined under the plan.

Participation in a multi-employer pension plan agreed to under the terms of a collective bargaining agreement differs from a traditional qualified single employer defined benefit pension plan. The SPT shares risks associated with the plan in the following respects:

- Contributions to the SPT by the Company may be used to provide benefits to employees of other participating employers;
- If a participating employer stops contributing to the SPT, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- If Republic chooses to stop participating in the SPT, the Company may be required to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

On March 21, 2011, the Board of Trustees of the SPT elected funding relief which has the effect of decreasing the amount of required minimum contributions in near-term years, but will increase the minimum funding requirements during later plan years. As a result of the election of funding relief, the SPT's zone funding under the Pension Protection Act may be impacted.

In addition to the funding relief election, the Board of Trustees also elected a special amortization rule, which allows the SPT to separately amortize investment losses incurred during the SPT's December 31, 2008 plan year-end over a 29 year period, whereas they were previously required to be amortized over a 15 year period.

Republic's participation in the SPT for the annual periods ended December 31, 2020 and 2019, is outlined in the table below.

Pension Fund	EIN/ Pension Plan Number	Pension Protection Act Zone Status <sup>(a)</sup>		FIP/RP Status Pending/ Implemented <sup>(b)</sup>	Republic Steel Contributions (U.S.\$ in thousands)		Surcharge Imposed <sup>(c)</sup>		Expiration of Collective Bargaining Agreement
		2020	2019		2020	2019	2020	2019	
Steelworkers Pension Trust	23-6648508/499	Green	Green	No	\$ 2,001	\$ 2,476	No	No	August 15, 2022

- (a) The zone status is based on information that Republic received from the plan and is certified by the plan's actuary. Among other factors: plans in the green zone are at least 80% funded, plans in the yellow zone are less than 80% funded, and plans in the red zone are less than 65% funded.
- (b) Indicates if a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.
- (c) Indicates whether there were charges to Republic from the plan.

Republic has not been listed in the plans' Forms 5500 as providing more than five percent of the total contributions for any plan years.

There have been no significant changes that affect the comparability of 2020 and 2019 contributions.

### VEBA Benefit Trust

Republic is required to make quarterly contributions to the VEBA Benefit Trust as determined by the terms of the USW collective bargaining agreement. The VEBA Benefit Trust is a health and welfare plan for USW retiree healthcare benefits and is not a "qualified" plan under the regulations of the Employee Retirement Income Security Act of 1974 (ERISA). Under the terms of the extended collective bargaining agreement referred to above, the Benefit Trust contributions have been reduced from U.S.\$2.6 million (Ps. 54 million) to U.S.\$0.25 million (Ps. 5 million) million per quarter, effective August 16, 2016. Effective August 16, 2019, Republic is no longer obligated to fund the Benefit Trust through the expiration of the extended agreement. For the years ended December 31, 2020 and 2019, the Company recorded expenses of Ps. 21.9 million (U.S.\$1.1 million) and Ps. 21.2 million (U.S.\$1 million), respectively, related to the Benefit Trust.

Republic recorded combined expenses of Ps. 61.8 million (U.S.\$3.1 million) and Ps. 69.5 million (U.S.\$3.6 million) for the years ended December 31, 2020 and 2019, respectively, related to the funding obligations of the Benefit Trust and SPT.

### 401(k) Plans

Republic has a defined contribution 401(k) retirement plan that covers substantially all salaried and nonunion hourly employees. This plan is designed to provide retirement benefits through company contributions and voluntary deferrals of employees' compensation. The Company funds contributions to this plan each pay period based upon the participant's age and service as of January first of each year. The amount of the Company's contribution is equal to the monthly base salary multiplied by the appropriate percentage based on age and years of service. The contribution becomes 100% vested upon completion of three years of vesting service. In addition, employees are permitted to make contributions into a 401(k) retirement plan through payroll deferrals. The Company provides a 25.0% matching contribution for the first 5.0% of payroll that an employee elects to contribute. Employees are 100% vested in both their and the Company's matching 401(k) contributions. For the years ended December 31, 2020 and 2019, the Company recorded expense of Ps. 21.9 million (U.S.\$1.1 million) and Ps. 21.2 million (U.S.\$1 million), respectively, related to this defined contribution retirement plan.

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

### Profit Sharing Plans and Incentive Compensation Plans

The labor agreement includes a profit sharing plan to which Republic is required to contribute 2.5% of its quarterly pre-tax income, as defined in the labor agreement. At the end of each year, the contribution is based upon annual pre-tax income up to U.S.\$50.0 million (Ps. 1,033 million) multiplied by 2.5%, U.S.\$50.0 million (Ps. 1,033 million) to U.S.\$100.0 million (Ps. 2,066 million) multiplied by 3.0%, and above U.S.\$100.0 million (Ps. 2,066 million) multiplied by 3.5%, less the previous payouts during the year. No expense was recorded during 2020 and 2019.

Republic has a profit sharing plan for all salaried and nonunion hourly employees. During 2020 and 2019, the profit sharing plan was based upon achieving certain inventory and shipment targets. No expense was recorded during the years ended December 31, 2020 and in 2019,

## E. Share Ownership

Industrias CH and its direct wholly-owned subsidiaries currently hold approximately 52% of our series B shares. Mr. Rufino Vigil González, our chairman and Chief Executive Officer, owned, directly or indirectly, approximately 67% of the shares of Industrias CH. Other than Mr. Rufino Vigil, each director and member of senior management beneficially owns less than 1% of our series B shares. In addition, see Item 7.A. “Major Shareholders” for the beneficial share ownership of Industrias CH.

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

As of May 24, 2021, we had 462,779,474 shares of series B common stock outstanding. Based on information available to us, we believe that, other than as described below, our officers and directors do not beneficially own any series B shares or ADSs. Accordingly, on an individual basis, and as a group, our directors and executive officers beneficially owned less than one percent of any class of our shares. None of our directors or officers holds any options to purchase series B shares, ADSs or preferred shares. Prior to June 2002, our capital stock also included series A shares. On June 5, 2002, we converted all of our series A shares to series B shares on a one-for-one basis.

Industrias CH and its direct wholly-owned subsidiaries currently hold approximately 76.92% of our series B shares. At April 23, 2021, Rufino Vigil González, the chairman of our board of directors, owned, directly or indirectly, approximately 67% of Industrias CH.

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

The following table shows the ownership of our series B shares as of December 31, 2020.

Name of Shareholder	Number of shares owned	% of shares owned
Industrias CH, S.A.B. de C.V.	275,369,337	55.3%
Tuberías Procarsa, S.A. de C.V. <sup>(1)</sup>	99,461,866	20.0%
Aceros y Laminados Sigosa, S.A. de C.V. <sup>(1)</sup>	4,377,776	0.9%
Joist Estructuras, S.A. de C.V. <sup>(2)</sup>	6,188,406	1.2%
Industrial de Herramientas CH, S.A. de C.V. <sup>(2)</sup>	2,240,628	0.5%
Public Investors	75,605,398	15.2%
Treasury Shares	34,465,803	6.9%
Total	497,709,214	100%

(1) A subsidiary of Industrias CH.

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

At May 24, 2021, 462,779,474 series B common shares were held in Mexico by approximately 331 shareholders who were record holders in Mexico and 13 were ADS record holders in the United States. The ADS represent 1,875,408 series B common shares.

### B. Related Party Transactions

We have engaged from time to time in a number of transactions with certain of our shareholders and companies that are owned or controlled, or are under common control, directly or indirectly, by our controlling shareholder, Industrias CH, S.A.B. de

C.V., or its affiliates and/or the Vigil family. These transactions were made on terms that we believe were not less favorable than those obtainable on an arm's length basis. See Note 18 to our consolidated financial statements included herein for additional information.

#### *Loans to Related Parties*

Our related party transactions include loans made to the following related parties: Perfiles Comerciales Sigosa, S.A. de C.V. ("Sigosa"), Industrias CH, Proyectos Comerciales el Ninzi, S.A. de C.V. ("Ninzi"), Operadora Compañía Mexicana de Tubos S.A de C.V., Compañía Manufacturera de Tubos, S.A. de C.V. and Compañía Laminadora Vista Hermosa, S.A. de C.V.

At December 31, 2020, there was a loan receivable from Perfiles Comerciales Sigosa, S.A. de C.V., including interests of \$ 150,233 (U.S.\$7,536,068), and a balance pending collection of \$ 142,268, as of December 31, 2019.

#### *Sigosa Loan*

In 2016, we entered into a loan arrangement with Sigosa, a subsidiary of Industrias CH. The purpose of the loan was to provide funding in connection with a strategic joint venture in the seam-welded tube business line between Tuberias Procarsa, S.A. de C.V. ("Procarsa"), a subsidiary of Industrias CH, and Quality Tube, S.A. de C.V. The funding was provided to Procarsa through a series of intercompany loans amongst subsidiaries of Industrias CH. The loan to Sigosa was memorialized under a current account agreement, dated as of November 30, 2016. The current account agreement provided that the term of the loan was indefinite but could be terminated by either party upon 30 day's written notice. In addition, the current account agreement provided that amounts advanced under the agreement would bear interest at the Interbank Interest Rate of Equilibrium (TIIE) (*Tasa de Interés Interbancaria de Equilibrio*) plus 1%, and that interest will accrue and be payable upon the final repayment and termination of the loan.

As of December 31, 2016, the total amount advanced under the Sigosa current account agreement was U.S.\$32.9 million. In January 2017, the debt was converted into Mexican pesos at the exchange rate of Ps. 21.9076 for U.S.\$1.00, resulting in an outstanding balance of Ps. 721.4 million. As of December 31, 2017, the outstanding balance was Ps. 806.4 million, consisting of outstanding principal of Ps. 721.4, and accrued interest of Ps. 85.0 million (consisting of accrued interest of Ps. 24.6 million in 2016 and Ps. 60.4 million in 2017). As of December 31, 2018, the outstanding balance of the loan was Ps. 579.0 million, resulting from payments in the amount of Ps. 297.0 million during 2018, plus an adjustment of Ps. 4.0 million related to the conversion from U.S. dollars to pesos, plus accrued interest in 2018 of Ps. 65.6 million. During 2019, payments of U.S.\$428,367 were received, resulting in a balance pending collection of U.S.\$142,268, as of December 31, 2019. In the event that Sigosa fails to repay the outstanding balance, it will be paid by Industrias CH.

#### *Ninzi Loan*

In August 2016, we entered into a loan arrangement with Proyectos Comerciales el Ninzi, S.A. de C.V., a subsidiary of Controladora VG, S.A. de C.V. ("CVG") and an affiliate of the Company. CVG is a holding company that is 100% owned by the members of the Vigil family, and is controlled by Mr. Rufino Vigil, chairman of our board of directors. In 2016, we advanced net proceeds of Ps. 1,549.4 million to Ninzi to facilitate the acquisition of companies engaged in the seam-welded tube business line. As of December 31, 2016, the outstanding balance of the loan was Ps. 1,571.0 million, which included Ps. 18.9 million of accrued interest and Ps. 2.8 million of value added tax. As of December 31, 2017, the outstanding balance of the loan was Ps. 1,695.9 million, which included Ps. 124.9 million of accrued interest. As of December 31, 2018, the balance of the outstanding loan was Ps. 376.8 million, as a result of Ps. 1,455.1 million in loan payments made by Ninzi to the Company, offset by accrued interest of Ps. 136.0 million. Interest on this loan is charged at the Interbank Interest Rate of Equilibrium (TIIE) (*Tasa de Interés Interbancaria de Equilibrio*) plus 1% and will accrue and become payable upon the final repayment and termination of the loan. While certain negotiations and due diligence of acquisitions were ongoing, Ninzi used the loan proceeds to purchase an aggregate amount of 29,007,216 shares of series B common stock in the Mexican open market. The value of the shares purchased by Ninzi increased, resulting in an unrealized gain of Ps. 125.3 million. After adding interest and taxes payable, Ninzi paid the Company Ps. 165.1 million in 2018 to provide us with the benefit of the unrealized gain. As of December 31, 2018, Ninzi did not own any series B common shares of the Company. In 2018, we had loans and collection interests with Proyectos Comerciales el Ninzi, S.A. de C.V., which were liquidated in 2019.

#### *Other Loans to Related Parties*

In 2017, we made two loans to Industrias CH. The first loan was for U.S.\$21.4 million and accrues interest at a rate of LIBOR plus 1%. The second loan was for Ps. 89.4 million and accrues interest at a rate of TIIE plus 1%. Interest will accrue and be paid upon the final repayment and termination of the loans. In 2018, we made two additional loans to Industrias CH. The first loan was for U.S.\$25.4 million and accrues interest at a rate of TIIE plus 1%. The second loan was for Ps. 186.7 million and accrues interest at a rate of TIIE plus 1%. Interest will accrue and be paid upon the final repayment and termination of the loans. The agreed interest rate 2019 for these loans is the equivalent of the Interbank interest rate plus 1 percentage point. These loans were granted in U.S. dollars and pesos. As of December 31, 2020, the outstanding amount, including interest, was Ps.\$858,510, and as of December

31, 2019, the outstanding amount was Ps.\$780,989. As of December 31, 2020, interest collected from Industrias CH was Ps.\$41,000, and as of December 31, 2019, was Ps.\$265.

In 2018, the Company entered into a loan agreement with Operadora Compañía Mexicana de Tubos S.A de C.V. for U.S.\$1.9 million. The principal balance accrued interest at a rate of LIBOR plus 1%. The outstanding principal and accrued interest on this loan was paid in full in May 2019.

In 2018, the Company entered into a loan agreement with Compañía Manufacturera de Tubos, S.A. de C.V. for U.S.\$2.2 million. The principal balance accrued interest at a rate of LIBOR plus 1%. The outstanding principal and accrued interest on this loan was paid in full in May 2019.

In 2018, the Company entered into a loan agreement with Compañía Laminadora Vista Hermosa, S.A. of C.V. for U.S.\$9.3 million. The principal balance accrued interest at a rate of LIBOR plus 1%. The outstanding principal and accrued interest on this loan was paid in full in May 2019.

The Company entered a loan agreement with Perfiles Comerciales Sigosa, S.A. of C.V. The principal balance accrued interest. The outstanding principal and accrued interest on this loan was Ps.\$150,233, and as of December 31, 2019, the outstanding amount was Ps.\$142,268.

#### *Loans from Related Parties*

We have also received loans from related parties for the purpose of financing acquisitions, debt redemptions, and bank loan amortization and interest payments. These related party transactions include loans received from the following related parties: Industrias CH, S.A.B. de C.V., Tuberias Procarsa, S.A. de C.V., Procarsa Tube and Pipe Co. and Pytsa Industrial de México, S.A. de C.V. These loans were primarily received in U.S. dollars, in an aggregate amount of approximately U.S.\$50.0 million. The term of the loans was indefinite and they all accrued interest at a rate of 0.25% per annum. As of December 31, 2017, the outstanding balances of the loans (translated to pesos) were as follows: Industrias CH, S.A.B. de C.V. in the amount of Ps. 226.8 million, Tuberias Procarsa, S.A. de C.V. in the amount of Ps. 591.8 million, Procarsa Tube and Pipe Co. in the amount of Ps. 59.6 million and Pytsa Industrial de México, S.A. de C.V. in the amount of Ps. 102.6 million. All outstanding loan balances and accrued interest were paid in full during 2018, and as of December 31, 2019, we had no outstanding loans from related parties.

#### *Purchases and Sales*

From time to time, we purchase and/or sell steel products, primarily “billet,” to Industrias CH and its affiliates. In 2018, 2019 and 2020 such purchases totaled, Ps. 373 million, Ps. 438 million, and Ps. 0 million, respectively. In addition, in 2018, 2019 and 2020 we sold Ps. 20 million, Ps. 250 million and Ps. 0 million of steel products to Industrias CH and its affiliates, respectively. We believe that terms of these transactions were not less favorable than terms that would be available on an arms-length basis.

As of December 31, 2020, we have accounts payable corresponding to the purchase of finished products from the following related parties: Aceros y Laminados Sigosa, S.A. de C.V. in the amount of Ps. 4.6 million, Industrias CH in the amount of Ps. 214.3 million, Comercializadora Sigosa, S.A. de C.V. in the amount of Ps. 102 million, Operadora de Perfiles Sigosa, S.A. de C.V. in the amount of Ps. 3.9 million, Operadora Pytsa Industrial, S.A. de C.V. in the amount of Ps. 9 million, Perfiles Comerciales Sigosa, S.A. de C.V. in the amount of Ps. 1.2 million, Compañia Manufacturera de Tubos, S.A. de C.V. in the amount of Ps. 7.4 million, Compañia Laminadora Vista Hermosa, S.A. de C.V. in the amount of Ps. 1.4 million and other related parties in the amount of Ps.2.2 million.

#### *Service Agreements*

We have service agreements with Industrias CH and certain of its affiliates, pursuant to which Industrias CH and its affiliates provide administrative, business, financial and legal services to us and our subsidiaries. The term of the service agreements are indefinite. We make payments to Industrias CH on a monthly basis. Under the service agreement, in 2018, 2019 and 2020, we paid Ps. 23 million, Ps. 24 million and Ps. 199 million, respectively, to Industrias CH.

### **C. Interests of Experts and Counsel**

Not applicable.

**Item 8. Financial Information****A. Consolidated Statements and Other Financial Information**

See Item 18. “Financial Statements” and “Index to Financial Statements.”

**Legal Proceedings***Mexico*

On January 19, 2017, we received a letter issued by the General Director of Crimes and Sanctions of the *Comisión Nacional Bancaria y de Valores* (National Banking and Securities Commission) (the “CNBV”), notifying us that certain actions in connection with the repurchase of our own shares could be contrary to the provisions of the *Ley del Mercado de Valores* (Securities Market Law) (the “LMV”). In December 2017, the General Direction of Crimes and Sanctions of the CNBV fined the Company with the amount of Ps. 545,000. Grupo Simec appealed for reconsideration before the CNBV itself, which was favorable to Grupo Simec in 2018, and the fine was left without effect.

During the year 2018 Grupo Simec and some of its subsidiaries have been audited by the tax authorities of Mexico with respect to fiscal years from 2013 to 2017. The tax which the authority pretends to impose are non-existent taxes, which we have been litigating through various means including “amparo”, lawsuits, resources of revocation in some cases and nullity lawsuit in others. As of December 31, 2018, the payment has not been enforceable in any of the disputed matters. The amount of tax credits being appealed in court ascends to \$5,880 million. During 2020 and 2019 financial years, some of the Simec Group subsidiaries that have oversight acts affected tax payments and expenses through Remedial Agreements signed between the companies and the Tax Administration Service (SAT) during the aforementioned years for an amount of \$554.4 and \$2,323.7 million. All lawsuits regarding the tax credits were solved, the amount was \$5,880 million.

The tax authorities in Mexico have the right to review the previous five years and could determine differences in taxes payable, plus corresponding adjustments, interest and fines.

*United States and Canada*

On February 13, 2017, the SEC notified us that it was conducting an informal, and non-public, inquiry into the Company in connection with our internal controls. After cooperating with the SEC, we settled certain internal controls charges with the SEC on January 29, 2019. We agreed to retain an independent consultant to remediate our material weaknesses and to pay a civil monetary penalty in the amount of U.S.\$200,000.

In connection with a sales and use tax audit by the Ohio Department of Taxation covering the period from January 1, 2009 through December 31, 2012, an assessment of U.S.\$2.5 million (Ps. 47.2 million) (including interest of \$0.4 million, Ps. 7.6 million) was issued against Republic on December 9, 2016. The Company disagrees with the assessment in its entirety and has filed a Petition for Reassessment on January 30, 2017, appealing the assessment with the Ohio Board of Tax Appeals. The Company’s position is that the assessment that certain services were taxable is substantively incorrect, and based upon a misinterpretation of the relevant regulations and a misunderstanding of the facts that led the Company to determine that the services qualified for Ohio’s sales and use tax exemption for manufacturers. Due to the nature of this matter and its early stages, the Company is unable to determine the amount of loss, if any, it may sustain. Accordingly, the Company has not recorded an expense in 2020 or 2019 recognizing the assessment or any estimated settlement amount.

Related to the agreement signed on December 14, 2018, with the SEC to correct 4 internal control weaknesses reported in the Form 20-F of 2018, the international firm Protiviti was hired as independent consultant to assess the implemented internal controls, to ensure that transactions made are correctly recorded in accordance with Mexican and other countries laws, where the company operates. Our external auditors Marcelo de los Santos y Cía., S.C., who reviewed the 2020 financial statements provided their opinion on our internal controls over financial reporting, as indicated below under Section 15.C. “Attestation Report of the Independent Registered Public Accounting Firm”.

The tax authorities in the United States have the right to review the previous three years and could determine differences in taxes payable, plus corresponding adjustments, surcharges and fines.

For the years 2015-2016 and 2017-2018, the Canada Revenue Agency (CRA) estimated a tax on sales omitted by Republic of U.S.\$4.1 million plus interest for the 2015-2016 period and of U.S.\$6.4 million plus interest for the period 2017-2018. Republic does not agree on the amounts and has filed an Objection notice on September 2018 and July 2019, respectively. As of May 2021, all the information has been filed and we are waiting for the resolution.

The tax authorities in Canada have the right to review the previous four years and could determine differences in taxes payable, plus corresponding adjustments, surcharges and fines.





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

*California Department of Toxic Substances Control, DTSC*

In September 2002, the Department of Toxic Substances Control (DTSC) inspected Pacific Steels Inc. (PS)'s facilities based on an alleged complaint from neighbors due to PS's excavating to recover scrap metal on its property and on a neighboring property, which PS rents from a third party (BNSF Railway). In this same month, DTSC issued an enforcement order of imminent and substantial endangerment determination, which alleges that certain soil piles, soil management and metal recovery operations may cause an imminent and substantial danger to human health and the environment; consequently, DTSC sanctioned PS for violating Hazardous Waste Control Laws in the State of California and imposed the obligation to remedy the site. On July 26, 2004, in an effort to continue with this order, DTSC filed against PS a Complaint for Civil Penalties and Injunctive Relief in San Diego Superior Court. On July 26, 2004, the court issued a judgment, whereby PS was obligated to pay U.S.\$0.2 million, which has been paid.

On June 6, 2010, the DTSC and the San Diego Department of Environmental Health (DEH) inspected the facilities of PS, in response to a general complaint. On August 10, 2010 DTSC and DEH conducted a second inspection and found seven infractions. The DEH is satisfied with the compliance of PS on those issues; however, on October 19, 2010 the technical division of the DTSC recommended to the legal division of DTSC that it impose significant penalties.

The land remediation was suspended at the beginning of 2011 due to the inefficiency of the process, which was verified by several studies. As an alternative, once the necessary permits were obtained from the authorities in Mexico, the Mexicali plant began the process of importing non-RCRA soil for final disposal in a secure landfill based in Nuevo Leon State. This landfill is deposited after the separation of the metal content, which is used as raw material in the melting process. PS has completed the shipment of non-RCRA soil for final disposal in Nuevo Leon State.

The disposition of a stack estimated at 8,000 tons of material classified RCRA (hazardous for Federal purposes) was also considered for shipment to Mexico. The process began in early 2013, but the response from the authorities was slow. Therefore, on April 9, 2015, a letter from the California Attorney General Department of Justice (Attorney General) was received where PS is required to, in the absence of obtaining permission from the Mexican authorities; present a program for transport the pile of contaminated soil classified as RCRA to an authorized confinement in the United States at the latest on April 22, 2015. This letter warned that PS must ship the RCRA soil no later than July 9, 2015, or risk DTSC proceeding with a civil lawsuit seeking the maximum amount of fines established by law and corresponding legal redress.

On April 21, 2015, PS sent a letter to the Attorney General explaining that the authorities in Mexico had not denied permission to the Company but had simply requested that it present its application in a different format, which had already been presented and reviewed by the authority on April 17, 2015.

On July 23, 2015, the Attorney General denied the extension requested by PS and demanded the immediate shipments of the RCRA stack to an authorized landfill. PS began transporting RCRA soil on July 29, 2015 and completed removal of the RCRA stack by September 12, 2015 with a total of 3,000 metric tons.

On January 5, 2016, the Attorney General and PS stipulated to filing a "final judgment and order on consent" or Consent Judgment in San Diego Superior Court. The parties negotiated the Consent Judgment, which includes the following terms:

- PS to pay U.S.\$ 0.138 million as a civil penalty for alleged violations of the 2004 Corrective Action Consent Agreement. PS has made all of the required payments to DTSC as of December 31, 2017.
- Remove the RCRA soil pile and send it to an approved landfill. The Judgment indicates that the Company complied with this commitment by October 2, 2015.
- After removing the RCRA soil pile, the Company must take samples of the soil in the area where the RCRA soil pile was located. Samples were taken and the results indicated that the soil had pollution levels that exceed the limits set by the State. On April 7, 2016, the Attorney General and DTSC demanded that the Company remove soil 10 feet across and 2 feet deep on the perimeter of the area where the RCRA soil pile was located and dispose of it in an approved confinement. Instead, PS convinced DTSC to enter into a Tolling Agreement on August 10, 2016, which tolls for two years (until August 10, 2018) the statute of limitations for DTSC to challenge PS's compliance with the Consent Judgment. This Tolling Agreement was extended on August 10, 2018, for an additional two-year period, effective December 31, 2018, and will end as of August 10, 2021.
- The Company shall continue to meet the conditions of the final judgment, the corrective measures, and all tasks arising from this, which were entered in the same court in 2004.

On May 29, 2019, the Company presented a proposal to the DTSC, to carry out a work plan in March 2020, the DTSC has agreed tentatively, with that proposal or work plan.

On September 2020, PS informed the DTSC That it had been significantly affected by the COVID pandemic, and the corresponding economic downturn, although it was still committed with the application of a work plan from IM, needs to stop implementation efforts. Such deployment is in hold as of this date.

PS is working to develop a “corrective measures study” (CMS) that is intended to develop a plan for determining what remedy will be implemented at the site. To date, it is unclear what will be the appropriate remedy to implement at the PS site, when the CMS will be completed, how long remediation will take, and how much it will cost.

## **Environmental Liabilities**

As is the case with most steel producers in the United States, we could incur significant costs related to environmental compliance activities and remediation stemming from historical waste management practices or other environmental issues at Republic’s facilities. At December 31, 2020 and 2019, we had a reserve to cover probable environmental liabilities totaling Ps. 49.8 million (U.S.\$2.5 million) and Ps. 49.1 million (U.S.\$2.6 million), respectively. The reserve includes incremental direct costs of remediation efforts and post remediation monitoring costs that are expected to be included after corrective actions are complete. As of December 31, 2020 and 2019, the current and non-current portions, Ps. 19.9 million (U.S.\$1 million) and Ps. 18.9 million (U.S.\$1 million), respectively, of the environmental reserve are included in other accrued liabilities and accrued environmental liabilities, respectively, in the accompanying consolidated statement of financial position. The Company is not otherwise aware of any material environmental remediation liabilities or contingent liabilities relating to environmental matters with respect to the Republic’s facilities for which the establishment of an additional reserve would be necessary at this time. To the extent the Company incurs any such additional future costs, these costs will most likely be incurred over a number of years. However, future regulatory action regarding historical waste management practices at the Company’s facilities and future changes in applicable laws and regulations may require the Company to incur significant costs that may have a material adverse effect on the Company’s future financial performance.

### *Brazil*

On September 5, 2017, Grupo Simec and GV do Brasil were notified of an arbitration procedure brought by SMS Concast before the International Court of Arbitration (ICC), in which the payment of U.S.\$1.4 million is requested (Ps.27.6 million), plus additional expenses, for additional costs incurred in the construction and assembly of the steel plant area in Brazil. On November 6, 2017, the Company filed a response, suing SMS Concast for various items that amount to U.S.\$5 million (approximately Ps. 98.3 million) approximately. On February 26, 2020 the arbitrators sentenced our companies to individual and joint payments of various amounts and in different currencies. We are currently requesting SMS Concast to supply us with the missing second level equipment.

The tax authorities in Brazil have the right to review the previous five years and could determine differences in taxes payable, plus corresponding adjustments, surcharges and fines.

## **Dividends and Dividend Policy**

We have not paid dividends in the past. At the Ordinary General Shareholders’ Meeting held on February 10, 2020, a Ps. 1,990 million dividend was approved from the net tax profit account for the profits generated until December 31, 2013, which was paid in full on March 10, 2020. Aside from this dividend, because we intend to devote a substantial portion of our future cash flows to funding our expansion plan and working capital requirements, we do not currently expect to pay additional dividends in the near future. We may consider paying dividends in the future based on a number of factors, including our results of operations, financial condition, cash requirements, tax considerations, future prospects and other factors that our board of directors and our shareholders may deem relevant, including the terms and conditions of any future debt instruments that might limit our ability to pay dividends. For a description of shareholders’ and holders of ADS’ rights to receive dividends and the conditions to declare and pay dividends, see Item 10.B. “Memorandum and Articles of Association – Dividends and Distributions.”

## **B. Significant Changes**

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our consolidated financial statements included herein.

## **Item 9. The Offer and Listing**

Our series B shares are listed on the Mexican Stock Exchange under the ticker symbol “SIMEC B” and the ADSs are listed on the NYSE American under the ticker symbol “SIM.” The ADSs are issued by The Bank of New York as depository under a Deposit Agreement, dated as of July 8, 1993, as amended, among us, the depository and the holders from time to time of ADRs.

## **Item 10. Additional Information**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

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

The following is a summary of certain rights of holders of our capital stock, including brief summaries of material provisions of our by-laws and Mexican law. This summary is not exhaustive and does not contain all information that may be important to you. For more complete information, you should read our by-laws, which have been filed as an exhibit to this annual report and incorporated by reference herein.

#### *Board of Directors*

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

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

Our directors may be subject to criminal penalties of up to 12 years’ imprisonment for certain illegal acts involving willful misconduct that result in losses to us, which include, among others, altering financial statements or records. In terms of the General Law of Commercial Companies and our by-laws, only the shareholders’ meetings can determinate compensation for the directors. Our directors cannot individually exercise any of our borrowing powers. We do not have any retirement plan. Shareholders, or a group of shareholders, that control 10% of our shares can name a director and (in that director’s absence) an alternate director.

#### *Voting Rights and Shareholders’ Meetings*

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

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

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

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

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

- voluntary dissolution of the company;
- an increase or decrease in a company's minimum fixed capital;
- change in corporate purpose or nationality;
- any transformation, merger or spin-off involving the company;
- any stock redemption or issuance of preferred stock or bonds;
- the cancellation of the listing of our shares with the National Securities Registry or on any stock exchange;
- any other amendment to our by-laws; and
- any other matters for which applicable Mexican law or our by-laws specifically require an extraordinary meeting.

Special shareholders' meetings are those that shareholders of the same series or class call and hold to consider any matter particularly affecting the relevant series or class of shares.

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

indicated in the relevant request. If the chairman of the board of directors or the chairman of the Audit Committee fail to call a meeting within 15 calendar days following receipt of the request, the shareholder or group of shareholders representing at least 10% of our capital stock may request that the call be made by a competent court.

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

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

At or prior to the time of the publication of any call for a shareholders' meeting, we will provide copies of the publication to the depositary for distribution to the holders of ADSs. Holders of ADSs are entitled to instruct the depositary as to the exercise of voting rights pertaining to the Series B shares.

### *Quorum*

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

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

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

### *No Right of Redemption*

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

### *Registration and Transfer*

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

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

### *Dividends and Distributions*

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

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

A shareholder's entitlement to uncollected dividends lapses within five years following the stated 3payment date, in favor of us.

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

### *Changes in Capital Stock*

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

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

Holders of ADSs may exercise preemptive rights in limited circumstances. If a holder of series B shares or ADSs were unable or unwilling to exercise its preemptive rights in connection with such a capital increase, such holder's proportionate share of dividends and other distributions and voting rights would decline. In addition, depending on the series of shares increased and the pattern in which preemptive rights were exercised, such a capital increase might increase or reduce the portion of our capital stock represented by series B shares and ADSs or increase or reduce the proportionate voting rights of such holder.

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

### *Share Repurchases*

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

- the acquisition must be carried out through the Mexican Stock Exchange;
- the acquisition must be carried out at market price, unless a public offer or auction has been authorized by the CNBV;

- the acquisition must be carried out against our net worth (stockholder's equity) without adopting a reduction in capital stock or against our capital stock, and the shares so acquired will be held as treasury stock without any requirement to adopt a reduction in capital stock. No shareholder consent is required for such purchases.
- the amount and price paid in all share repurchases must be made public;
- the annual ordinary shareholders meeting must determine the maximum amount of resources to be used in the fiscal year for the repurchase of shares;
- we may not be delinquent on payments due on any outstanding debt issued by us that is registered with the National Securities Registry; and
- any acquisition of shares must be in conformity with the requirements of Article 54 of the Mexican Securities Market Law, and we must maintain a sufficient number of outstanding shares to meet the minimum trading volumes required by the stock markets on which our shares are listed.

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

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

In our Ordinary Shareholders Meeting held on September 14, 2016, an increase in the reserve for repurchase of shares of Ps. 1,000 million was approved and the total reserve at December 31, 2017, amounts to Ps. 2,000 million. In our Ordinary Shareholders Meeting held on April 23, 2018, an increase in the reserve for repurchase of shares of Ps. 3,000 million was approved and the total reserve at April 23, 2018, amounts to Ps. 5,000 million. In 2015, we repurchased 63,697,541 shares, of which 57,450,890 we resold. At December 31, 2016, we had 122,884 treasury shares. In the year 2016 we registered a gain of Ps. 507.7 million in the repurchase of shares. In 2017, we repurchased 5,143,680 shares, and we resold 1,604,000. At December 31, 2017, we had 3,662,564 treasury shares. In the year 2017 we registered a loss of Ps. 22.8 million in the repurchase of shares. In 2018, we repurchased 27,553,643 shares, and we resold 150,000. At December 31, 2018, we had 31,066,207 treasury shares. In the year 2018 we registered a loss of Ps. 4.2 million in the repurchase of shares. In 2019, we repurchased 2,663,719 shares, none of which were resold. At December 31, 2020, we had 34,223,573 treasury shares. In 2020, we did not register a gain or loss in the repurchase of shares.

#### *Ownership of Capital Stock by Subsidiaries*

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

#### *Delisting*

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

#### *Other Provisions*

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

- a report of the directors on our financial statements, as well as on the policies followed by the directors and on the principal existing projects;



- a report explaining the principal accounting and information policies and criteria followed in the preparation of the financial information;
- a statement of the financial condition of the company at the end of the fiscal year;
- a statement showing the results of operations of the company during the preceding year, as well as changes in the company's financial condition and capital stock during the preceding year;
- a report of the chief executive officer on the operations of the company during the preceding year;
- a report of the fulfillment of the company's tax obligations of the last fiscal year;
- a report of the Audit Committee with respect to the preceding year; and
- the notes which are required to complete or clarify the above mentioned information.

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

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

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

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

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

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

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

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

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

### *Independent Directors*

The Mexican Securities Market Law requires that 25% of the directors of Mexican public companies must be independent, but the Audit Committee must be comprised entirely of independent directors. One alternate director may be appointed for each principal director, provided that the alternates for the independent directors are also deemed independent. Under Mexican law, certain individuals, including insiders, controlling individuals, major clients and suppliers, and any relatives of such individuals, are per se deemed as non-independent. In addition, under Mexican law, the determination as to the independence of our directors made by our shareholders' meeting may be contested by the CNBV. The independent directors are required under our bylaws to meet as often as necessary to fulfill their responsibilities. Independent directors are not required under Mexican law or our bylaws to meet without the presence of non-independent directors and management.

Pursuant to the rules and regulations of the New York Stock Exchange, 50% of the directors of listed companies must be independent, and foreign companies subject to reporting requirements under the U.S. federal securities laws and listed on the New York Stock Exchange must maintain an audit committee comprised entirely of independent directors as defined in the United States federal securities laws. Further, independent directors are required to meet on a regular basis as often as necessary to fulfill their responsibilities, including at least annually in executive session without the presence of non-independent directors and management.

### *Audit-Committee*

For differences among Mexican Securities Market Law, which apply to us, and laws generally applicable to U.S. corporations regarding audit-committees, see "Item 6. Directors, Senior Management and Employees—C. Board Practices—Committees—Audit and Corporate Practices Committee."

### *Mergers, Consolidations, and Similar Arrangements*

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

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

### *Anti-Takeover Provisions*

Subject to the approval of the CNBV, the Mexican Securities Market Law permits public companies to include anti-takeover provisions in their by-laws that restrict the ability of third parties to acquire control of the company without obtaining approval of the company's board of directors if such provisions (i) are approved by a majority of the shareholders, with no more than 5% of the outstanding capital shares voting against such provisions, (ii) do not exclude any shareholder(s) or group of shareholder(s) and (iii) do not restrict, in an absolute manner, a change of control

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

- prior to the date of the transaction in which the shareholder became an interested shareholder, the board of directors of the corporation approves either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owns at least 84% of the voting stock of the corporation, excluding shares held by directors, officers, and employee stock plans; or
- at or after the date of the transaction in which the shareholder became an interested shareholder, the business combination is approved by the board of directors and authorized at a shareholders' meeting by at least 66.67% of the voting stock which is

not owned by the interested shareholder.

### *Shareholders' Suits*

Pursuant to the Mexican Securities Market Law, only a shareholder or group of shareholders holding at least 5% of our outstanding shares may bring a claim against some or all of our directors, secretary of the board of directors or relevant executives for violation of their duty of care or duty of loyalty. In addition, such shareholder or group of shareholders must include in its claim the amount of damages or losses caused to the company and not only the damages or losses caused to the shareholder or group of shareholders bringing the claim, provided that any amount recovered as indemnification arising from the liability action will be for the benefit of the company, and not for the benefit of the shareholder or group of shareholders. The shareholder or group of shareholders must demonstrate the direct and immediate link between the damage or loss caused to the company, and the acts alleged to have caused it. There is no requirement for the shareholder or group of shareholders to hold the shares for a certain period of time in order to bring a claim.

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

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

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

### *Shareholder Proposals*

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

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

### *Calling of Special Shareholders' Meetings*

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

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

### *Cumulative Voting*

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

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

### *Staggered Board of Directors*

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

### *Approval of Corporate Matters by Written Consent*

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

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

### *Amendment of Certificate of Incorporation*

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

### *Amendment of By-laws*

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

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

## **C. Material Contracts**

None

## **D. Exchange Control**

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

## **E. Taxation**

The following summary contains a description of the material U.S. and Mexican federal income tax consequences of the purchase, ownership and disposition of the series B shares or ADSs by a "non-Mexican holder" (as defined below) that is an individual citizen or resident of the United States, a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the U.S. Internal Revenue Code of 1986, as amended) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust) (a "U.S. holder"), but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to an owner of the series B shares or ADSs. In particular, the summary deals only with U.S. holders that will hold the series B shares or ADSs as capital assets and use the U.S. dollar as their functional currency and does not address the tax treatment of a U.S. holder that owns or is treated as owning 10% or more of our outstanding shares (measured by vote or value). In addition, the summary does not address the effects of the U.S. Medicare tax on net investment income, the indirect effects on persons who hold equity interests in a holder, or any U.S. or Mexican state or local tax considerations that may be relevant to U.S. holders. This summary also does not address U.S. federal income tax consequences applicable to U.S. holders that are subject to special tax rules, such as certain U.S. expatriates, REITs, RICs, banks, securities or currency dealers, traders in securities that mark their securities to market, insurance companies, tax-exempt entities, persons liable for the alternative minimum tax, taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies, persons that hold ADSs or series B shares as a hedge or as part of a straddle, conversion transaction or other risk reduction transaction for tax purposes, estates and trusts, partnerships, S corporations or other pass-through entities for U.S. federal income tax purposes. If a partnership (or other pass-through entity for U.S. federal income tax purposes) holds the series B shares or ADSs, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships holding series B

shares or ADSs, and partners in such partnerships should consult their own tax advisors regarding the tax consequences of an investment in series B shares or ADSs.

The summary is based upon the federal income tax laws of the United States and Mexico as in effect and available on the date of this annual report, including the provisions of the income tax treaty between the United States and Mexico and protocol thereto (the “Tax Treaty”), all of which are subject to change, possibly with retroactive effect in the case of U.S. federal income tax law. Prospective investors in the series B shares or ADSs should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the “IRS”) with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Prospective investors in the series B shares or ADSs should consult their own tax advisors as to the U.S., Mexican or other tax consequences of the purchase, ownership and disposition of the series B shares or ADSs, including, in particular, the effect of any foreign, state or local tax laws and their entitlement to the benefits, if any, afforded by the Tax Treaty.

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

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

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

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

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

### *Taxation of Dividends*

#### *Mexican Tax Considerations*

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

Dividends paid from distributable earnings that have not been subject to corporate income tax are subject to a corporate-level dividend tax at a rate of 42.86% for 2020. The corporate-level dividend tax on the distribution of earnings is not final and may be credited against income tax payable during the fiscal year in which the dividend tax was paid and for the following two years. Dividends paid from distributable earnings, after corporate income tax has been paid with respect to these earnings, are not subject to this corporate-level dividend tax. Currently, dividend distributions are not subject to individual withholding taxes for shareholder recipients thereof.

Dividends or profits distributed by legal entities resident in Mexico that are paid to natural persons and persons residing abroad on profits generated since fiscal year 2014, are subject to an additional Income Tax rate of 10%; this additional tax will be withheld by the legal person who distributes the dividend and its payment is considered definitive. In this case, the rates established in the agreement to avoid double taxation between Mexico and the United States of America can be applied.

Distributions made by us to our shareholders other than as dividends, including capital reductions, amortization of shares or otherwise, would be subject to taxation in Mexico at the corporate rate of 30% in 2020, or at the rate mentioned above, as the case may be.

### *U.S. Federal Income Tax Considerations*

The gross amount of any distributions paid with respect to the series B shares or the ADSs (including any amounts withheld for Mexican taxes), to the extent paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, will be taxable as dividends and generally will be includible in the gross income of a U.S. holder as ordinary income on the date on which the distributions are received by the U.S. holder, in the case of series B shares, or the depository, in the case of ADSs. Such dividends will not be eligible for the dividends received deduction allowed to certain corporations under the U.S. Internal Revenue Code of 1986, as amended. Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by non-corporate U.S. holders (including individuals) with respect to the series B shares and ADSs will be subject to taxation at a maximum rate of 20% if the dividends are “qualified dividends.” Dividends paid on the series B shares and ADSs generally will be treated as qualified dividends if (A) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company (“PFIC”) and (B) (i) we are eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules or (ii) the series B shares or ADSs, as applicable, are readily tradable on an established securities market in the United States. The Tax Treaty has been approved for the purposes of the qualified dividend rules and we believe that we are eligible for the benefits of the Tax Treaty. Further, as discussed below, we do not believe that we are a PFIC. Therefore, we believe that dividends paid to a non-corporate U.S. holder with respect to the series B shares and ADSs generally will be treated as qualified dividends. U.S. holders should consult their own tax advisors in this regard in light of their particular circumstances.

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

Distributions, which will be made in pesos, will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date they are received by such U.S. holder, in the case of series B shares, or by the depository, in the case of ADSs, whether or not they are converted into U.S. dollars. If the pesos received as a dividend are converted into U.S. dollars on the date they are received, a U.S. holder generally will not be required to recognize foreign currency gain or loss in respect of the dividend income. If the pesos received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a U.S. federal income tax basis in the pesos equal to their United States dollar value on the date of receipt. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt.

Subject to certain conditions and limitations (including a minimum holding period requirement), Mexican withholding taxes on dividends, if any, may be treated as foreign taxes eligible for credit against a U.S. holder’s U.S. federal income tax liability. Dividend income generally will constitute foreign source “passive category income” or, in the case of certain U.S. holders, “general category income” for U.S. foreign tax credit purposes.

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

#### *Taxation of Dispositions of Shares or ADSs*

##### *Mexican Tax Considerations*

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

Gain on the sale of series B shares by a U.S. holder will not be subject to any Mexican tax if the transaction is carried out through the Mexican Stock Exchange or other stock exchange or securities markets approved by the Mexican Ministry of Finance and Public Credit. Gain on sales or other dispositions of series B shares made in other circumstances generally would be subject to Mexican tax at a rate of 30% for 2020 of gains realized from the disposition.

Under the Tax Treaty, a U.S. holder that is eligible to claim the benefits of the Tax Treaty will be exempt from Mexican tax on gains realized on a sale or other disposition of series B shares in a transaction that is not carried out through the Mexican Stock Exchange or such other approved securities markets, so long as the holder did not own, directly or indirectly, 25% or more of our share capital (including ADSs) during the twelve-month period preceding the sale or other disposition, and the value of those shares does not derive mainly from immovable property located in Mexico. Specific formalities apply to claim such treaty benefits.

##### *U.S. Federal Income Tax Considerations*

Upon the sale or other taxable disposition of the series B shares or ADSs, a U.S. holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and such U.S. holder’s





U.S. federal income tax basis in the series B shares or ADSs. Gain or loss recognized by a U.S. holder on such sale or other taxable disposition generally will be long-term capital gain or loss if, at the time of the sale or other taxable disposition, the series B shares or ADSs have been held for more than one year. Under current law, long-term capital gain recognized by a non-corporate U.S. holder (including individuals) generally is subject to a maximum U.S. federal income tax rate of 20%. The deduction of a capital loss is subject to limitations for U.S. federal income tax purposes. Deposits and withdrawals of series B shares by U.S. holders in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

Gain, if any, realized by a U.S. holder on the sale or other taxable disposition of series B shares or ADSs will be treated as U.S. source income for U.S. foreign tax credit purposes. Consequently, if a Mexican withholding tax is imposed on the sale or disposition of the units or ADSs, a U.S. holder that does not receive sufficient foreign source income from other sources may not be able to derive effective U.S. foreign tax credit benefits in respect of these Mexican taxes. U.S. holders should consult their own tax advisors regarding the application of the foreign tax credit rules to their investment in, and disposition of, series B shares or ADSs.

A U.S. holder that receives pesos upon sale or other disposition of the series B shares will realize an amount equal to the U.S. dollar value of the pesos upon the date of sale (or in the case of cash basis and electing accrual basis taxpayers, the settlement date). A U.S. holder will have a U.S. federal income tax basis in the pesos received equal to the U.S. dollar value of the pesos received translated at the same rate the U.S. holder used to determine the amount realized on its disposal of the series B shares. Any gain or loss realized by a U.S. holder on a subsequent conversion of the pesos into U.S. dollars generally will be a U.S. source ordinary income or loss. U.S. holders should consult their own tax advisors regarding the treatment of foreign currency gain or loss, if any, on any pesos received that are converted into U.S. dollars on a date subsequent to receipt.

#### *Other Mexican Taxes*

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

#### *Passive Foreign Investment Company (PFIC)*

Based on our audited financial statements and relevant market and shareholder data, we believe that we are not a PFIC for U.S. federal income tax purposes with respect to our 2018, 2019 and 2020 taxable years, and we expect to operate in such a manner so as to not become a PFIC. If, however, we are or become a PFIC, a U.S. holder could be subject to additional U.S. federal income taxes on gain recognized with respect to the series B shares or ADSs and on certain distributions, plus an interest charge on certain taxes treated as having been deferred under the PFIC rules.

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

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

#### *Foreign Account Tax Compliance Act ("FATCA")*

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on certain payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on certain "pass-through" payments with respect to series B shares or ADSs held through a non-U.S. entity. However, under current guidance, withholding under FATCA will apply to certain "pass-through" payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term "foreign pass-through payments." Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

**F. Dividends and Paying Agents**

Not applicable.

**G. Statements by Experts**

Not applicable

**H. Documents on Display**

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

We are subject to the informational requirements of the Exchange Act. Accordingly, we file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. The SEC maintains an internet website at [www.sec.gov](http://www.sec.gov) from which you can electronically access this annual report and the other materials that we file with the SEC.

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

**I. Subsidiary Information**

Not applicable.

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

We are exposed to market risk, which is the potential risk of loss in fair values, cash flows or earnings due to changes in interest rates and foreign currency rates (primarily the peso/dollar exchange rate), as a result of our holdings of financial instrument positions. Our financial instruments include cash and cash equivalents, trade and other accounts receivable, accounts payable, long-term debt securities and related party debt. We do not maintain a trading portfolio. Our borrowings are entirely denominated in U.S. dollars. We do not utilize derivative financial instruments to manage our market risks with respect to our financial instruments. Historically, based on the last ten years of data, devaluation of the Mexican peso has been 15.1% higher than Mexico's inflation.

We are exposed to market risk due to fluctuations of the purchase price of natural gas. To limit our exposure, we use derivative financial instruments, which currently consist of natural gas swap contracts. These contracts are recognized on our balance sheet at fair value. The swaps are considered as cash flow hedges since the cash flow exchanges under the swap are highly effective in mitigating exposure to natural gas price fluctuations. The change in fair value of the swaps is recorded as part of comprehensive income in stockholders' equity for those contracts that are designated as accounting hedges until such time as the related item hedged is recorded in income. At that time, the hedging instrument's fair value is recorded in income. For those contracts that are not designated as accounting hedges, the change in fair value is recorded directly into income. We do not believe our market risk with respect to these natural gas futures contracts is material. At December 31, 2020 and 2019, we did not have natural gas cash-flow exchange contracts or swaps.

**Market Risk Measurement**

We measure our market risk related to our financial instruments based on changes in interest rates and foreign currency rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential loss in fair values, cash flows and earnings based on a hypothetical increase in interest rates and a decline in the peso/dollar exchange rate. We used market rates as of December 31, 2020 on our financial instruments to perform the sensitivity analysis. We believe that these potential changes in market rates are reasonably possible in the near-term (one year or less). Based upon our analysis of the impact of a 100 basis point increase in interest rates and a 10% decline in the peso/dollar exchange rate, we have determined that such increase in interest rates and such decline in the peso/dollar exchange rate would not have a material adverse effect on our earnings. Because there is no active trading market for our debt instruments, we are not able to determine the impact of these changes on the fair value of those debt instruments. The sections below describe our exposure to interest rates and currency rates including the impact of changes in these rates on our earnings.

## Interest Rate Exposure

We are exposed to changes in short-term interest rates as we invest in short-term dollar-denominated interest bearing investments. On the liability side, we utilize fixed rate debt, and our financial debt was less than U.S.\$1 million as of December 31, 2020. The floating rate debt is exposed to changes in interest expense and cash flows from changes in LIBOR, while the fixed rate debt is mostly exposed to changes in fair value from changes in medium term interest rates. Based on an immediate 100 basis point rise in interest rates, we estimate that our earnings before taxes would not be significantly affected.

## Currency Rate Exposure

Our primary foreign currency exchange rate exposure relates to our debt securities as well as our dollar-denominated trade payables. Our principal currency exposure is to changes in the peso/dollar exchange rate. We estimate that a 10% decline in the peso/dollar exchange rate would result in a decrease in our earnings before taxes of approximately Ps. 0.6 million (U.S.\$0.03 million).

The sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. Additionally, we cannot assure that our actual losses in any particular year will not exceed the amounts indicated above. However, we do believe that these amounts are reasonable based on the financial instrument portfolio at December 31, 2020 and assuming that the hypothetical market rate changes selected by us in our market risk analysis occur during 2021. The sensitivity analysis does not give effect to the impact of inflation on its exposure to increases in interest rates or the decline in the peso/dollar exchange rate.

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

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable.

### C. Other Securities

Not applicable.

### D. American Depositary Shares

## Fees and Charges

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

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

Depository service	Fee payable by ADR holders
Issuance and delivery of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to U.S.\$5.00 per 100 ADSs (or portion thereof)
Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates	Up to U.S.\$5.00 per 100 ADSs (or portion thereof)
Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS registered holders	A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs
Registration for the transfer of shares	Registration or transfer fees that may from time to time be in effect
Cash distribution fees	U.S.\$0.02 or less per ADS
Depository services	U.S.\$0.02 or less per ADS

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

### **Fees and Payments by the Depositary to the Company**

#### **Fees Incurred in Past Annual Period**

We did not receive any reimbursement from the depositary in 2020.

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

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

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

**PART II****Item 13. Defaults, Dividends Arrearages and Delinquencies**

None.

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

None.

**Item 15. Controls and Procedures****A. Disclosure Control and Procedures**

Our principal executive officer (CEO) and our principal financial officer (CFO), after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this annual report, have concluded that, as of such date, our disclosure controls and procedures were not effective, bearing in mind the weaknesses and deficiencies in our internal control over financial reporting discussed below.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934. Our internal control system is designed to provide reasonable assurance as to the reliability of the published financial statements under applicable International Financial Reporting Standards. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances concerning financial statement preparation and presentation. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by Marcelo de los Santos, S.C., a practice member of Moore Global Network Limited, independent registered public accounting firm, as stated in their report which appears in Item 15.C as required by item 15.B(4) of Form 20-F.

Our management was able to assess the effectiveness of our internal control over financial reporting as of December 31, 2020. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO 2013) in the Internal Control-Integrated Framework. Based on its assessment and those criteria, our management identified the following weaknesses and deficiencies in our internal control over financial reporting and therefore determined that our internal controls over financing reporting were not effective on December 31, 2020.

***Weaknesses detected at the group level:***

- As a result of the COVID-19 pandemic, some limitations led to the lack of follow-up on adequate controls, resulting in control deficiencies not being corrected in a timely manner.
- Lack of a plan for disaster recovery and insufficient backup documented.
- Lack of a documented plan regarding the continuity of business operations (Business Continuity Plan).

***Deficiencies detected in the Mexico segment:***

- As a result of the Covid-19 pandemic and limitations due to lack of personnel, there were ineffective controls related to the procedures for assigning access and segregation of duties.
- Identification, design, and execution of general information technology controls (ITGC).

**Deficiencies detected in the Brazil segment:**

- Due to the limitations due to the Covid-19 pandemic, it was not possible to follow up on the continuous improvement activities of the internal controls applied for the preparation of the financial statements.
- Lack of implementation of a permanent calendar for the preparation of analysis and reconciliations of the accounts, in order to identify in a timely manner, the occurrence of distortions and needs for improvements in the accounting records.
- The reports issued at the end of each accounting period are not subject to review by a qualified professional.
- Due to the limitations due to the Covid-19 pandemic, it was not possible to follow up on the technical training of the accounting, fiscal and financial team.

**Deficiencies detected in the United States segment:**

- There is no process to verify that the access codes to the computer systems of former employees have been closed correctly and that new accounts have the appropriate rights in detail of their access.
- Due to the limitations due to the Covid-19 pandemic, we identified that it was not possible to obtain evidence of the autograph approval of the vice president of finance and IT in the calculation of the market value cost (LCM).
- We identified certain accounts not reconciled on a quarterly basis at a detailed level.
- Lack of adequate controls for certain balance sheet accounts at a detailed level, resulting in audit adjustments.
- Due to the limitations due to the Covid-19 pandemic and lack of personnel, there was a lack of authorizations and journal entry supports.
- Due to the limitations due to the Covid-19 pandemic and lack of personnel, there was a lack of price approval by marketing managers.

**C. Attestation Report of the Independent Registered Public Accounting Firm**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Grupo Simec, S.A.B. de C.V.

**Adverse Opinion on Internal Control over Financial Reporting**

We have audited Grupo Simec, S.A.B. de C.V. and subsidiaries (the Company's) internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses described in the following paragraph on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by COSO.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement in the company's financial statements is not prevented, or detected and corrected, timely. The following material weaknesses have been identified and are included in the Management Report on internal controls over financial information.

Deficiencies at the group level:

- The Company's control monitoring inadequate and identified control deficiencies are not resolved in timely manner.
- The Company lacks appropriate disaster recovery plan, and there may not be sufficient documentation for a rapid recovery in the case of an incident.
- The Company lacks a documented plan with respect to the continuity of trade operations in the event of a disruption of the information technology environment.

Significant deficiencies that together constitute a material weakness in the Mexico segment:

- The segment lacks effective information technology controls related to system access, functional access within the system, and segregation of duties.
- The segment's information technology general controls are not had appropriately identified, designed, or implemented.

Significant deficiencies that together constitute a material weakness in the Brazilian segment:

- The segment lacks a system to follow-up on and improve upon deficiencies identified in the financial reporting process.
- The segment lacks personnel with sufficient knowledge of financial accounting and the accounting for taxation.
- The segment lacks a documented process for the completion of timely account analysis and reconciliation.
- The segment lacks a process for the review of interim financial information by a qualified professional.
- The segment does not have a sufficient process of delivering continuing professional education or other professional development resources to accounting, tax and finance personnel with responsibility for interpreting and recording unusual and complex transactions, including transactions with related parties.

Significant deficiencies that together constitute a material weakness in the United States segment:

- The segment lacks effective information technology controls related to system access in regards to former employees and to verify that new employees are granted appropriate levels of system access.
- The segment lacks a system to verify that all material calculations are appropriately approved in the financial reporting process.
- The segment lacks a documented process for the completion of timely account analysis and reconciliation.
- The segment lacks a system to verify that all journal entries are appropriately approved and are supported by appropriate documentation.
- The segment lacks sufficient controls related to sales price adjustments made by the marketing managers.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the December 31, 2020 financial statements, and this report does not affect our report dated May 14 2021, on those financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the balance sheets and the related statements of income, comprehensive income, stockholders' equity, and cash flows of the Company, and our report dated May 14, 2021 expressed an unqualified opinion.

## **Basis of Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

## **Definition and inherent limitations of internal control over financial reporting**

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

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

/s/ Marcelo de los Santos y Cía., S.C.

Member of Moore Global Network Limited

San Luis Potosí, S.L.P., México

May 14, 2021

## **D. Changes in Internal Control Over Financial Reporting**

As a result of the evaluation of the effectiveness of our internal controls for the year ended December 31, 2020, by our external auditors and the deficiencies identified during that period, our internal audit team and management are engaged and have implemented a monitoring and updating plan and procedures to address deficiencies, with particular attention to those arising from limitations due to the Covid-19 pandemic. Our efforts began with remediation plans and redesign of processes, in order to resolve and/or mitigate these deficiencies (although these deficiencies were not resolved or mitigated as of December 31, 2020), including activities to redesign processes and control activities to address the risks and limitations created by the Covid-19 pandemic.

**Item 16. Reserved**

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



Our board of directors has determined that it has at least one “audit committee financial expert,” as defined in Item 16.A of Form 20-F, serving on the Audit Committee. Raúl Arturo Pérez Trejo is the director whom the board of directors has determined to be an audit committee financial expert. Holders of ADSs should understand that this designation is a disclosure requirement of the SEC related to Mr. Pérez’s experience and understanding with respect to certain accounting and auditing matters.

The designation does not impose on Mr. Pérez any duties, obligations or liability that are greater than those which are generally imposed on him as a member of the Audit Committee and board of directors, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Audit Committee or board of directors. Mr. Pérez is “independent” as such term is defined in the listing standards of the NYSE American.

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

In 2002, we adopted a code of ethics that applies to all of our employees and directors, including our principal executive officer, principal financial officer and principal accounting officer. In 2019 and 2020, we did not amend our code of ethics in any manner, nor did we grant any waiver from any provision of the code of ethics to any person. We will provide to any person without charge, upon written or oral request, a copy of such code of ethics. Requests should be directed to: Grupo Simec, S.A.B. de C.V., Attention: Mario Moreno Cortez, telephone number: 011-52-33-3770-6700.

#### **Item 16C. Principal Accountant Fees and Services**

Our Audit Committee has engaged Marcelo de los Santos y Cía, S.C., a practice member of Moore Global Network, as independent auditors to audit our consolidated financial statements as of and for the year ending December 31, 2020. The audit of Aceros DM and subsidiaries and affiliates, located in San Luis Potosí, S.L.P. Mexico, and all of the Mexican subsidiaries continues to be audited by Marcelo de los Santos y Cía., S.C., a practice member of Moore Global Network.

*Audit Fees.* We paid Ps. 12.0 million in fees to Marcelo de los Santos y Cía., S.C. in connection with the audit of our annual consolidated financial statements for the year ended December 31, 2020, which are included in this annual report. We paid Ps. 12.0 million in fees to Marcelo de los Santos y Cía., S.C. in connection with the audit of our annual consolidated financial statements for the year ended December 31, 2020, which are included in this annual report. We paid Ps. 6.6 million (U.S.\$0.33 million) in fees to MSPC Certified public accountants and advisors, P.C. a practice member of Moore Global Network Limited, in connection with the audit of our annual financial statements of the United States segment for the year ended December 31, 2020. We paid Ps. 6.4 million (U.S.\$0.33 million) in fees to MSPC Certified public accountants and advisors, P.C. a practice member of Moore Global Network Limited, in connection with the audit of our annual financial statements of the United States segment for the year ended December 31, 2019. We paid Ps. 0.7 million (U.S.\$0.04 million) in fees to Moore Lima Lucchesi in connection with the audit of our annual financial statements of the Brazil segment for the year ended December 31, 2020. We paid Ps. 0.9 million (U.S.\$0.04 million) in fees to Moore Lima Lucchesi in connection with the audit of our annual financial statements of the Brazil segment for the year ended December 31, 2019.

*Audit Related Fees.* In 2020 and 2019, we did not incur any expenses associated with audit related fees.

*Tax Fees.* In 2020 and 2019, we did not incur any expenses associated with tax compliance.

*Other Fees.* We paid no other fees to Marcelo de los Santos y Cía. S.C., Moore Global Network Limited or Moore Global Lima Lucchesi in 2020 and 2019.

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

The Audit Committee approved all of the services incurred in 2019 and 2020, described as “Audit Fees,” “Audit Related Fees,” “Tax Fees,” and “Other Fees,” in accordance with our policy on auditor independence.

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

Not applicable.

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

Neither we nor any affiliated purchasers made any equity security purchases during 2020.

#### **Item 16F. Change in Registrant’s Certifying Accountant**

Not applicable.

#### **Item 16G. Corporate Governance**

Our ADS are listed on the NYSE American. Section 110 of the NYSE American Company Guide provides that the NYSE American will consider the laws, customs and practices of an issuer’s country of domicile, to the extent not contrary to the U.S. securities laws, and may grant exemptions from the NYSE American listing standards based on these considerations. Our following corporate governance practices differ from the NYSE American listing standards in the following ways:

*Board of Directors Composition, Nomination and Board Meetings.* Under the NYSE American Company Guide, listed companies are generally required to have a majority of their board of directors be “independent” as defined by the NYSE American Company Guide. Pursuant to the Mexican Securities Market Law, our board of directors must be composed of a maximum of 21 members, of which at least 25% must be independent. Currently, as permitted under the Mexican Securities Market Law and our by-laws, our board of directors consists of five directors, of which three are considered to be “independent.” The board of directors is elected by the shareholders at the annual meeting, for a one-year term with the option to be reelected, as determined by the shareholders. One alternate director may be appointed for each director, provided that independent alternates are appointed for the independent directors. In accordance with Mexican law, our shareholders determine directors’ independence during the annual shareholders meeting, but this independence determination may be challenged by the CNBV. Our board of directors meets at least quarterly and resolutions are binding if adopted by a majority of the directors present at a meeting.

*Nominating and Compensation Committees.* Under the NYSE American Guide, board of director nominations generally must be selected, or recommended for the board’s selection, by either a nominating committee comprised solely of independent directors or by a majority of the independent directors. Further, compensation of the chief executive officer of a listed company and all other officers must be determined, or recommended to the board of directors for determination, either by a compensation committee comprised of independent directors or by a majority of the independent directors on the board of directors.

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

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

*Quorum Requirements and Shareholders’ Approval.* The NYSE American minimum quorum requirement for a shareholder meeting is one-third of the outstanding shares of common stock. In addition, a company listed on NYSE American is required to state its quorum requirement in its bylaws. In compliance with Mexican law, shareholders representing 50% of our capital stock must be present to conduct business at the first call for ordinary shareholders meetings, dealing with general matters. If a quorum is not reached, there is no minimum quorum requirement for a second or subsequent call. Resolutions approved at ordinary shareholders’ meetings are valid when approved by a majority of the shares present. On the other hand, shareholders representing 75% of our capital stock must be present to conduct business at the first call for extraordinary shareholders meeting dealing with modifications to the our by-laws. If a quorum is not reached, shareholders representing 50% of our capital stock must be present at the meeting in a second or subsequent call. Resolutions at extraordinary shareholders meetings are valid if approved by shares representing more than 50% of our capital stock. However, resolutions regarding the (i) quorum requirements, (ii) minority shareholders’ rights, (iii) merger, spin-off and conversion are valid if approved by at least 75% of our capital stock. Furthermore, resolutions regarding our registration with the National Securities Registry (*Registro Nacional de Valores*) are valid if approved by at least 95% of our capital stock. Class II Series “L” Shares, representative of our capital stock with limited economic and corporate rights, are not taken into account when determining the quorum at the general shareholders’ meeting. Currently there are no Class II Series “L” Shares outstanding. In addition, under Mexican law, we may not be required to obtain shareholder approval for certain issuances of shares in excess of 20% of our outstanding shares, as would be required in certain circumstances by the NYSE American Company Guide.

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

**Item 16H. Mine Safety Disclosure**

Not applicable.

## PART III

**Item 17. Financial Statements**

See “Item 18—Financial Statements.”

**Item 18. Financial Statements**

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

**Item 19. Exhibits**

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

Exhibit Number	Item
<a href="#">1.1</a>	<a href="#">Amended and Restated by-laws (estatutos sociales) of the registrant, together with an English translation.*</a>
<a href="#">2.1</a>	<a href="#">Form of Amended and Restated Deposit Agreement among the registrant, The Bank of New York, and all Holders and Beneficial Owners from time to time of any American Depositary Receipts.**</a>
<a href="#">2.2</a>	<a href="#">Form of American Depositary Receipt.**</a>
<a href="#">2.3</a>	<a href="#">Description of American Depositary Receipts.****</a>
<a href="#">4.1</a>	<a href="#">Stock Purchase Agreement by and Among PAV Republic, Inc., The Shareholders of PAV Republic, Inc., SimRep Corporation and Industrias C.H., S.A. de C.V.*</a>
<a href="#">4.2</a>	<a href="#">2007-2008 Rounds Supply Agreement by and Between Republic, Inc. and United States Steel Corporation.*</a>
<a href="#">4.3</a>	<a href="#">Stock Purchase Agreement, dated as of February 21, 2008, among the Sellers (as defined therein) and Grupo Simec, S.A.B. de C.V. relating to the acquisition of 100% of the shares of Grupo San.***</a>
<a href="#">8.1</a>	<a href="#">List of subsidiaries, their jurisdiction of incorporation and names under which they do business.</a>
<a href="#">12.1</a>	<a href="#">Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">12.2</a>	<a href="#">Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">13.1</a>	<a href="#">Certifications of chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>
<a href="#">15.1</a>	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
EX-101.INS	XBRL Instance File
EX-101.SCH	XBRL Schema File
EX-101.CAL	XBRL Calculation File
EX-101.DEF	XBRL Definition File

EX-101.LAB XBRL Label File

EX-101.PRE XBRL Presentation File

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

\*\* Previously filed with the SEC as an exhibit and incorporated by reference to Post-Effective Amendment No. 1 to our Registration Statement on Form F-6, File No. 033-48173.

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

\*\*\*\* Previously filed with the SEC as an exhibit and incorporated by reference to our Annual Report on Form 20-F, filed on June 5, 2020.

### SIGNATURES

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

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

By: /s/ Rufino Vigil González

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Rufino Vigil González  
*Chief Executive Officer*

By: /s/ Mario Moreno Cortez

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Mario Moreno Cortez  
*Finance Coordinator*

Dated: May 24, 2021

**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**(A Subsidiary of Industrias CH, S.A.B. de C.V.)**  
**Consolidated Financial Statements**  
**For the years ended December 31, 2020, 2019 and 2018**

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and  
Stockholders of Grupo Simec, S.A.B. de C.V.

**Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial position of Grupo Simec, S.A.B. de C.V. and its subsidiaries (the "Company") as of December 31, 2020, and 2019, and the related consolidated statements of comprehensive income (loss), changes in stockholders' equity, and cash flows, for each of the years in the three-year period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2020 and 2019 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2020, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), and our report dated May 14, 2021 expressed an adverse opinion on the effectiveness of the Company's internal control over financial reporting.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

**Critical Audit Matters**

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

**Non-current inventory***Description of the key audit matter*

As disclosed in Notes 4e and 9 to the consolidated financial statements, long-term inventories amount to approximately \$952,690,000 pesos, of which \$ 747,300,000 correspond to the physical inventory of 136,541 tons of coking coal, which the company

used as raw material to supply the blast furnace at the Lorain, Ohio, USA plant, which ceased operations. Management periodically evaluates the potential degradation of the coke inventory and determines whether it is still suitable as a raw material for the blast furnace or alternatively for sale to other blast furnace mills.

*How our audit addressed the matter*

We obtained the report of an independent third party engaged by the company involved in the purchase and sale of coking coal that justifies the grade and the existing quantity. We have obtained a valuation of the coke market and have used that valuation to estimate the market value as of December 31, 2020.

**Impairment of goodwill and indefinite life intangibles**

*Description of the key audit matter*

As disclosed in Note 11 to the consolidated financial statements, the value of goodwill amounts to \$ 1,814,160,000 pesos and additionally the rights to use the SAN 42 brand (the Brand) has been identified as an intangible asset with an indefinite useful life with a value of \$ 329,600,000 pesos. This goodwill and intangible asset come from the acquisition in 2008 of the company Corporación Aceros, D.M., S.A. de C.V. and subsidiaries (Grupo San). These assets are reviewed annually for potential impairment at the level of Grupo San, the cash-generating unit to which they belong. For the annual evaluation of impairment, it is necessary to estimate the value of Grupo San; the value estimate is computed by determining the present value of expected future cash flows for Grupo San.

*How our audit addressed the issue*

The company hired an independent third-party expert for the technical estimate of the value in use. Our audit procedures included the evaluation of the external expert's qualifications and those related to the value in use of the cash-generating unit consisted, among others, of the following:

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls related to the impairment assessment, included testing of the process used to develop the estimate of the value-in-use of the cash generating unit; assess the adequacy of the discounted cash flow model; test the integrity, precision and relevance of the underlying data used in the model; and evaluate the important assumptions used, including sales volumes and prices, production costs, and the growth rate for the year, involved evaluating whether the assumptions used were reasonable considering (i) the current and past performance of the cash-generating unit ( ii) consistency with market and industry data, and (iii) whether assumptions were consistent with evidence obtained in other areas of the Audit.

Marcelo de los Santos y Cía., S.C.  
Member of Moore Global Network Limited

San Luis Potosí, S.L.P., México May 14, 2021

/s/ Marcelo de los Santos Anaya

Marcelo de los Santos Anaya

We have served as the Company's auditor since 2016.



**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**(A subsidiary of Industrias CH, S.A.B. de C.V.)**  
**Consolidated Statements of Financial Position**  
**For the years ended December 31, 2020 and 2019**  
**(In thousands of Mexican pesos)**

	Note	2 0 2 0	2 0 1 9
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	6	\$ 7,727,698	\$ 7,446,447
Trade receivables, net	7	5,072,869	4,186,239
Related parties receivables	18	52,706	13,925
Recoverable taxes	8	1,029,808	966,770
Other receivables, net		551,955	755,142
Prepaid expenses		854,353	798,400
Inventory	9	9,073,599	8,243,213
<b>Total current assets</b>		<b>24,362,988</b>	<b>22,410,136</b>
Non-current related parties receivables	18	648,281	648,281
Non-current loans to related parties	18	1,008,743	923,257
Non-current inventory, net	9	1,210,327	960,373
Property, plant and equipment, net	10	15,950,352	16,737,595
Intangible assets and other non-current assets, net	11	2,322,956	2,335,117
<b>Total assets</b>		<b>\$ 45,503,647</b>	<b>\$ 44,014,759</b>
<b>Liabilities and stockholders' equity</b>			
<b>Current liabilities:</b>			
Short-term debt	12	\$ 6,020	\$ 5,700
Accounts payable trade	13	5,347,325	4,179,830
Related parties payable	18	351,511	241,526
Other accrued liabilities	13	1,266,512	1,547,214
Payable tax		217,431	193,510
Income tax		1,237,967	1,118,697
<b>Total current liabilities</b>		<b>8,426,766</b>	<b>7,286,477</b>
<b>Non-current liabilities:</b>			
Employee benefits	14	161,864	123,368
Deferred income tax	15	3,638,521	3,410,106
Other liabilities		257,837	585,031
<b>Total Non-current liabilities</b>		<b>4,058,222</b>	<b>4,118,505</b>
<b>Total liabilities</b>		<b>12,484,988</b>	<b>11,404,982</b>

Contingencies and Commitments	24 and 25	-	-
<b>Stockholders' equity:</b>	16		
Capital stock		2,832,268	2,832,268
Additional paid-in capital		4,575,233	4,575,233
Retained earnings		20,795,069	19,986,881
Repurchase of own capital stock reserve		2,898,348	2,940,332

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Cumulative effect by translation of foreign subsidiaries		<u>1,881,731</u>	<u>2,250,263</u>
Total controlling interest		32,982,649	32,584,977
Non-controlling interest	17	<u>36,010</u>	<u>24,800</u>
<b>Total stockholders' equity</b>		<u>33,018,659</u>	<u>32,609,777</u>
<b>Total liabilities and stockholders' equity</b>		<u>\$ 45,503,647</u>	<u>\$ 44,014,759</u>

Notes are part of these consolidated financial statements.

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**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**(A subsidiary of Industrias CH, S.A.B. de C.V.)**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**For the years ended December 31, 2020, 2019 and 2018**  
(In thousands of Mexican pesos, except income per share figures)

	Note	2 0 2 0	2 0 1 9	2 0 1 8
Net sales	22	\$ 35,869,314	\$ 34,171,201	\$ 35,678,253
Cost of sales	19	<u>(29,211,724)</u>	<u>(30,067,141)</u>	<u>(30,563,315)</u>
<b>Gross profit</b>		6,657,590	4,104,060	5,114,938
Administrative expenses	19	(2,019,328)	(1,637,425)	(1,080,012)
Other income (expense), net	20	546,749	(136,582)	15,052
Interest income		107,826	145,995	312,821
Interest expense		(53,746)	(55,049)	(16,511)
Foreign exchange loss, net		<u>(363,164)</u>	<u>(784,583)</u>	<u>(146,896)</u>
<b>Income before income taxes</b>		4,875,927	1,636,416	4,199,392
Income taxes	15	<u>(2,077,844)</u>	<u>(3,276,274)</u>	<u>(752,462)</u>
<b>Net income (loss) for the year</b>		<u>2,798,083</u>	<u>(1,639,858)</u>	<u>3,446,930</u>
<b>Comprehensive (loss) for the year:</b>				
Translation effects of foreign subsidiaries		<u>(357,217)</u>	<u>(1,103,310)</u>	<u>(615,167)</u>
Total other comprehensive (loss) for the year, net of income taxes		<u>(357,217)</u>	<u>(1,103,310)</u>	<u>(615,167)</u>
<b>Comprehensive income (loss) for the year, net of tax</b>		<u>\$ 2,440,866</u>	<u>\$ (2,743,168)</u>	<u>\$ 2,831,763</u>
Net income (loss) attributable to:				
Controlling interest		\$ 2,798,188	\$ (1,635,909)	\$ 3,653,347
Non-controlling interest		<u>(105)</u>	<u>(3,949)</u>	<u>(206,417)</u>
<b>Net income (loss) for the year</b>		<u>\$ 2,798,083</u>	<u>\$ (1,639,858)</u>	<u>\$ 3,446,930</u>
Comprehensive income (loss) attributable to:				
Controlling interest		\$ 2,429,656	\$ (3,091,337)	\$ 3,046,560
Non-controlling interest		<u>11,210</u>	<u>348,169</u>	<u>(214,797)</u>
<b>Comprehensive income (loss) for the year</b>		<u>\$ 2,440,866</u>	<u>\$ (2,743,168)</u>	<u>\$ 2,831,763</u>
Income per share:				
Weighted average shares outstanding (in thousands of shares)		<u>463,483</u>	<u>465,069</u>	<u>489,537</u>
<b>Income (loss) per share (controlling interest)</b> <b>(Mexican pesos)</b>	4-n	<u>\$ 6.04</u>	<u>\$ (3.52)</u>	<u>\$ 7.46</u>

Notes are part of these consolidated financial statements.

**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**(A subsidiary of Industrias CH, S.A.B. de C.V.)**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**For the years ended December 31, 2020, 2019 and 2018**  
(In thousands of Mexican pesos)

	Capital Stock	Additional paid-in capital	Retained earnings	Repurchase of own capital stock reserve	Cumulative translation effects in foreign subsidiaries	Total controlling interest	Non-controlling interest	Total stockholders' equity
<b>Balance at January 1, 2018</b>	\$ 2,832,268	\$ 4,579,472	\$ 20,969,443	\$ 1,732,447	\$ 4,312,478	\$ 34,426,108	\$ (108,572)	\$ 34,317,536
Increase in reserve			(3,000,000)	3,000,000				
Repurchase of own capital stock, net		(4,239)		(1,636,057)		(1,640,296)		(1,640,296)
Comprehensive income (loss)			3,653,347		(606,787)	3,046,560	(214,797)	2,831,763
<b>Balance at December 31, 2018</b>	\$ 2,832,268	\$ 4,575,233	\$ 21,622,790	\$ 3,096,390	\$ 3,705,691	\$ 35,832,372	\$ (323,369)	\$ 35,509,003
Repurchase of own capital stock, net				(156,058)		(156,058)		(156,058)
Comprehensive income (loss)			(1,635,909)		(1,455,428)	(3,091,337)	348,169	(2,743,168)
<b>Balance as of December 31, 2019</b>	\$ 2,832,268	\$ 4,575,233	\$ 19,986,881	\$ 2,940,332	\$ 2,250,263	\$ 32,584,977	\$ 24,800	\$ 32,609,777
Repurchase of own capital stock, net				(41,984)		(41,984)		(41,984)
Dividends paid			(1,990,000)			(1,990,000)		(1,990,000)
Comprehensive income (loss)			2,798,188		(368,532)	2,429,656	11,210	2,440,866
<b>Balance as of December 31, 2020</b>	\$ 2,832,268	\$ 4,575,233	\$ 20,795,069	\$ 2,898,348	\$ 1,881,731	\$ 32,982,649	\$ 36,010	\$ 33,018,659

Notes are part of these consolidated financial statements.

**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**(A Subsidiary of Industrias CH, S.A.B. de C.V.)**  
**Consolidated Statements of Cash Flows**  
**For the years ended December 31, 2020, 2019 and 2018**  
**(In thousands of Mexican pesos)**

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
<b>Operating activities:</b>			
Net income (loss) for the year	\$ 2,798,083	\$ (1,639,858)	\$ 3,446,930
Adjustments for:			
Depreciation and amortization	1,452,271	1,108,629	1,112,418
Employee benefits	12,072	41,598	(10,051)
Allowance for doubtful accounts	0	5,320	27,904
Interest income from investing activities	(107,826)	(145,995)	(312,821)
Interest expense from financing activities	53,746	55,049	16,511
Unrealized foreign exchange loss (gain), net	0	18,030	(6,985)
Income tax	2,077,844	3,276,274	752,462
	<u>6,286,190</u>	<u>2,719,047</u>	<u>5,026,368</u>
<b>Changes in operating assets and liabilities:</b>			
(Increase) / decrease in Trade receivables	(795,682)	515,726	(1,082,991)
Decrease / (increase) in Related parties receivables	98,874	(58,523)	17,465
(Increase) / decrease in Inventory	(777,419)	1,812,770	(1,098,437)
(Increase) in Other receivables, recoverable taxes and prepaid expenses	(1,727,200)	(4,185,306)	(1,119,466)
Increase/ (decrease) in Accounts payable trade	1,066,393	(151,986)	460,359
(Decrease)/increase in Related parties payables	(113,155)	(93,065)	90,806
(Decrease)/increase in Accounts payable other and accrued liabilities and taxes other than income taxes	(404,126)	484,090	929,780
	<u>3,633,875</u>	<u>1,042,753</u>	<u>3,223,884</u>
<b>Net cash flows provided by operating activities</b>			
<b>Investing activities:</b>			
Acquisition of property, plant and equipment	(951,205)	(1,271,420)	(1,994,465)
Decrease (increase) in other non-current assets	10,708	(52,293)	159,732
Decrease in other investments	-	-	88,947
Cash paid for Business acquisition, net	-	-	(638,976)
Loans granted to related parties	-	-	(477,064)
Collection of loans to related parties	-	1,071,032	1,939,366
Interest income collected	107,826	145,995	102,307
	<u>(832,671)</u>	<u>(106,686)</u>	<u>(820,153)</u>
<b>Net cash flows (used) provided by investing activities</b>			
<b>Financing activities:</b>			
Repurchase and placement of own capital stocks, net	(41,984)	(156,058)	(1,640,296)
Dividends paid	(1,990,000)	-	-
Payments received on Loans from related parties	-	-	(984,623)
Interest expense	(53,746)	(55,049)	(16,511)
	<u>(2,085,730)</u>	<u>(211,107)</u>	<u>(2,641,430)</u>
<b>Net cash flows used in financing activities</b>			
Increase (decrease) in cash and cash equivalents	715,474	724,960	(237,699)

Cash and cash equivalents at beginning of year	7,446,447	6,987,241	7,203,604
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	<u>(434,223)</u>	<u>(265,754)</u>	<u>21,336</u>
<b>Cash and cash equivalents at end of year</b>	<b><u>\$ 7,727,698</u></b>	<b><u>\$ 7,446,447</u></b>	<b><u>\$ 6,987,241</u></b>

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Notes are part of these consolidated financial statements.

**Grupo Simec, S.A.B. de C.V. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**  
**For years ended December 31, 2020, 2019 and 2018**  
**(In thousands of Mexican pesos, except foreign currency and where indicated)**

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### 1. Nature of business

Grupo Simec, S.A.B. de C.V. is a *stock exchange corporation with variable equity*, constituted under the laws of Mexico on August 22, 1990, with a duration of 99 years. The Company is a subsidiary of Industrias CH, S.A.B. de C.V. (Industrias CH or ICH). The business headquarters are located in Guadalajara, Jalisco, Mexico and the administrative offices are located on 601 Rd. Lazaro Cardenas, ZIP Code 44440.

The main activity of Grupo Simec, S.A.B. de C.V. and its subsidiaries (Simec or the Company) is manufacturing, processing and distribution of steel and steel alloys products in Mexico, the United States of America (USA) and Brazil.

Shares of the Company are listed on the Mexican Stock Exchange (BMV) and the Company's American Depositary Receipts are listed on the New York Stock Exchange (NYSE).

### 2. Significant events

- a. On May 1, 2018, one steel mill was acquired in Brazil from ArcelorMittal, which is located in Cariacica, Espirito Santo and has a production capacity of 600 thousand tons a year. Another steel mill is being rented from ArcelorMittal in Itauna, Minas Gerais with a production capacity of 120 thousand tons a year. Upon closing the transaction, the group significantly increased its participation in the long steel market in Brazil; a confidentiality agreement was signed for this operation.
- b. On January 1, 2019 Grupo Simec, S.A.B. of C.V. increased its shareholding percentage in SimRep Corporation to 99.41%. The Company acquired 83,862 common shares of SimRep Corporation at a price of USD \$ 3,454 each, for total consideration of USD \$ 289,660, such consideration was provided through the conversions of loans payable to the Company by SimRep.
- c. On February 10, 2020, the Ordinary General Shareholders' Meeting decreed dividends which were paid on March 10, 2020. The dividends were paid from the net tax profit account, generated until December 31, 2013. The amount paid was \$1,990 million pesos.

### 3. Application of new and amended standards and interpretations and standards not in force yet

The consolidated financial statements of Grupo Simec, S.A.B. de C.V. and its Subsidiaries for the periods presented have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). IFRS also includes all current International Accounting Standards (IAS), in force, as well as all related interpretations issued by the IFRS Interpretations Committee (IFRIC), including those issued previously by the Standing Interpretations Committee. The company applied the effective IFRS as of December 31, 2020.



International Financial Reporting Standards, not in force yet.

Following are the amendments that could have an effect on Simec financial information, which were issued by the IASB (International Accounting Standards Board) but are not yet effective as of the date of these financial statements.

Amendments applicable as of 2021:

In August 2020, the IASB issued a document entitled “Reform of the Interest Rate Benchmark - Phase 2, which modify IFRS 4.- Insurance Contracts, IFRS 7.- Financial Instruments: Disclosures, IFRS 9.- Financial Instruments, IFRS 16.-

Leases and IAS 39.- Financial Instruments: Recognition and Measurement. Amendments for Phase 2 introduce matters that could affect financial information during the reform of a benchmark interest rate, including the effects of changes in contractual cash flows or hedging relationships arising from the replacement of a benchmark interest rate with an alternative interest rate. The Phase 2 amendment objectives are:

- Assist companies in applying Standards when changes are made to contractual cash flows or hedging relationships because of the interest benchmark rate reform; and
- Providing useful information to users of financial statements.

Amendments applicable as of 2022:

In May 2020, the following amendments were issued:

Reference to the conceptual framework

IFRS 3.- Business Combinations, the amendments correspond only to references to the conceptual framework.

Onerous contracts: Cost of fulfilling a contract.

IAS 37.- Provisions, Contingent Liabilities and Contingent Assets; this standard defines an onerous contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract includes both the incremental costs of fulfilling that contract and an allocation of other costs that relate directly to fulfilling contracts.

Property, plant and equipment: Revenues from the use previously foreseen

IFRS 16.- Property, plant and equipment, this amendment prohibits an entity from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

Also in May 2020, annual improvements to IFRS Standards 2018-2020 were issued, effective January 1, 2022:.

IFRS 1 First-time Adoption of International Financial Reporting Standards

Purpose of improvement:

Some options are established for the application of the Standards to Subsidiaries as a first-time adopter of IFRS

## IFRS 9 Financial Instruments.

### Purpose of improvement:

This IFRS establishes that a substantial modification of the current conditions of an existing financial liability or part thereof shall be accounted for as a cancellation of the original financial liability and the recognition of a new financial liability.

This amendment establishes that the conditions will be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability

### Amendments applicable as of 2023:

In January 2020, the IASB issued an amendment to IAS 1.- Presentation of Financial Statements, which clarifies that in order to reclassify a current liability as a non-current liability, the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. At the effective date of this amendment, July 2020, it was deferred until January 1, 2023.

Simec is evaluating the impact that these amendments could have on its financial statements.

## 4. Basis of preparation and presentation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with IFRS as discussed in Note 3, based on historical costs. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

**Consolidation basis** - The consolidated financial statements include the financial statements of Grupo Simec, S.A.B. de C.V. and the entities controlled by the Company (its subsidiaries). Control is obtained when the company possesses the power to govern the financial and operative policies of an entity in order to obtain benefits from its activities. The results of subsidiaries acquired or sold during the year are included in the consolidated financial statements from the date of acquisition or up to the date of sale, as the case may be. Total comprehensive income (loss) of subsidiaries is attributed both to the Company and to the non-controlling interests even if the non-controlling interests have a deficit balance reflecting allocated losses.

Within the consolidation process, adjustments are made to the financial statements of the subsidiaries to adapt their accounting policies so that they are aligned with those used by the Company. All significant intercompany transactions and balances between the consolidated companies are eliminated during consolidation.

Changes in investments in subsidiaries of the Company that do not result in a loss of control are recorded as equity transactions. The book value of the company's non-controlling investments and shares is adjusted to reflect changes in the corresponding investments in subsidiaries. Any difference between the amount by which non-controlling shares are adjusted and the fair value of the consideration paid or received is recognized directly and is attributed to the owners of the company.

When the company loses control of a subsidiary, the profit or loss in the provision is calculated as the difference between (i) the sum of the fair value of the consideration received and the fair value of any retained ownership interest and (ii) the prior book value of assets (including commercial credit) and liabilities of the subsidiary and any non-controlling participation. The amounts previously recognized in other comprehensive income items related to the subsidiary are recorded (that is, reclassified to profit or loss or transferred directly to retained earnings) in the same manner established for the case of the disposal of significant assets or liabilities. The fair value of any investment retained by the former subsidiary on the date of loss of control is regarded as the fair value for initial recognition in its subsequent accounting treatment, according to IAS 39, financial instruments: Recognition and valuation, or, where appropriate, the cost in the initial recognition of an investment in an associate or entity under joint control.

As of December 31, 2020, and 2019, the subsidiaries of Grupo Simec, S.A.B. de C.V. included in the consolidation are the following:

	Percentage of equity owned	
	2 0 2 0	2 0 1 9
<b>Subsidiaries established in Mexico:</b>		
Compañía Siderúrgica de Guadalajara, S.A. de C.V.	99.99%	99.99%
Arrendadora Simec, S.A. de C.V.	100.00%	100.00%
Simec International, S.A. de C.V.	100.00%	100.00%
Compañía Siderúrgica del Pacífico, S.A. de C.V.	99.99%	99.99%
Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V. (8)	100.00%	100.00%
Industrias del Acero y del Alambre, S.A. de C.V.	99.99%	99.99%
Procesadora Mexicali, S.A. de C.V.	99.99%	99.99%
Servicios Simec, S.A. de C.V.	100.00%	100.00%
Sistemas de Transporte de Baja California, S.A. de C.V.	100.00%	100.00%
Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (8)	100.00%	100.00%
Operadora de Metales, S.A. de C.V. (8)	100.00%	100.00%
Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	100.00%	100.00%
CSG Comercial, S.A. de C.V.	99.95%	99.95%
Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V.	100.00%	100.00%
Corporación Aceros DM, S.A. de C.V. and subsidiaries (1)	100.00%	100.00%
Acero Transportes San, S.A. de C.V. (1)	100.00%	100.00%
Simec Acero, S.A. de C.V.	100.00%	100.00%
Corporación ASL, S. A. de C.V.	99.99%	99.99%
Simec International 6, S.A. de C.V. (8)	100.00%	100.00%
Simec International 7, S.A. de C.V.	99.99%	99.99%
Simec International 9, S.A.P.I. de C.V.	100.00%	100.00%
Corporativos G&DL, S.A. de C.V. (8)	100.00%	100.00%
Orge, S.A. de C.V.	99.99%	99.99%
Siderúrgica del Occidente y Pacífico, S.A. de C.V.	100.00%	100.00%
RRLC, S.A.P.I. de C.V.	95.10%	95.10%
Grupo Chant, S.A.P.I. de C.V.	97.61%	97.61%
Aceros Especiales Simec Tlaxcala, S.A. de C.V.	100.00%	100.00%
Gases Industriales de Tlaxcala, S.A. de C.V.	100.00%	100.00%
GSIM de Occidente S.A. de C.V.	100.00%	100.00%
Fundiciones de Acero Estructural, S.A. de C.V.	100.00%	100.00%
Siderúrgicos Noroeste, S.A. de C.V. (9)	100.00%	100.00%
Simec Siderúrgico, S.A. de C.V. (10)	100.00%	100.00%
<b>Subsidiaries established in foreign countries:</b>		
SimRep Corporation and Subsidiaries (3) (4) (5)	99.41%	99.41%
Pacific Steel, Inc. (4)	100.00%	100.00%
Pacific Steel Projects, Inc. (4)	100.00%	100.00%
Simec Steel, Inc. (4)	100.00%	100.00%
Simec USA, Corp. (4)	100.00%	100.00%
Undershaft Investments, NV. (6)	100.00%	100.00%
GV do Brasil Industria e Comercio de Aço LTDA (7)	100.00%	100.00%
Companhia Siderurgica do Espiritu Santo S.A. (10) (7)	100.00%	100.00%
GS Steel B.V. (2)	Liquidated	Liquidated

(1) Companies located in San Luis Potosí. For purposes of this report constitute the “Grupo San”.

(2) Company established in Netherlands.

(3) ICH owns 0.59% of the shares in this company at December 31, 2020.

(4) Companies established in the United States of America, except a subsidiary of SimRep which is established in Canada.

(5) SimRep as an individual company has no significant operations or assets, except for its investment in Republic Steel. For purposes of this report, these companies are named “Republic”.

(6) Company established in Curaçao.

(7) Companies established in Brazil.

(8) Companies that have lost the entire capital stock, except Operadora de Metales, S.A. de C.V. and Corporativos G&DL, S.A. de C.V. which only have lost 2/3 of their capital stock.

(9) Company incorporated in 2017.

(10) Company incorporated in 2018.



**Summary of the main accounting policies** -The preparation of the consolidated financial statements requires the company's management make certain estimates and use certain assumptions to value some of the items in the financial statements and to make the disclosures required in the same. However, actual results may differ from these estimates. The Company's management, using its professional judgment, believes that the estimates made and assumptions used were adequate under the circumstances. The significant accounting policies of the Company are those mentioned below:

- a. **Conversion of foreign subsidiaries financial statements** - The functional and reporting currency of the Company is the Mexican peso (\$). The financial statements of foreign subsidiaries were translated to Mexican pesos in accordance with International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*. Under this standard, the first step to convert financial information from operations abroad is the determination of the functional currency. The functional currency is the currency of the primary economic environment of the foreign operation or, if different, the currency that mainly impacts its cash flows.

The U.S. dollar (US Dollar or USD\$) was considered as the functional currency of all the U.S. subsidiaries and Brazilian real for subsidiaries established in Brazil; therefore, the financial statements of these subsidiaries abroad were converted to Mexican pesos applying:

- The exchange rates at the balance sheet date, to all assets, liabilities and stockholder's equity.
- The historical exchange rate at revenues, costs and expenses.

The conversion differences are carried directly to the consolidated statements of comprehensive income as other comprehensive income under the caption translation effects of foreign subsidiaries.

Relevant exchange rates used in the conversion of the financial statements of foreign subsidiaries were as follows (Mexican pesos per one U.S. dollar):

Current exchange rate as of December 31, 2020	19.95
Current exchange rate as of December 31, 2019	18.87
Average exchange rate for the year ended December 31, 2020 (*)	21.49
Average exchange rate for the year ended December 31, 2019 (*)	19.26
Current exchange rate as of May, 14, 2021	20.094

(\*) Average exchange rate used to translate revenues, costs and expenses of the companies mentioned above.

- b. **Business combinations** - Acquisitions of subsidiaries and businesses units are accounted for using the acquisition method. The consideration for each acquisition is valued at its fair value on the date of exchange of the transferred assets, liabilities incurred or assumed and capital instruments issued by the Company in exchange for control of the acquired. The costs related to the acquisition are recognized in the results when incurred.

At the date of acquisition, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except:

- Deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements, which are recognized and measured in accordance with IAS 12, *Income Taxes*, and IAS 19, *Employee Benefits*, respectively.

- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that Standard.

Any excess of the cost of acquisition for the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the associated company recognized at the date of acquisition is recognized as goodwill. Goodwill is included in the carrying amount of the investment and is assessed for impairment annually. Any excess of the Group's interest in the net fair value of the assets, liabilities and contingent liabilities over the cost of acquisition, after the reassessment, is immediately recognized in profit and loss.

When the consideration transferred by the Company in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and later adjustments to the consideration are recognized against goodwill, providing that it has arisen from reliable information on the fair value at the acquisition date and occur during the 'measurement period' (which cannot exceed one year from the acquisition date). All other subsequent adjustments are recognized in profit or loss.

The subsequent accounting for changes in the fair value of the contingent estimates that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates. Contingencies classified as assets or liabilities are remeasured at subsequent reporting dates in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree are remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have been previously recognized in other comprehensive income (loss) are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

- c. **Cash and cash equivalents and temporary investments** - Cash consists of deposits in bank accounts that do not generate interest. Cash equivalents consists in temporary investments referred to as short-term fixed income investments whose original maturity is less than three months. These investments are reported at cost plus accumulated interest. The value so determined approximates their fair value.

Temporary investments in equity instruments are measured at the fair value prevailing at the date of the financial statements. Subsequent changes in the fair value are recognized in profit or loss.

- d. **Allowances for doubtful accounts** - The Companies recognize an estimation for expected credit loss, based on the historical experience of credit losses in their accounts receivable, current conditions and reasonable and sustainable forecasts of the different quantifiable future events that could affect the amount of future cash flows for recovering accounts receivable. The determination of the estimate is aligned with the criteria established in IFRS 9, "Financial instruments".
- e. **Inventories and cost of sales** - Inventories are stated at the lower of cost or net realizable value. The cost allocation formula used is the average cost. The cost includes acquisition costs of materials, labor and overhead costs related to manufacturing, based on normal activity levels. The net realizable value represents the estimated selling price for inventories less all estimated costs of completion and other necessary to make the sale.

The Company classifies raw material inventory in the Consolidated Statements of Financial Position based on its expected consumption period, presenting as long-term inventories those which in accordance with historical data and production trends will not be consumed in the short-term (one year).

The Company classifies as long-term inventory certain parts and rollers that, according to historical data and trends, showing that such inventories will not be consumed in the short-term. The Company utilizes coke, a form of coal, as a raw material input to fuel its blast furnace which has been inactive in Lorain, Ohio USA plant (see Note 9). The Company has 136,541 metric tons (MT) of coke inventory valued at 953 million Mexican pesos (average of USD\$ 350/MT) on hand at December 31, 2020 and 136,541 MT of coke inventory valued at 747 million Mexican pesos (average of USD\$ 290/MT) on hand at December 31, 2019 that is classified as long-term in the accompanying Consolidated Statements of Financial Position.

The Company follows the practice of providing a reserve for slow-moving inventory, considering the total of products and raw materials (including coke) with a turnover above one year, which is recorded in the statement of financial position and against account is the cost of sales.

The cost of sales of the Company includes inventory costs, outbound freight charges, purchasing and receiving costs, inspection costs, and warehousing costs in cost of goods sold. Vendor payment incentives are recorded as a reduction to cost of goods sold.

- f. **Property, plant and equipment** - Property, plant and equipment are recorded at acquisition cost less any recognized impairment loss. Cost includes all expenses related to acquisition and installation and, for qualifying assets, borrowing costs (interest) capitalized in accordance with the Company's accounting policy. Depreciation is recognized so as to write off the cost of assets (other than land and properties under construction) less their residual values over their useful lives, using the straight-line method, and commences when the assets are ready for their intended use. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any change in estimates accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The initial estimated useful lives of the Company's main assets are as follows:

	<u>Years</u>
Buildings	10 to 65
Machinery and equipment	5 to 40
Transportation equipment	4
Furniture, chattels and computer equipment	3 to 10

Repair and maintenance costs that significantly increase productive capacity or extend the useful lives of existing plant and equipment are capitalized. Supplies, comprising of spare parts and consumables for internal use are classified under property, plant and equipment and expensed as incurred in the manufacturing process. All other repair and maintenance costs are expensed as incurred. Capital expenditures for projects that cannot be put into use immediately are included in constructions and machinery in-progress. When constructions and machinery in-progress are completed, they are transferred to depreciable assets.

- g. **Leases** - IFRS 16 "Leases" became effective as of 1 January 2019. These provisions consist of recognizing an asset for the right to use the underlying asset and a liability for the lease thereof on the start date of the lease. The right-of-use asset is valued at acquisition cost less accumulated depreciation and, where appropriate, impairment losses; the Lease Liability is valued at the present value of future lease payments to be made and any other payment for the right to use the underlying asset in the lease term that has not been made at the start date of the lease. The company applied the exception established in paragraph 5 of IFRS 16, where the lease agreements signed are short-term and there is no reasonable certainty that they would be extended after their expiration.

- h. **Costs for loans** - Costs for loans directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are ready for their intended use or sale.

Investment income earned on the temporary investment of specific loans pending their expenditure on qualifying assets is deducted from the costs for loans eligible for capitalization.

All other costs for loans are recognized in profit or loss in the period in which they are incurred.

- i. **Intangible assets** - Intangible assets with definite useful lives that are acquired separately are carried at cost, less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for, on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Expenditure on research activities is recognized as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditure is recognized in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss.



- j. **Goodwill** - Goodwill arising from a business combination is carried as an asset at cost as established at the date of acquisition of the control of the business less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Company's cash-generating units that would be expected to benefit from the synergies of the combination. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in subsequent periods. On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.
- k. **Impairment of tangible and intangible assets other than goodwill** - At the end of each reporting period or more frequently when impairment potential identified, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any of such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. Where an impairment loss subsequently reverses, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. For purposes of allocation of goodwill when there is business combination will be distributed among each of the cash generating units of the acquiring entity, expected synergy benefits. A reversal of an impairment loss is recognized immediately in profit or loss and allocated to the assets of that unit, the carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss of value shall not exceed the carrying amount that would have been obtained if had not recognized an impairment loss in value for the asset in prior periods. Unless the related asset is recognized at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The reversal of the impairment loss is recorded on profit and loss, unless the corresponding asset recognizes a restated amount, in which case the reversal of the impairment loss is treated as a restatement increase.

- l. **Provisions** - Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle

the present obligation, it's carrying amount is the present value of those cash flows.

- m. **Employee benefits** - The costs of direct benefits and defined benefit and defined contribution retirement plans are recognized as an expense when employees have rendered service entitling them to the right to receive those benefits.

The retirement benefit liability is determined based on the present value of the defined benefit obligation at the date of the statement of financial position. Any compensation included in the determination of the liability premiums corresponds to seniority premiums for retirement. Actuarial gains and losses are recognized on profit or loss for the year. The retirement benefit liability and the related net cost of the period are determined under the projected unit credit method based on projected salaries and certain assumptions determined by independent actuaries.

Liabilities for employee benefits recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation.

Republic operates various employee benefit plans. The contributions to these benefit plans are either contractually determined by the terms of a collective bargaining agreement with the United Steelworkers or they are under the terms of a defined contribution plan. Accordingly, the company pays fixed contributions to separate entities and they are expensed in the period in which the employees rendered the services entitling them to the benefits.

- n. **Earnings per share** - Income per share is calculated by dividing net income or loss related to the controlling interests, by the weighted average shares outstanding during each year presented.

- o. **Income taxes** - Income taxes represents the sum of the tax currently payable and deferred taxes.

- **Current tax** - The Company incurs Income Tax (ISR) (See note 15) which is recorded in the result in the year in which it is determined. Determined ISR is based on fiscal earnings. Fiscal earning differs from the gain reported in the Consolidated Comprehensive Income Statement, due to taxable income or deductible expenses in other years and items which are never taxable or deductible. The tax liability for the Company is computed using statutory rates promulgated or substantially approved at the end of the period on report.

- **Deferred tax** -Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced by a valuation allowance to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are computed using the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The effects of changes in the statutory rates are accounted for in the period that includes the enactment date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The Company follows the practice of recognizing the benefit from the amortization of acquired or generated tax losses in current earnings that are amortized.

- **Current and deferred tax for the period** - Current and deferred tax are recognized as an expense or income in periodic profit or loss, except when they relate to items that are recognized in other comprehensive income (loss) or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income (loss) or directly in equity, respectively.
  - **Interests on recoverable tax balances** - Interest on recoverable tax balances are presented in the consolidated statements of comprehensive income as interest income.
- p. **Foreign currencies** - In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. In the case of non-monetary items, which arise from the payment or collection of anticipated considerations, are recognized at the exchange rate in force of the date of the transaction.

Exchange differences are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets and are recorded as an adjustment to interest costs on those foreign currency borrowings;
  - Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
  - Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on sale of all or part of the net investment.
- q. **Financial instruments** - Financial assets and financial liabilities are recognized when a group entity becomes a part to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

- r. **Financial assets** - Financial assets are classified into the following specified categories: "financial assets at fair value through profit or loss", "held-to-maturity investments", "available-for-sale financial assets" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

The Company does not have financial assets classified as “available-for-sale financial assets”.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and accounts receivable are measured at amortized cost using the effective interest method, less any impairment.

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organization; or
- The disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company’s past experience of collecting payments, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the financial asset’s original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Except for equity instruments available for sale, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

The Company recognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On recognition totally a financial asset, the difference between the carrying amount of an asset and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

When the financial asset is partially derecognized (when the Company retains the option to repurchase part of a transferred asset, or retains residual interest that does not result in the retention of substantial risks and rewards of ownership and the Company retains control), the Company will distribute the initial value of the financial asset between the part that continues to be recognized and the part that is no longer recognized based on the fair values of various parts as of the transfer date. The difference between the book value assigned to the part that is no longer recognized and the sum of the consideration received by such part; and any accumulated profit or loss assigned to it that has been recognized in other comprehensive income will be recognized in the consolidated income statement.

- s. **Financial liabilities** - Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Financial liabilities are classified as either financial liabilities “at fair value through profit or loss” or “other financial liabilities”.

Financial liability at fair value with changes through profit or loss is a financial liability classified as held for trading or it is designated as at fair value with changes through profit or loss.

A financial liability is classified as held for trading if:

- It has been acquired principally for the purpose of repurchasing it in the near term;
- On initial recognition, it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that has not been designated as a hedging instrument and fulfils the condition to be effective.

A financial liability other than a financial liability held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The yield of a group of financial assets, financial liabilities or both, is administered and assessed based on its fair value, according to an investment strategy or risk management that the Company has documented and provided internal information over that group, based on its fair value; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39, *Financial Instruments: Recognition and Measurement*, permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.
- Financial liabilities at fair value through profit or loss are recorded at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the ‘other gains and losses’ line item in the consolidated statement of comprehensive income.

- Other financial liabilities including borrowings are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate a shorter period), to the net carrying amount on initial recognition.
  - The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss at that time.
- t. **Derivative financial instruments** - The Company sometimes uses derivative financial instruments for hedging risks associated with natural gas prices; this commodity is used for the production of goods, for which it conducted studies on historical consumption, future requirement and commitments acquired, thus diminishing its exposure to risks other than its normal operating risks.

These derivatives are initially recognized at fair value at the date the derivative contracts are entered into and subsequently are remeasured to the fair value at the end of reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

To mitigate the risks associated with changes in natural gas prices occurring naturally as a result of the supply and demand on international markets, the Company uses natural gas cash-flow exchange contracts or natural gas swaps to offset fluctuations in the price of natural gas, whereby the Company receives a floating price and pays a fixed price. Fluctuations in natural gas prices from volumes consumed are recognized as part of the Company's operating cost.

At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Company documents whether the hedging instrument is highly effective in offsetting exposure to changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated under the heading of *fair value of derivative financial instruments*, net of the corresponding income taxes. The gain or loss relating to the ineffective portion of hedge instrument is recognized immediately in profit or loss, and is included in the cost of sales line item.

The Company periodically evaluates the changes in cash flows of the derivative instrument to analyze if the swaps are highly effective for mitigating the exposure to natural gas price fluctuations. A hedge instrument is considered to be highly effective when changes in its fair value or cash flows of the primary position are compensated on a regular or cumulatively basis, by changes in fair value or cash flows of the hedging instrument in a range between 80% and 125%.

Amounts previously recognized in other comprehensive income are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognized hedged item. However, when the hedged forecasted transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exerted, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated from the hedge instrument that had been recognized in other comprehensive income and accumulated in equity at that time remains in equity until the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

- u. **Revenue from contracts with customers** - The income derived from contracts with customers is recognized at the moment in which the control of the goods or services is transferred to the client for an amount that reflects the consideration to which the company expect to have rights, in exchange for those goods and services.

The Company's revenues are mainly recognized at a point of time from sales to direct customers. The Company does not have any obligations to be fulfilled in the contracts, which are obligations to be fulfilled separately and in which a portion of the transaction price should be allocated, other than the delivery of products confirming to the specifications of a customer purchase order. When determining the transaction price for the sale of products, the Company would consider the possible effects of the variable consideration, the existence of important financing components, the consideration other than cash and the consideration payable to the client.

#### Contract assets

An asset of the contract is the right to obtain a consideration in exchange for the goods or services transferred to the client when that right is conditioned by something other than the passage of time. If the Company fulfills an obligation by transferring goods or services to a customer before the customer pays the consideration or before collection is due, an asset derived from the contract is recognized for the conditional consideration that the Company is entitled to collect.

#### Accounts receivable

An account receivable represents the company's right to collect a consideration that is unconditional, that is, only the passage of time is required so that the payment of the consideration is payable.

#### Contract liabilities

A contract liability is the obligation of an entity to transfer goods or services to a customer from whom the entity has already received a consideration (advance from customers) or that consideration is already payable. If a customer pays a consideration, or the Company has an unconditional right to receive an amount as consideration before the Company transfers a good or service to the customer, the Company recognizes a contract liability when the payment is made or is due.

- v. **Financial information by operating segment** - An operating segment is an identifiable component of the Company that performs business activities, from which it may earn revenues and incur expenses, including those income and expenses related to transactions with other components of the entity and upon which the company has separate financial information that is evaluated regularly by the Board of Directors, in making decisions to allocate resources and assess segment performance.
- w. **Environmental liabilities** - The Company and other steel companies are subject to stringent environmental laws and regulations. It is the policy of the Company to endeavor to comply with applicable environmental laws and regulations. The Company established a liability for an amount which the Company believes is appropriate, based on information currently available, to cover costs of environmental remediation it deems probable and estimable. The liability represents an estimate of the environmental remediation costs associated with the required future steps of remediation, based upon management's evaluation of probable outcomes. These estimates are based on currently available facts, existing technology and presently enacted laws and regulations. The precise timing of remediation activities cannot be reliably determined at this time due to the absence of any deadlines for remediation under the applicable environmental laws and regulations pursuant to which such remediation costs will be expended. Accordingly, the Company has not discounted its environmental liabilities. Currently no claims for recovery are netted against the recorded liabilities.
- x. **Cost of sales and expenses by function** - The Company classifies its costs and expenses by function in the Consolidated Statements of Comprehensive Income, according to accepted practices for the industry in which it operates.

## 5. Critical accounting judgments and key sources of estimates

In the application of the Company's accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions regarding the carrying amounts of assets and liabilities. The estimates and associated assumptions are based on historical experience, the future and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis and the resulting changes are recorded on the period in which the estimate has been modified, if such change affects only that period or in future periods.

- a. **Critical accounting judgments** - The following are the critical judgments in the application of accounting policies, apart from those involving estimations, that the management have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements:
  - **Functional currency** - The Company's management has evaluated all the indicators that in its opinion are relevant and has concluded that the Company's functional currency is the Mexican Peso. Likewise, the Company has concluded that the functional currency of the companies located abroad are those mentioned in Note 4-a.
- b. **Key information for estimates** - The following are the key assumptions, and other key sources of estimation at the consolidated balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the following financial year.
  - **Allowance for doubtful accounts** - Management applies judgment at each balance sheet date creating an allowance for doubtful accounts, in order to show the possible financial loss caused by the inability of customers to make the corresponding payments. The Company calculates its allowance based on the accounts receivable aging and other considerations for specific accounts.



- **Net realizable value of inventory** - At each balance sheet date, professional judgment is used to determine any impairment in inventory. Inventory is considered as impaired when its carrying value is higher than its net realization value.
- **Impairment of long-lived assets in use** - Management applies professional judgment at each balance sheet date to determine whether the long-lived assets in use are impaired. Long-lived assets in use are impaired when the carrying value is greater than the recoverable amount and there is objective evidence of impairment. The recoverable amount is the present value of the discounted future cash flows that will generate during the remaining useful life, or liquidation value (fair value).
- **Estimating useful lives and residual values of property, plant and equipment** - As described in Note 4 f, the Company reviews the estimated useful life and residual values of property, plant and equipment at the end of each annual reporting period.
- **Impairment of goodwill** - Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.
- **Employee Benefits** - The valuation of employee benefits is carried out by independent actuaries based on actuarial studies. Among others, the following assumptions, which can have an effect are used:(i) discount rates, (ii) the expected growth rates of wages and (iii) turnover rates and mortality recognized tables.

A change in the economic, employment and fiscal conditions could modify the estimates.

- **Contingencies** - The Company is subject to transactions or contingent events for which it uses professional judgment in the development of estimates of probability of occurrence. Factors that are considered in these estimates are the current legal situation at the date of the estimate and, the opinion of the legal advisers.
- **Deferred income tax assets** - The Company reviews the carrying amounts at the end of each reporting period and reduces deferred income tax assets to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Company will generate sufficient taxable profit to allow all or part of its deferred income tax assets to be realized.
- **Valuation of financial instruments** -The Company has certain types of derivative financial instruments (gas swaps), and the valuation techniques that includes to determine the fair value are based in data obtained in observable markets.

The Company's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of derivative financial instruments. At December 31, 2020 and 2019 the Company has no derivative financial instruments.

## 6. Cash and cash equivalents and other investments

Cash and cash equivalents are as follows:

	December 31,	
	2020	2019
Cash	\$ 6,971,175	\$ 898,394
Cash equivalents (1)	756,523	6,548,053
	<u>\$ 7,727,698</u>	<u>\$ 7,446,447</u>

- (1) Cash equivalents are investments with initial original maturities of less than 90 days and consist primarily of Treasury Bills issued by the United States Treasury Department.



## 7. Trade receivables - Net

The average collection period on sales of goods is between 30 and 60 days. No interest is charged on the outstanding accounts receivables from clients. The Company has recognized an allowance for doubtful accounts to show the possible financial loss caused by the inability of customers to make the corresponding payments. Allowances for doubtful accounts are calculated based on several factors including price adjustments, likelihood of recovery, aging and historical experience.

Credit limits and credit scores of customer are reviewed twice a year. On December 31, 2020 and 2019 there were no customers who represent more than 5% of the total balance of trade receivables. The Company does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Company to the counterparty.

Trade receivables disclosed below include amounts that are past due at the end of the reporting period for which the Company has not recognized an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company does not hold any collateral. In general terms, the accounts receivable does not show impairment.

Age of net receivables that are past due were as follows:

	<b>At December 31,</b>	
	<u>2020</u>	<u>2019</u>
30 - 60 days	\$ 164,646	\$ 279,048
61 - 90 days	22,288	121,790
91 + days	245,420	535,955
Total	<u>\$ 432,354</u>	<u>\$ 936,793</u>

During the years ended December 31, 2020 and 2019, the movement in the allowance for doubtful accounts was as follows:

	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 237,098	\$ 231,778
Provisions	0	4,529
Cancellation	(415)	(63)
Account recoveries	(1,333)	
Translations effects	(1,995)	854
Balance at end of year	<u>\$ 233,355</u>	<u>\$ 237,098</u>

In determining the non-recoverable portion of accounts receivable, the Company considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is minimum, due to the fact that the customer base is large and unrelated.

Republic made an agreement with a third party ("buyer") to carry out a factoring of accounts receivable to customers. It was cancelled with effect from October 31, 2019. In this agreement, the maximum established amount of advances related to the allocation of accounts is USD \$ 30 million. The remaining amount between the received and the value of the invoices is kept in reserve by the "buyer". The payments of the funds retained in reserve minus a discount will be made by the buyer within 4 days after receiving the collection payments related to each assigned account. Said discount will be made on the total of the invoice and is in a range of 1% if the payment is made within 15 days (from the advance date) or up to 3.75% if paid within 90 days and 1% for every additional fifteen days until the account is settled. This discount is recognized as an interest expense in the consolidated statement of comprehensive income.

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

In 2020, no factoring sale transaction was carried out, (USD \$ 11.2 million in 2019). The discount fees incurred by factoring sale transactions were approximately USD \$ 0.0 million in 2020 and USD \$ 0.3 million in 2019. These fees were included in expenses for interest in the Consolidated comprehensive income statement.

## 8. Recoverable taxes

	December 31,	
	2020	2019
Value Added Tax	\$ 534,760	\$ 781,082
Income Tax	494,603	185,243
Other	445	445
	<u>\$ 1,029,808</u>	<u>\$ 966,770</u>

## 9. Inventories

	December 31,	
	2020	2019
Current inventory:		
Finished goods	\$ 2,302,443	\$ 1,900,624
Work-in-process	96,174	109,247
Billets	2,232,736	1,791,802
Raw materials and supplies	2,817,090	2,760,319
Materials, spare parts and rollers	1,233,282	1,146,705
Materials in-transit	391,874	534,516
	<u>\$ 9,073,599</u>	<u>\$ 8,243,213</u>

Non-current inventory:

	December 31,	
	2020	2019
Coke	\$ 952,690	\$ 747,300
Spare parts	72,139	68,587
Rollers	185,498	144,486
Finished goods	353,095	353,095
	1,563,422	1,313,468
Less, valuation allowance at the lower of cost or net realizable value.	(353,095)	(353,095)
	<u>\$ 1,210,327</u>	<u>\$ 960,373</u>

The Company has \$ 952,690 and \$ 747,300 of coke inventory on hand as of December 31, 2020 and 2019 respectively (See note 4-e), which the Company would use as an input to its blast furnace in the Lorain facility which is currently idled. Management of the Company continually evaluates both the idled facility and the coke inventory for impairment. Management periodically evaluates the potential degradation of the coke inventory and has determined that it continues to be suitable as a blast furnace input or, alternatively, for sale to other blast furnace facilities. As of February 2021, management considers that there will be recovery in the industries in which the Company operates; this would result in the blast furnace being restarted in the future. However, the Company has recorded an impairment to the blast furnace resulting in a book value of zero. The Company has continued incurring certain costs to maintain the assets in Lorain, including the blast furnace and the coke; such costs are expensed as incurred. In order to restart the blast furnace the Company will incur expenses for the restoration of the equipment, and there is still uncertainty on the date on which the blast furnace will restart operation, if ever The Company cannot offer any guarantee of the eventual restarting of the blast furnace or when conditions will become economically feasible to do so.

## 10. Property, plant and equipment

Cost of property, plant and equipment is as follows (in millions of Mexican pesos):

	Land	Buildings	Machinery and equipment	Transportation equipment	Furniture, mixtures and computer equipment	Constructions and machinery in-progress	Total
Balance to January 1, 2019	\$ 1,217	\$ 4,680	\$ 28,957	\$ 159	\$ 139	\$ 1,410	\$ 36,562
Additions	89	591	532	2	4	53	1,271
Translation adjustments	(15)	(133)	(563)	0	(2)	(92)	(805)
Balance as of December 31, 2019	\$ 1,291	\$ 5,138	\$ 28,926	\$ 161	\$ 141	\$ 1,371	\$ 37,028
Additions	20	323	525	0	0	83	951
Reclassifications	0	94	334	0	0	(428)	0
Translation adjustments	5	(115)	(148)	0	3	(11)	(266)
Balance as of December 31, 2020	\$ 1,316	\$ 5,440	\$ 29,637	\$ 161	\$ 144	\$ 1,015	\$ 37,713

Accumulated depreciation of property, plant and equipment is as follows (in millions of Mexican pesos):

	Buildings	Machinery and equipment	Transportation equipment	Furniture, mixtures and computer equipment	Total
Balance as of December 31, 2018	1,055	\$ 18,380	\$ 81	\$ 75	\$ 19,591
Depreciation expense	30	1,063	4	2	1,099
Translation effects	(3)	(396)	0	0	(399)
Balance as of December 31, 2019	1,082	\$ 19,047	\$ 85	\$ 77	\$ 20,291
Depreciation expense	152	1,283	2	4	1,441
Translation effects	21)	52	(1)	0	30
Balance as of December 31, 2020	\$ 1,213	\$ 20,382	\$ 86	\$ 81	\$ 21,762

The depreciation expense for the years ended December 31, 2020, and 2019 amounted to \$ 1,441,021 and \$ 1,098,749, respectively.

The net book value of property, plant and equipment is as follows (in millions of Mexican pesos):

Net Book Value:	Land	Buildings	Machinery and Equipment	Transportation equipment	Furniture, mixtures and computer equipment	Constructions and machinery in-progress	Total
Balance as of December 31, 2018	\$ 1,217	\$ 3,625	\$ 7,187	\$ 78	\$ 64	\$ 4,800	\$ 16,971
Balance as of December 31, 2019	\$ 1,291	\$ 4,056	\$ 9,879	\$ 76	\$ 64	\$ 1,371	\$ 16,737
Balance as of December 31, 2020	\$ 1,316	\$ 4,227	\$ 9,255	\$ 75	\$ 63	\$ 1,015	\$ 15,951

Until December 31, 2014, Republic has invested USD \$158.8 million in an electric arc furnace and auxiliary facilities for its steel facility in Lorain, Ohio, USA, with the intention to satisfy growing customer demand of SBQ. The locality of this steel mill was selected due to its strategic location close to customers and the availability of skilled labor. Furnace construction started at midyear of 2012 and the operations started production in July 2014. The furnace steel amount includes of USD \$ 45.4 million of labor and capitalized indirect expenses.

This facility was idled in June of 2015 and management has no near-term plans to restart the facility. The expectation is that it will be restarted when market conditions improve substantially, particularly in the oil and gas drilling industry. The Company has property, machinery, and equipment with a net book value of approximately USD\$ 40.3 and USD\$ 41.5 million as of December 31, 2020 and 2019, pertaining to the Lorain, Ohio facility after recording an impairment charge when the facility was idled.

As a consequence of this event, management determined a triggering event took place to where the long-lived assets at the Lorain facility may not be fully recoverable. Management performed an analysis of the fair value of the Lorain facility with the assistance of an independent valuation firm and determined the net book value exceeded the fair value by approximately U.S.\$130.7 million (Ps. 2,701 million) and as such recognized an asset impairment of this amount during the year ended December 31, 2015. The fair value determination at the Lorain facility was based on an independent valuation of the Lorain melt shop assets using the comparable match method of the market approach. The income approach was not considered an appropriate fair value measurement due to the absence of reliable forecast data as the facility was idled indefinitely in early 2016.

Since March 31 2016 all Lorain facilities were closed temporarily. At May 14, 2021 Management has no near-term plans to restart the facility. The expectation is that it will be restarted when market conditions improve substantially, particularly in the oil and gas industry. We have property, plant and equipment with a net book value of approximately U.S.\$40.3 (Ps. 803 million) as of December 31, 2020 and U.S.\$41.5 million (Ps. 783 million) as of December 31, 2019, pertaining to the Lorain, Ohio, facility after recording the impairment charge of U.S.\$130.7 million (Ps. 2,701 million) in 2015 (the impairment charge did not impact the cash flows, as it was not a cash expenditure). Management further assessed if there were any impairments at the Company's other asset groups in accordance with IFRS and determined that as of December 31, 2020, no other asset groups were impaired based on current projections. No further impairment was considered necessary or appropriate.

## 11. Intangible and other long-term assets

The balances as of December 31, 2020 and 2019 are as follows:

Assets	2 0 2 0			Amortization period (years)
	Original Value	Accumulated amortization	Net	
Republic trade mark	\$ 107,380	\$ -	\$ 107,380	*
Kobe Tech contract	125,141	125,141	0	12
Customers list	65,550	65,550	0	20
Total from Republic (1)	298,071	190,691	107,380	
Customers list	2,205,700	2,205,700	0	9
San 42 trademark (2)	329,600	-	329,600	*
Goodwill (2)	1,814,160	-	1,814,160	*
Total from Grupo San (3)	4,349,460	2,205,700	2,143,760	
Other assets	4,647,531	2,396,391	2,251,140	
	71,816	-	71,816	
	<u>\$ 4,719,347</u>	<u>\$ 2,396,391</u>	<u>\$ 2,322,956</u>	

Assets	2 0 1 9			Amortization period (years)
	Original Value	Accumulated amortization	Net	
Republic trade mark	\$ 101,657	\$ -	\$ 101,657	*
Kobe Tech contract	118,471	118,471	-	12
Customers list	62,056	47,378	14,678	20
Total from Republic (1)	282,184	165,849	116,335	
Customers list	2,205,700	2,205,700	-	9
San 42 trademark (2)	329,600	-	329,600	*
Goodwill (2)	1,814,160	-	1,814,160	*
Total from Grupo San (3)	4,349,460	2,205,700	2,143,760	
Other assets	4,631,644	2,371,549	2,260,095	
	75,022	-	75,022	
	<u>\$ 4,706,666</u>	<u>\$ 2,371,549</u>	<u>\$ 2,335,117</u>	

\* Intangible assets with undefined useful life.

(1) Intangible assets from the Republic acquisition.

(2) The San 42 trademark and the goodwill are presented net of impairment losses recorded in 2009 for \$16,000 and \$2,352,000, respectively.

(3) Intangible assets from the Grupo San acquisition.

The amortization of these assets recorded in net income of the years ended December 31, 2020 and 2019, amounted to \$ 11,250 and \$ 9,880, respectively.

The other assets are not subject to amortization and they are primarily comprised of guarantee deposits.

The reconciliation between the opening and closing balances of each year is presented below:

Assets	Original Value	Accumulated amortization	Net
Balance as of December 31, 2018	\$ 4,672,503	\$ (2,372,451)	\$ 2,300,052
Additions	9,880	(9,880)	-
Adjustment effect of the year	24,283	10,782	35,065
Balance as of December 31, 2019	\$ 4,706,666	\$ (2,371,549)	\$ 2,335,117
Additions	11,250	(11,250)	-
Adjustment effect of the year	1,431	(13,592)	(12,161)
Balance as of December 31, 2020	\$ 4,719,347	\$ (2,396,391)	\$ 2,322,956

## 12. Short-term debt

On October 22, 1997 and August 17, 1998, the Company offered the holders of medium-term notes of Simec then outstanding to exchange their bonds at par for new subordinated bonds. The new notes bear semi-annual interest at an annual rate of 10.5% interest and principal repayments were semiannual from May 15, 2000 until November 15, 2007. At December 31, 2020 and 2019, the amount of such notes outstanding totaled USD\$ 0.3 million, plus accrued interest. At December 31, 2020 and 2019, liabilities in pesos for the new notes outstanding amounted \$ 6,020 and \$ 5,700, respectively.

## 13. Accounts payable trade and other accrued liabilities

	December 31,	
	2020	2019
Trade accounts payable	\$ 5,347,325	\$ 4,179,830
Other accrued liabilities	1,266,512	1,547,214
	<u>\$ 6,613,837</u>	<u>\$ 5,727,044</u>

## 14. Employee benefits

### *Mexican entities*

- a. **Collective bargaining agreements** - During 2020, approximately 44% (43% on 2019) of the employees in the Company's Mexican operations are covered by collective bargaining agreements. The Mexican collective contracts expire in periods greater than one year.
- b. **Seniority premium benefits** - In accordance with Mexican Labor Law, the Company provides seniority premium benefits to its employees under certain circumstances. Such benefits consist of a one-time payment equivalent to 12 days wages for each year of service (at the employee's most recent salary, but not to exceed twice the legal minimum wage), payable to all employees with 15 or more years of service, as well as to certain employees terminated involuntarily prior to the vesting of their seniority premium benefit. These obligations are calculated by independent actuaries using the projected unit credit method.

The most important actuarial hypothesis used for the purposes of the determination of the net cost of the period related to the retirement benefits plan were as follows:

	2020	2019	2018
Discount rate	7.7	7.7	9.5
Rate of salary increase	4.5	4.5	4.5



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

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
Current service cost	\$ 6,775	\$ 2,179	\$ 2,839
Financial cost	9,294	4,242	4,025
Past service cost	528	1,947	1,481
Anticipated reduction obligations	(2,366)	296	(327)
Actuarial losses (gains) recognized in the year	20,579	32,934	(17,928)
	<u>\$ 34,810</u>	<u>\$ 41,598</u>	<u>\$ (9,910)</u>

The expense for the years 2020, 2019 and 2018 was recorded as follows:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
Cost of sales	\$ 19,494	\$ 23,296	\$ (5,550)
Administrative expenses	15,316	18,302	(4,360)
	<u>\$ 34,810</u>	<u>\$ 41,598</u>	<u>\$ (9,910)</u>

The amounts included in the Consolidated Statements of Financial Position as of December 31, 2020 and 2019 are \$ 161,864 and \$ 123,368, respectively, corresponding to the present value of defined benefit obligations.

Changes in the present value of the defined benefit obligation and the balance of the liability consist of the following:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>
Opening balance of the defined benefit obligation	\$ 123,368	\$ 81,770
Current service cost	6,736	2,179
Past service cost	8,957	1,947
Financial cost	9,305	4,242
Actuarial losses (gains)	17,146	32,934
Benefits paid	(3,648)	296
Closing balance of the defined benefit obligation	<u>\$ 161,864</u>	<u>\$ 123,368</u>

- c. **Severance benefits** - Further, in accordance with the Mexican labor laws, the Company also provides statutorily mandated severance benefits to its employees terminated under certain circumstances. Such benefits consist of a one-time payment of three months' wages plus 20 days' wages for each year of service, payable upon involuntary termination without just cause. Severance benefits payments are recorded directly in the consolidated statement of comprehensive income (loss) at the time they are paid, unless they are related to restructuring expenses, which are recorded when there is a present obligation from past events.
- d. **Employee profit sharing (EPS)** - The Mexican Constitution and the Labor Law grant employees the right to receive a 10% share of the employers' profits. Employees Profit Sharing is computed in similar terms to the taxable profit for income tax, excluding mainly the employee's profit sharing paid this year and the amortization of tax losses and decreasing the non-deductible part of the social security for purposes of income tax. For the years 2020 and 2019, EPS amounted to \$ 0 and \$ 0, respectively. EPS is recorded in the results of operations for the year in which it is incurred.
- e. **Governmental defined contribution plans** - Under Mexican legislation, the Company must make payments equivalent to 2% of its workers' daily integrated salary (ceiling) to a defined contribution plan that is part of the retirement savings system. The expense in 2020, 2019 and 2018 was \$12,098, \$12,338 and \$13,687, respectively.

## Foreign entities (Republic)

Republic is the only subsidiary of the Company which offers other benefits and pension plans to their employees. Such benefit plans to employees are described below:

### a. Collective Bargaining Agreements

As of December 31, 2020 and 2019 70% and 79%, respectively of Republic employees are covered by a collective bargaining agreement (labor agreement) with the United Steelworkers (“USW”). The agreement initially expired on August 15, 2016, was extended for three years through August 15, 2019, and further extended through August 15, 2022. The extended agreement renews all the provisions, understandings and agreements set forth in the January 1, 2012 Basic Labor Agreement. The base rates of pay determined under the extended agreement will remain unchanged from those ruling under the expired agreement as of August 16, 2016. The extended agreement provides that Company’s quarterly contributions to fund the Republic Retirement VEBA Benefit Trust (the “Benefit Trust”) be reduced from \$2.6 million to \$0.25 million beginning in August 15, 2016 through June 30, 2019. Effective July 1, 2019, the Company’s contribution to the Benefit Trust changed to \$4.00 per hour for each hour worked by USW represented employees. Effective August 16, 2019, until June 30, 2022, the Company obligation to finance the Profit Trust changed again and is limited to the creation of a profit-sharing pool consisting of 3% of the quarterly profits from \$ 0 to 50 million and 4% of the profits of the Company over % 50 million. Effective July 1, 2022, the Company’s contribution to the Beneficiary Trust changes back to a limit of \$ 4.00 per hour worked by USW represented employees.

## Defined Contribution Plans

**Plan for employees-** Republic participates in the Steelworkers Pension Trust (SPT), a defined benefit multi-employer pension plan. The Company obligations to the plan are based upon fixed contribution requirements. Republic contributes a fixed amount of USD\$1.68 per hour for each covered employee’s contributory hours, as defined under the plan.

Participation in a multi-employer pension plan agreed under terms of a collective bargaining agreement differs from a traditional qualified single employer defined benefit pension plan. The SPT shares risks associated with the plan in the following respects:

- I. Contributions to the SPT by Republic may be used to provide benefits to employees of other participating employers;
- II. If a participating employer stops contributing to the SPT, the unfunded obligations of the plan may be borne by the remaining participating employers; and
- III. If Republic chooses to stop participating in the SPT, Republic may be obliged to pay an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

### b. VEBA Benefit Trust

The Company is required to make quarterly contributions to the defined contribution plan for post-retirement health benefits VEBA as determined by the terms of the USW collective bargaining agreement. The Benefit Trust is a health and welfare plan for USW retiree benefits, and is not a “qualified” plan under the regulations of the Employee Retirement Income Security Act of 1974. For the years ended December 31, 2020 and 2019, the Company recorded expenses of USD\$ 0 and USD \$ 1.1 million, respectively, related to this benefits plan.

For the years ended December 31, 2020, 2019 and 2018, Republic recorded combined expenses of USD\$ 3.1 million, USD\$ 3.6 and USD\$ 3.0 million, respectively, related to the funding obligations of the retirement healthcare and pension benefits.

c. **401(k) Plans**

The Company has a 401(k) defined contribution retirement plan that covers almost all the salaried and nonunion hourly employees. This plan is designed to provide retirement benefits through Company contributions and voluntary deferrals of employees' compensation. The Company funds contributions to this plan each pay period, based on the participant's age and years of service as of January first of each year. The amount of the Company contribution is equal to the monthly base salary multiplied by the appropriate percentage based on age and years of service. The contribution becomes 100% vested upon completion of three years of vesting service. In addition, employees are permitted to make contributions to this 401(k)-retirement plan through payroll deferrals. In this case, the Company provides a 25.0% matching contribution for the first 5.0% of payroll that an employee elects to contribute. Employees are 100% vested in both their and Republic matching 401(k) contributions. For the years ended December 31, 2020, 2019 and 2018 the Company recorded expense of USD\$ 1.1 million, USD\$ 1.1 million and USD\$ 1.0 million, respectively, related to this defined contribution retirement plan.

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

d. **Profit Sharing and Incentive Compensation Plans**

The labor agreement includes a profit sharing plan to which the Company is required to contribute. The extended agreement modified the plan to the following quarterly pretax income, as defined in the labor agreement ("EBT"): 3% of EBT between \$0 and \$25 million per quarter; 4% of EBT between \$25 and \$75 million per quarter; and 5% of EBT over \$75 million per quarter. For the year ended December 2020 and 2019, the company does not make outlays, because the current year thresholds had not been achieved, USD \$ 1.0 million of expense was recorded for the year ended December 31, 2018.

Republic has a profit-sharing plan for all salaried employees and nonunion workers. The profit-sharing plan was based on achieving certain profitability, inventory and shipments targets. In the year ended December 31, 2020, 2019 and 2018 the Company paid USD 0.0 million, USD \$ 0.0 and USD \$0.8 million respectively, under this plan.

**15. Income taxes**

The Company is subject to Income Tax (ISR).

The analysis of the income tax charged to the results of 2020, 2019 and 2018 is as follows:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
Income tax of the year for Mexican companies	\$ 1,460,057	\$ 3,177,506	\$ 67,745
Income tax year for foreign companies	370,860	301,263	444,104
Deferred tax for Mexican companies	(94,604)	12,978	408,141
Deferred tax for foreign companies	341,531	(215,473)	(167,528)
	<u>\$ 2,077,844</u>	<u>\$ 3,276,274</u>	<u>\$ 752,462</u>

The amount of income tax of Mexican companies includes \$554,435 and \$2,323,662 in 2020 and 2019 respectively, which correspond to taxes and expenses of previous years, that were covered by several corporations of the Group; these taxes were determined by tax authorities, corresponding to fiscal years 2013 to 2017, which are indicated in Note 23 (j); The Companies that covered the taxes subscribed Reparatory Agreements with the Service of Tax Administration (SAT), in relation with the audits for fiscal years 2013 to 2017, with the objective of reaching a fair agreement and in that way solve the disputes that were in the Courts indicated in Note 23 (j). With the \$554,435 amount were solved, totally, the disputes that were in the Courts with tax authorities mentioned in Note 23 (j).

During 2020 and 2019, the income tax expense (benefit) attributable to income was different from the one that will result for applying 30% (tax rate in Mexico) before these provisions, as a result of the items shown below:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
Expected benefit, expense	\$ 1,462,776	\$ 490,925	\$ 1,308,828
Increase (decrease) as a result of:			
Inflation effect, net	(139,134)	(417,960)	(114,419)
Impact of the nominal rate differences between the USA and Mexico	11,075	(23,368)	(35,914)
Benefit from utilization of tax loss carry-forwards and others (1)	16,173	(987,135)	(1,238,444)
Others, net (includes permanent items)	172,519	1,890,150	832,411
Income tax expense (2)	<u>\$ 1,523,409</u>	<u>\$ 952,612</u>	<u>\$ 752,462</u>
Effective tax rate	<u>31.24%</u>	<u>58.21%</u>	<u>17.92%</u>

- (1) This amount corresponds to the income tax benefit obtained by those companies that used tax loss carry-forwards in the years presented that were generated previously to 2020, 2019 and 2018, less the effect of tax losses incurred by some subsidiaries for which no deferred tax asset was recorded.
- (2) For the purpose of determining the effective tax rate, the payments corresponding to taxes from previous years and expenses that were paid by various group companies derived from repair agreements during 2020 and 2019 fiscal years were not considered within the income tax expense.

The Company has tax losses in some Mexican subsidiaries which, according to the ISR law in Mexico, can be amortized to reduce taxable income generated over the following ten years. Tax losses can be updated following certain procedures established in the law.

As of December 31, 2020, Grupo Simec, S.A.B. de C.V. and certain of its Mexican subsidiaries have updated tax losses pending of amortize as follows:

<u>Origin Date</u>	<u>Expiration Date</u>	<u>Tax losses available</u>
2011	2021	7,832,672 <sup>(1)</sup>
2012	2022	13
2013	2023	4,944
2014	2024	14,231
2015	2025	8,395
2016	2026	356,102
2017	2027	348,058
2018	2028	100,674
2019	2029	1,119,822
2020	2030	846,324
		<u>\$ 10,631,235</u>

- (1) This amount includes \$ 7,832,647 corresponding to a tax loss from the sale of shares which, according to the Income Tax Law, can only be applied against taxable profits on the sale of shares generated in the future.

As of December 31, 2020, Republic had USD\$ 281.0 million of tax losses pending to amortize for federal tax purposes, of those USD \$80.7 million are undefined and USD \$200.3 million expire between 2033 and 2038; USD\$ 313.6 million of tax losses for state and local purposes that expire between 2021 and 2040 and approximately USD\$ 6.1 million of tax losses at the subsidiary located in Canada, which expire between 2032 and 2040.

As of December 31, 2020, and 2019, GV do Brasil Industria e Comercio of Aço LTDA, a subsidiary established in Brazil, had 203.346 million Brazilian Reals (\$ 985 million of Mexican pesos) and 210.525 million Brazilian Reals (\$ 1,025 million of Mexican pesos) respectively of tax losses pending to amortize for federal tax purposes, which do not have an expiration date.

As of December 31, 2020, Companhia Siderúrgica do Espirito Santo S.A., a subsidiary established in Brazil, had 6.082 million Brazilian Reals (94 million of Mexican pesos) of tax losses pending of amortize for federal tax purposes, which do not have an expiration date.

Below is a summary of the effects of the main temporary differences comprising the deferred income tax liability included in the consolidated statements of financial position.

	December 31,	
	2020	2019
Deferred tax assets:		
Allowance for doubtful accounts	\$ (61,536)	\$ (50,476)
Advances from customers	283,846	182,635
Deferred tax assets	<u>222,310</u>	<u>132,159</u>
Deferred tax liabilities:		
Property, plant and equipment	3,321,941	3,159,719
Intangible assets from Grupo San	329,600	318,768
Provisions	202,407	30,641
Prepaid expenses	6,883	33,137
Total deferred liabilities	<u>3,860,831</u>	<u>3,542,265</u>
Deferred tax liabilities, net	<u>\$ 3,638,521</u>	<u>\$ 3,410,106</u>

## 16. Stockholders' equity

- a. Common stock as of December 31, 2020 and 2019, is as follows:

	Number of shares (in thousands)	Amount
Fixed capital	90,850	\$ 441,786
Variable capital	406,859	1,978,444
	<u>497,709</u>	<u>2,420,230</u>
Effect of restatement		412,038
Total	<u>497,709</u>	<u>\$ 2,832,268</u>

Common stock consists of nominative shares, fully subscribed, without nominal value. Variable capital can be increased without limitation.



All shares correspond to Series “B”. This series is divided in “Class I” with 90,850,050 shares that represent the fixed capital, and “Class II” with 406,859,164 shares of variable capital stock.

- b. Retained earnings include the statutory legal reserve. According to the Mexican General Corporate Law, at least 5% of net profit of the year must be transferred to the legal reserve until the reserve equals 20% of capital stock at par value (historical Mexican Pesos). The legal reserve may be capitalized but should not be distributed unless the entity is dissolved, and it must be replenished if it is reduced for any reason. As of December 31, 2020, and 2019, the legal reserve of the Company amounted to \$ 484,046 (nominal pesos), representing 20% of nominal stockholder’s equity.
- c. As of December 31, 2020, a reserve was approved for \$ 5,000,000 for the repurchase and placement of own shares, for purchase and re-purchase operations, in order to increase the liquidity of the shares of the Company and promote stability and continuity of their prices through the Mexican Stock Exchange. As of December 31 2020, and 2019, the Company held 34,465,803 and 33,729,926 shares in treasury, respectively, which amounted to \$ 2,101,652 and \$ 2,059,668, respectively. The resulting loss in 2020 for the purchase and sale of treasury shares amounted to \$ 0 ( in 2019).
- d. At the Ordinary General Shareholders’ Meeting held on February 10, 2020, a Ps. 1,990 million dividend was approved from the net tax profit account for the profits generated until December 31, 2013, which was paid in full on March 10, 2020. For Income Tax purposes, based on section XXX of article nine of the transitory provisions of the Income Tax Law, the withholding will not be made as referred to in the second paragraph of article 140, and in sections I and IV of article 164 of the same law, since dividends decreed will be paid out from the tax utility account net of tax profits generated until December 31, 2013. The Company has in the form of independent in other accounts of net tax income as of January 1, 2014, in the terms of article 77 of the Income Tax Law.
- e. A reconciliation of the number of shares outstanding shows below:

	Thousands of shares	
	2 0 2 0	2 0 1 9
Shares outstanding at beginning of year	466,141	466,919
Repurchase of capital shares, net	(2,898)	(2,940)
Shares outstanding at yearend	<u>463,243</u>	<u>463,979</u>

## 17. Non-controlling interest

As mentioned in Note 4, Grupo Simec, S.A.B. de C.V. does not own 100% of the capital stock of all of its subsidiaries (99.41%). The non-controlling interest represents the equity in subsidiaries owned by minority shareholders, and is presented in the consolidated statements of financial position after the controlling interest. The consolidated statements of comprehensive income (loss) also show total net profit or loss for the year as well as for the net comprehensive income or loss for the year. Controlling and non-controlling interest portions are presented after the consolidated comprehensive earning of the year.

The table below shows the changes for the years ended December 31, 2020 and 2019:

	2 0 2 0	2 0 1 9
Balance at beginning of year	\$ 24,800	\$ (323,369)
Share of profits and losses for the year	(105)	(3,949)
Share of translation effects of foreign subsidiaries	11,315	352,118
Balance at the end of the year	<u>\$ 36,010</u>	<u>\$ 24,800</u>

**18. Transactions and balances with related parties**

a. Transactions with related parties, carried out in the ordinary course of business, were as follows:

	<u>2 0 2 0</u>	<u>2 0 1 9</u>	<u>2 0 1 8</u>
<b>Holding company</b>			
Interest expense	\$ -	\$ -	\$ 7,346
Interest income	41,034	265,200	210,514
<b>Management staff</b>			
Administrative services expenditures	199,488	23,548	23,494
<b>Other related parties</b>			
Sales	188,082	249,560	20,375
Purchases	27,507	438,052	372,759
Direct short-term benefits (*)	90,562	106,631	90,600

(\*) Correspond to the salaries, allowances and bonuses paid to the executives of Simec.

b. Balances receivable from and payable to related parties are as follows:

	<u>December 31,</u>	
	<u>2 0 2 0</u>	<u>2 0 1 9</u>
<b>Short-term</b>		
Accounts receivable:		
Industrias CH, S.A.B. de C.V.	\$ 6,073	\$ -
Cá. Laminadora Vista Hermosa, S.A. de C.V.	611	-
Operadora compañía Mexicana de Tubos, S.A. de C.V.	848	-
Cía Tubos y Perfiles Monterrey, S.A. de C.V.	3,318	-
Operadora Perfiles Sigosa, S.A. de C.V.	3,452	-
Operadora Construalco, S.A. de C.V.	3,320	717
Operadora Industrial de Herramientas, S.A. de C.V.	411	38
Perfiles Comerciales Sigosa, S.A. de C.V.		2,250
Joist del Golfo, S.A. de C.V.	12,192	5,105
Ferrovisa, S.A.	17,762	
Others	782	5,816
	<u>\$ 52,706</u>	<u>\$ 13,925</u>
	<u>December 31,</u>	
	<u>2 0 2 0</u>	<u>2 0 1 9</u>
<b>Long-term</b>		
Accounts receivable:		
Industrias CH, S.A.B. de C.V.	\$ 648,281	\$ 648,281
	<u>\$ 648,281</u>	<u>\$ 648,281</u>
<b>Loans to related parties:</b>		
Industrias CH, S.A.B de C.V.	\$ 858,510	\$ 780,989
Perfiles Comerciales Sigosa, S.A. de C.V.	150,233	142,268
	<u>\$ 1,008,743</u>	<u>\$ 923,257</u>
Total, long-term	<u>\$ 1,657,024</u>	<u>\$ 1,571,538</u>



The account receivable with Industrias CH, S.A.B. de C.V. corresponds mainly to ISR balances to be recovered, due to the fact that some companies consolidated ISR for tax purposes until 2013 with this company.

At December 31, 2020, loans denominated in both USD and pesos, were outstanding from Industrias CH, S.A.B. de C.V.

In USD 24,400, equivalent to \$506,354 Mx. Pesos, plus interest for \$93,816, plus VAT of \$14,279, resulting a total for \$614,449 (as of December 31, 2019, the loan is equivalent to \$479,368, plus interest of \$61,978, plus VAT of \$9,273, giving as a result, a total for \$550,619); the interest rate agreed was TIIE plus a percentual point.

The loan in pesos for \$186,752 plus interest of \$49,404 plus the IVA of \$7,905 for a balance of \$244,061 (as of December 31, 2019 this amount, when to \$186,752 plus interest of \$37,602, plus VAT of \$6,016 for a balance of \$230,370). These granted loans in USD and pesos including interest amount to \$858,510 as of December 31, 2019. (\$780,989).

At December 31, 2020, there was a loan receivable from Perfiles Comerciales Sigosa, S.A. de C.V., including interests of \$ 150,233 (USD \$7,536,068), and a balance pending collection of \$ 142,268, as of December 31, 2019.

	<u>2020</u>	<u>2019</u>
Accounts payable:		
Aceros y Laminados Sigosa, S.A. de C.V.	\$ 4,625	\$ 1,853
Industrias CH, S.A.B. de C.V.	214,294	208,223
Perfiles Comerciales Sigosa, S.A. de C.V.	1,292	3,632
Holding Protel, S.A. de C.V.	251	251
Compañía Laminadora Vista Hermosa, S.A. de C.V.	1,404	1,904
Operadora Perfiles Sigosa, S.A. de C.V.	3,855	5,850
Operadora Pytsa Industrial, S.A. de C.V.	9,073	8,233
Comercializadora SIGOSA, S.A. de C.V.	102,067	0
Compañía Manufacturera de Tubos, S.A. de C.V.	7,377	9,631
Operadora Compañía Mexicana de Tubos, S.A. de C.V.	6,287	0
Cía. Mexicana de Perfiles y Tubos, S.A. de C.V.	634	-
Others	352	1,949
	<u>\$ 351,511</u>	<u>\$ 241,526</u>

The other accounts payable correspond to services and / or purchases of finished products according to their activity.

## 19. Cost of sales and expenses by their nature

At the years ended at December 31, 2020, 2019 and 2018, the cost of sales and administration expenses consist of the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Raw materials and consumables	\$ 16,343,140	\$ 16,411,788	\$ 15,565,242
Electrical energy	2,820,667	3,303,640	2,536,387
Ferroalloys	1,617,352	2,137,671	1,973,586
Refractories	629,758	707,214	613,563

Oxygen	248,029	276,648	279,272
Electrodes	434,265	1,293,096	1,463,091
Gas and fuels	767,823	962,001	766,163
Labor	1,831,225	2,042,433	3,181,556
Operation materials	1,033,597	919,893	954,415
Depreciation and amortization	1,452,271	1,108,629	1,112,418
Maintenance	1,262,728	2,221,595	2,243,255
Other expenses	2,790,197	319,958	954,379
	<u>\$ 31,231,052</u>	<u>\$ 31,704,566</u>	<u>\$ 31,643,327</u>

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cost of sales	\$ 29,211,724	\$ 30,067,141	\$ 30,563,315
Administrative expenses	2,019,328	1,637,425	1,080,012
	<u>\$ 31,231,052</u>	<u>\$ 31,704,566</u>	<u>\$ 31,643,327</u>

## 20. Other (income) expenses, net

The components of other income (expenses) net, in the years ended December 31, 2020, 2019 and 2018, are the following:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Cancellation of balances	\$ 0	\$ 87,241	\$ 786
Land treatments in Pacific Steel, Inc.	2,708	3,362	8,922
Attorney's fees	0	54,520	0
Bad debt estimate	0	5,320	0
Other expenses	<u>2,708</u>	<u>150,443</u>	<u>9,708</u>
Sale of scrap	(232,157)	(3,182)	(9,865)
Recovery of losses	0	(6,397)	(6,405)
Update of balances in favor in taxes	(256,698)	0	(2,699)
Agreements with clients	(27,869)		
Other income	<u>(32,733)</u>	<u>(4,282)</u>	<u>(5,791)</u>
Other income	<u>(549,457)</u>	<u>(13,861)</u>	<u>(24,760)</u>
Other (income) and other expenses, net	<u>\$ (546,749)</u>	<u>\$ 136,582</u>	<u>\$ (15,052)</u>

## 21. Financial instruments

- a. **Capital risk management** - The Company manages its capital to ensure that its subsidiaries will be able to continue as a going concern while maximizing the return to its stockholders through the reinvestment of earnings. The Company's general strategy has not been altered in recent years. The Company's policy is to not obtain bank loans or any other financing transaction.
- b. **Market risk** - Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market. Market prices include the foreign exchange risk, interest rate risk and the raw material prices risk.
- c. **Foreign exchange risk management** - The Company undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arise. The exposures in exchange rate are managed within the settings of the approved policies. The book value of the monetary assets and monetary liabilities denominated in foreign currency at the end of the reporting period are as follows (includes foreign subsidiaries):



	December 31,	
	2 0 2 0	2 0 1 9
Short - term assets	\$ 12,061,901	\$ 11,176,625
Short - term liabilities	5,821,467	4,843,976
Net monetary asset position in foreign currency	\$ 6,240,434	\$ 6,332,649
Equivalent in U.S. Dollars (thousands)	USD\$ 313,036	USD\$ 335,545

- d. **Credit risk management** - Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss for the Company. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company only transacts with entities that have a risk grade equivalent to the investment grade and higher. The Company investigates and rates its major customers. The Company exposure and the credit ratings of its counterparties are continuously monitored and the accumulated value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually by the risk management committee.

Trade receivables consist of a large number of customers dedicated to construction and automotive industries, distributed in different geographic areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Company does not have significant credit risk exposure with any single counterparty or any group of counterparties having similar characteristics. The Company defines that the counterparties that have similar characteristics are considered related parties. Concentration of credit risk to any other counterparty did not exceed 5% of gross monetary assets at any time during the year.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

- e. **Liquidity risk and risk tables** - Ultimate responsibility for liquidity risk management rests in the board of directors, which has established an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking and credit facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities. The following table sets out details of additional bank lines of credit (to be used as letter of credits) that the Company has at its disposal to reduce liquidity risk. These lines of credit are obtained by the Company and one part of them has been used for some of the subsidiaries of Industrias CH, S.A.B. de C.V.:

(In thousands of US dollars)

	December 31,	
	2 0 2 0	2 0 1 9
Bank loans credit lines:		
Drawn balances	\$ 350,000	\$ 350,000
Undrawn balances	182,514	116,596
Available line balance	\$ 167,486	\$ 233,404



## 22. Financial information by segments

The Company analyses its information by region, due to the operational structure and the organization of its business. Information used for making decisions is based on such regions. The Company's sales are made mainly in Mexico and the United States of America. The Mexican segment includes the plants in Mexicali, Guadalajara, Tlaxcala and San Luis Potosi. The USA segment includes the six Republic plants five of which are located in the United States (Ohio, Indiana and New York) and one in Canada (Ontario). The plant in Canada stopped operating in 2018. The segments are engaged in the manufacturing and sale of long steel products intended mainly for the building and automotive industries.

	Year ended December 31, 2020				
	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 19,660,889	\$ 5,549,781	\$ 10,659,259	\$	\$ 35,869,314
Cost of sales	<u>15,459,258</u>	<u>5,677,638</u>	<u>8,075,253</u>		<u>29,211,724</u>
Gross profit (loss)	4,201,631	(127,857)	2,583,806		6,657,590
Administrative expenses	(1,117,817)	(240,726)	(660,785)		(2,019,328)
Other income (expenses), net	(52,605)	(505,946)	11,854		(546,749)
Interest income	107,604	222	0		107,826
Interest expense	(5,108)	(16,104)	(66,007)	33,473	(53,746)
Exchange rate gain (loss), net	<u>483,822</u>	<u>(1,510)</u>	<u>1,096,416</u>	<u>(1,215,564)</u>	<u>363,164</u>
Income (loss) before income taxes	2,755,145	123,001	748,744	1,249,037	4,875,927
Income taxes	<u>1,747,568</u>	<u>118,926</u>	<u>211,350</u>		<u>2,077,844</u>
Net income (loss) for the year	<u>\$ 1,007,577</u>	<u>\$ 4,075</u>	<u>\$ 537,394</u>	<u>\$ 1,249,037</u>	<u>\$ 2,798,083</u>
Depreciation and amortization	\$ 693,362	\$ 332,186	\$ 426,723		\$ 1,452,271
Total assets	33,386,043	9,237,831	5,807,121	\$ (2,927,348)	45,503,647
Total liabilities	6,944,579	4,797,682	3,670,075	(2,927,348)	12,484,988
Acquisitions of property, plant and equipment	278,700	41,054	631,451		951,205
	Year ended December 31, 2019				
	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 18,530,672	\$ 7,120,360	\$ 8,520,169	\$	\$ 34,171,201
Cost of sales	<u>14,934,575</u>	<u>7,752,776</u>	<u>7,379,790</u>		<u>30,067,141</u>
Gross profit (loss)	3,596,097	(632,416)	1,140,379		4,104,060
Administrative expenses	848,495	267,756	521,174		1,637,425
Other income (expenses), net	175,412	(71,324)	32,494		136,582
Interest income	145,729	266	0		145,995
Interest expense	3,438	(84,621)	(110,919)	137,053	(55,049)
Exchange rate gain (loss), net	<u>628,044</u>	<u>(2,745)</u>	<u>177,314</u>	<u>(18,030)</u>	<u>784,583</u>
Income (loss) before income taxes	2,093,313	(910,458)	298,478	155,083	1,636,416
Income taxes	<u>3,505,015</u>	<u>(236,598)</u>	<u>7,857</u>		<u>3,276,274</u>
Net income (loss) for the year	<u>\$ (1,411,702)</u>	<u>\$ (673,860)</u>	<u>\$ 290,621</u>	<u>\$ 155,083</u>	<u>\$ (1,639,858)</u>



Depreciation and amortization	\$ 577,048	\$ 260,760	\$ 270,821	\$ 1,108,629
Total assets	32,935,743	8,419,771	6,002,701	\$ (3,343,456) 44,014,759
Total liabilities	7,253,713	4,219,817	3,274,908	(3,343,456) 11,404,982
Acquisitions of property, plant and equipment	785,818	278,467	207,135	1,271,420

**Year ended December 31, 2018**

	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 20,507,794	\$ 9,246,444	\$ 5,924,015	\$	\$ 35,678,253
Cost of sales	15,715,761	9,294,352	5,553,202		30,563,315
Gross profit (loss)	4,792,033	(47,908)	370,813		5,114,938
Administrative expenses	592,218	267,905	219,889		1,080,012
Other income (expenses), net	11,367	3,685			15,052
Interest income	307,279	5,542			312,821
Interest expense	52,226	(99,985)	(103,141)	134,389	(16,511)
Exchange rate gain (loss), net	445,289	7,522	(602,747)	3,040	(146,896)
Income (loss) before income taxes	5,015,976	(399,049)	(554,964)	137,429	4,199,392
Income taxes	905,482	7,145	(160,165)		752,462
Net income (loss) for the year	\$ 4,110,494	\$ (406,194)	\$ (394,799)	\$ 137,429	\$ 3,446,930
Depreciation and amortization	\$ 587,407	\$ 268,635	\$ 256,376	\$	\$ 1,112,418
Total assets	40,617,874	10,181,967	6,733,362	\$ (8,679,380)	48,853,823
Total liabilities	8,458,465	10,815,692	2,750,043	(8,679,380)	13,344,820
Acquisitions of property, plant and equipment	1,552,587	433,154	8,724		1,994,465

Information on products:

	Year ended December 31,		
	2020	2019	2018
Light structural	\$ 1,529,216	\$ 1,396,632	\$ 1,654,720
Structural	3,677,441	3,304,178	2,441,079
Bars	2,061,053	2,220,264	1,575,291
Rebar	14,081,399	12,370,490	12,363,530
Flat rebar	1,851,960	1,833,576	2,271,347
Hot rolled bars	7,548,939	8,226,613	9,549,286
Cold drawn bars	2,139,938	3,102,544	3,779,385
Others	2,989,368	1,716,904	2,043,615
	<u>\$ 35,879,314</u>	<u>\$ 34,171,201</u>	<u>\$ 35,678,253</u>





## Information about geographical areas:

	Year ended December 31,		
	2020	2019	2018
Mexico	\$ 18,122,828	\$ 17,873,633	\$ 20,421,529
USA	6,555,642	7,544,078	8,975,585
Brazil	10,608,151	8,500,592	5,932,297
Canada	311,761	175,686	267,606
Latin America	253,096	60,672	60,578
Other (Europe and Asia)	17,836	16,540	20,658
	<u>\$ 35,869,314</u>	<u>\$ 34,171,201</u>	<u>\$ 35,678,253</u>

Revenues are recognized at a specific time to direct customers, when control has been transferred and there is no performance obligation included that could affect the acceptance of the product by the customer.

### 23. Contingencies

As of December 31, 2020, the Company has the following contingencies:

- a. Pacific Steel, Inc. (PS), a subsidiary located in National City in San Diego County, California, United States of America, for which the main activity is the purchase and sale of scrap, has the following environmental contingencies:

#### California Department of Toxic Substances Control

On September 2002, the Department of Toxic Substances Control (DTSC) inspected PS facilities based on an alleged complaint from neighbors due to PS's excavating to recover scrap metal on its property and on a neighboring property, which PS rents from a third party (BNSF Railway). In this same month, DTSC issued an enforcement order of imminent and substantial endangerment determination, which alleges that certain soil piles, soil management and metal recovery operations may cause an imminent and substantial danger to human health and the environment; consequently, DTSC sanctioned PS for violating Hazardous Waste Control Laws in the State of California and imposed the obligation to remedy the site. On July 26, 2004, in an effort to continue with this order, DTSC filed against PS a Complaint for Civil Penalties and Injunctive Relief in San Diego Superior Court. On July 26, 2004, the court issued a judgment, whereby PS was obligated to pay USD\$ 0.2 million, which has been paid.

On June 6, 2010, the DTSC and the San Diego Department of Environmental Health (DEH) inspected the facilities of PS, in response to a general complaint. On August 10, 2010 DTSC and DEH conducted a second inspection and found seven infractions. The DEH is satisfied with the compliance of PS on those issues; however, on October 19, 2010 the technical division of the DTSC recommended to the legal division of DTSC that it impose significant penalties.

The land remediation was suspended at the beginning of 2011 due to the inefficiency of the process, which was verified by several studies. As an alternative, once the necessary permits were obtained from the authorities in Mexico, the Mexicali plant began the process of importing non-RCRA soil for final disposal in a secure landfill based in Nuevo Leon State. This landfill is deposited after the separation of the metal content, which is used as raw material in the melting process. PS has completed the shipment of non-RCRA soil for final disposal in Nuevo Leon State.

The disposition of a stack estimated at 8,000 tons of material classified RCRA (hazardous for Federal purposes) was also considered for shipment to Mexico. The process began in early 2013, but the response from the authorities was slow. Therefore, on April 9, 2015, a letter from the California Attorney General Department of Justice (Attorney General) was received where PS is required to, in the absence of obtaining permission from the Mexican authorities; present a program for transport the pile of contaminated soil classified as RCRA to an authorized confinement in the United States at the latest on April 22, 2015. This letter warned that PS must

ship the RCRA soil no later than July 9, 2015, or risk DTSC proceeding with a civil lawsuit seeking the maximum amount of fines established by law and corresponding legal redress.

On April 21, 2015, PS sent a letter to the Attorney General explaining that the authorities in Mexico had not denied permission to the Company but had simply requested that it present its application in a different format, which had already been presented and reviewed by the authority on April 17, 2015.

On July 23, 2015, the Attorney General denied the extension requested by PS and demanded the immediate shipments of the RCRA stack to an authorized landfill. PS began transporting RCRA soil on July, 29, 2015, and completed removal of the RCRA stack by September 12, 2015 with a total of 3,000 metric tons.

On January 5, 2016, the Attorney General and PS stipulated to filing a “final judgment and order on consent” or Consent Judgment in San Diego Superior Court. The parties negotiated the Consent Judgment, which includes the following terms:

- PS to pay USD\$ 0.138 million as a civil penalty for alleged violations of the 2004 Corrective Action Consent Agreement. PS has made all of the required payments to DTSC as of December 31, 2017.

- Remove the RCRA soil pile and send it to an approved landfill. The Judgment indicates that the Company complied with this commitment by October 2, 2015.

- After eliminating the soil pile of RCRA, the Company should take samples of the floor in which it was located. Samples were taken and the results indicate that the floor had pollution levels that exceeded the limits established by Government. In April 7, 2016, the General Prosecutor and the DTSC required that the Company would turn over the floor ten feet wide and two feet down in the perimeter of the area in which was located the soil pile RCRA and to dispose it in an approved confinement. In turn, PS convinced to DTSC to reach a Turnpike Agreement at August 10, for which would be paid during two years (up to August 10, 2018) the Agreement was extended, as of August 10, 2018, for a two years additional period, in force up to August 10, 2020. These Agreement had another extension, in force up to August 10, 2021.

- The Company shall continue to meet the conditions of the final judgment, the corrective measures, and all tasks arising from this, which were entered in the same court in 2004.

On May 29, 2019, the company presented a proposal to the DTSC, to carry out a work plan in March 2020, the DTSC has agreed tentatively, with that proposal or work plan.

In September 2020, PS informed the DTSC that it had been significantly affected by the COVID pandemic and the corresponding economic downturn, although it was still committed to the application of a work plan from IM, it required implementation efforts to be put on hold. Such deployment is in hold as of this date.

PS is working to develop a “corrective measures study” (CMS) that is intended to develop a plan for determining what remedy will be implemented at the site. To date, it is unclear what the appropriate remedy to implement at the PS site will be, when the CMS will be completed, how long remediation will take, and how much it will cost.

- b. As with most steel producers in United States of America, Republic could incur significant costs related to environmental issues in the future, including those arising from environmental compliance activities and remediation stemming from historical waste management practices at the Republic’s facilities. The reserve created to cover probable environmental liabilities of USD\$ 2.5 million and USD\$ 2.6 million were recorded as of December 31, 2020 and 2019, respectively. The reserve includes incremental direct costs of remediation efforts and post-remediation monitoring costs that are expected to be paid after corrective actions are complete. As of December 31, 2020, the current and non-current portions of the reserve amounted to USD\$ 1.0 million and USD\$ 1.5 million, (USD\$ 1.0 million and USD\$ 1.6 million in 2018), respectively, are included in accounts payable and accumulated liabilities in the short and long term, respectively, in the Consolidated Statements of Financial Position.

- c. The Company is not aware of any material environmental remediation liabilities or contingent liabilities relating to environmental matters with respect to facilities, for which the establishment of an additional reserve would be necessary at this time. In the event that, in the future, the Company incurs in any such additional expenses, these costs will most likely be incurred over a number of years. However, future regulatory action regarding historical waste management practice in the facilities of Republic PS and future changes in applicable laws and regulations may require the Company to incur significant costs that may have a material adverse effect on the future financial performance of the Company.
- d. The Company is involved in a series of lawsuits and legal claims that have arisen during the normal course of its operations. The Company and its legal advisors do not expect the outcome of these matters to have any significant adverse effect on the Company's financial position and results of operations, therefore it has not been recognized any liabilities for such lawsuits and claims.
- e. Mexican tax authorities have the right to review, at least the previous five years and could determine differences in taxes payable, plus any corresponding adjustments, surcharges and fines.
- f. Tax authorities in the United States of America have the right to review, at least the previous three years and could determine differences in taxes payable, plus its corresponding adjustments, surcharges and fines.
- g. Canadian tax authorities have the right to review, at least the previous four years and could determine differences in taxes payable, plus its corresponding adjustments, surcharges and fines.
- h. Brazilian tax authorities have the right to review, at least the previous five years and could determine differences in taxes payable, plus its corresponding adjustments, surcharges and fines.
- i. On September 5, 2017, Grupo Simec and GV do Brasil were notified of the arbitration procedure filed by SMS Concast at the International Court of Arbitration (ICC), which demands the payment of USD \$ 1.4 million plus expenses, for additional costs incurred in the construction and assembly of the steelmaking area of the Brazilian plant. On November 6, 2017, the companies of the Group replied to the demand and filed a counterclaim against SMS Concast for the amount of USD \$ 5 million, which GV do Brasil utilized on the equipment to work properly. On February 26, 2020 the arbitrators sentenced our companies to individual and joint payments of various amounts and in different currencies. In March 2021, the matter was settled through the payment of USD \$450,0003.
- j. During the year 2018 Grupo Simec and some of its subsidiaries have been audited by the tax authorities of Mexico with respect to fiscal years from 2013 to 2017. The tax which the authority pretends to impose are non-existent taxes, which we have been litigating through various means including "amparo", lawsuits, resources of revocation in some cases and nullity lawsuit in others. As of December 31, 2018, the payment has not been enforceable in any of the disputed matters. The amount of tax credits being appealed in court ascends to \$ 5,880 million. During the 2020 and 2019 financial year, some of the Simec Group subsidiaries that have oversight acts affected tax payments and expenses through Remedial Agreements signed between the companies and the Tax Administration Service (SAT) during the aforementioned years for an amount of \$554.4 million and \$2,323.7 million. All lawsuits regarding the tax credits were settled, the amount was \$5,880 million.
- k. Related to Republic Steel's audits of GST for the periods 2015-2016 and 2017-2018 made by the Canadian Revenue Agency (CRA), amounts of USD \$4,178,517 plus interest for the period 2015-2016 and USD \$6,372,306 plus interest for the period 2017-2018 were determined by the CRA. The Company presented a notice of objection for the 2015-2016 period on September 2018 and another for the 2017-2018 period on March 2021. As of March 19, 2021 all information was provided and we are expecting the final assessment.

- l. In connection with a sales and use tax audit by the Ohio Department of Taxes covering the period from January 1, 2009 to December 31, 2012, an assessment of \$ 2,452,028 (including interests of \$ 394,138) against the Company was issued, on December 9, 2016. The Company does not agree with the evaluation in its entirety and has filed a Reevaluation Petition on January 30, 2017 appealing the assessment to the Ohio Board of Tax Appeals. As of May 27, 2020, no resolution has been obtained on this appeal. The Company also received a notification of appraisal at December 11, 2020, for \$1,631,827 (including interest for \$339,885, which covers the period from January 1st, 2014 to September 30, 2018, The Company neither agreed with the appraisal in its whole, for the same reasons and it has presented an appeal before the Board of Tax Appeals of Ohio. At March 2021, no resolution on any of these appeals have not been obtained.
- m. Related to Republic Steel's audits of GST for the periods 2015-2016 and 2017-2018 made by the Canadian Revenue Agency (CRA), Amounts of USD \$4,178,517 plus interest for the period 2015-2016 and USD \$6,372,306 plus interest for the period 2017-2018 were determined by the CRA. The Company presented a notice of objection for the 2015-2016 period on September 2018 and another for the 2017-2018 period on March 2021. As of March 19, 2021 all information was provided and we are expecting the final assessment.

Due to the nature of this matter and the uncertainty of the resolution on the appeal that is in the early stages, the Company has not recorded an expense in the fiscal year 2019 or 2018 that recognizes the evaluation or any estimated amount of liquidation.

## 24. Commitments

- a. On May 1, 2018, the Company signed a contract with ArcelorMittal S.A. in Brazil, for the acquisition of Cariacica and Itauna steels for rent, producing plants and wire drawing equipment for the production of wires and derivatives.

The Cariacica unit has the capacity to produce 600 thousand metric tons of liquid steel per year and 450 thousand metric tons of rolled steel products. This plant has in 2020 and 2019 more than 800 and 500 employees, respectively, and can produce rod and light structural profiles. The factory is located in the city of Cariacica, next to the city of Victoria, in the state of Espírito Santo on a land of more than 1,200,000 square meters.

The Itauna unit has an installed capacity to produce 120,000 metric tons per year of steel laminate products and can manufacture light structural profiles and rods. The plant is located in the city of Itauna in the state of Minas Gerais, less than 100 kilometers away from Belo Horizonte and in 2020 and 2019 has 114 and 94 employees. The factory was leased under a contract expiring in August 2020. After its expiration, the plant was acquired.

- b. Republic leases certain equipment, office space and computer equipment under non-cancelable operating leases. The leases expire at various dates through 2020. During the years ended December 31, 2020, 2019 and 2018, rental expenses relating to operating leases amounted to USD\$ 0.1 million, USD\$ 0.7 million, and USD\$ 0.5 million, respectively. Currently there are no additional obligations post-2020.
- c. In January 2013, The Company reached a contract with EnerNOC, which allows Republic to receive payments for reduction in the electric energy consumption during a term declared by PJM Interconnection as an Emergency. The contract is for 5 years starting at January 31, 2013 and concluded at May 31, 2018. At that date, the Agreement was extended up to May 31, 2021. The Company recognized an income, for this contract in 2019 and 2018 for USD \$ 1.1 million and USD \$ 1.8 million, respectively.

- d. In January 2018, the Company entered into a contract with the supplier ECOM, LTDA. for an amount of USD \$ 6.3 million for the purchase of energy of 10,000 MWH per month, for its subsidiary GV do Brasil Industria y Comercio de Aço LTDA, starting the supply in 2019. All payments with monthly maturity are made 6 days after the month end closing. The contract ended in February 2020.
- e. On February 22, 2018, the contract was signed with Primental Technologies of Italy, United States of America and Mexico, for the construction of the Lamination train and the supply of a new reheating furnace for the Mexicali plant, thereby increasing capacity manufacturing for the manufacture of finished product from 17,500 to 22,500 tons per month. From January 2021, flat bars are being produced. As of today, some adjustments are being made to start the production of rebar in May 2021, and light structures in June 2021. Naturally, the COVID pandemic delayed significantly the process. USD \$24 million from budget has already been spent.
- f. In order to maintain and increase the continuity and quality of the electricity supply in all the Group's plants, the scheme change from Basic Supply (SSB) to the Qualified Supply Service (SSC), with the provision of acquiring energy in the wholesale electricity market. With the implementation of this project, which only requires the modernization of the set of equipment that records the consumption measurements of the electrical substations of each plant, it seeks to achieve a more efficient, safe, clean and transparent electrical service and more competitive prices than those current. The estimated cost of this project is USD \$ 1 million 850 thousand dollars and is expected to culminate in the month of November 2021.
- g. In the program execution to remedy the breach of the requirement to keep placed between the investing public of at least 12% of the shares representing the Capital Stock of our issuer, presented to the Market Surveillance Directorate of the Bolsa Mexicana de Valores, S.A. de C.V., on August 27, 2019, the placing of sufficient shares on the markets to exceed that minimum percentage of shareholding is in process.

## 25. Subsequent events

Our company actively conducts ongoing reviews of our commercial practices in Mexico and other countries to avoid, as much as possible, the imposition of tariff rates on our products. On January 16, 2020, a preliminary tariff of 6.75% was imposed on our corrugated rod exports to the United States of America. After the review from their Department of Commerce (DOC), the tariff was reduced to 1.46%. after the review from the Department of Commerce (DOC), the Company did not participate in the period of November 1, 2018 to October 31, 2019, Therefore, it is subject to the dumping rate set in November 2021 for most Mexican companies.

### Risks Related to Global Economic Conditions

**The outbreak of COVID-19 and disruptions in the steel industry have had, and are expected to continue to have, an adverse effect on our results of operations, financial condition and cash flows.**

The ongoing global pandemic resulting from the spread of COVID-19 has had a significant effect on economies, businesses and individuals around the world. Efforts by governments around the world, including in the U.S. and Mexico, to contain COVID-19 have involved, among other things, border closings and other significant travel restrictions; mandatory stay-at-home and work-from-home orders; mandatory business closures; public gathering limitations; and prolonged quarantines. These efforts and other governmental, business and individual responses to the COVID-19 pandemic have led to significant disruptions to commerce, supply chains, credit losses, lower consumer demand for goods and services and general uncertainty regarding the near-term and long-term effects of COVID-19 on the domestic and international economy and on public health. Global steel production has been and will continue to be affected by volatility in the market due to the ongoing COVID-19 pandemic and uncertainty remains around the extent and duration of the pandemic, the emergence of new and more contagious variants of the virus and the effectiveness of vaccine programs. We expect steel consumption in the automotive and construction industries to be lower due to delays and reduced demand for steel products in North

America and globally. These developments and other consequences of the COVID-19 outbreak have and could continue to materially adversely affect our results of operations, financial condition and cash flows.

On March 31, 2020, the Mexican Ministry of Health published an Administrative Ruling setting out certain “Essential Activities” that may continue to operate during the national state of sanitary emergency. In accordance with the Administrative Ruling and the Ministry of Health’s Technical Guidelines issued on April 6, 2020, we have determined that our business qualifieds within the defined “Essential Activity” list. Similarly, the U.S. Department of Homeland Security guidance has identified our business as a critical infrastructure industry, essential to the economic prosperity, security and continuity of the United States. While restrictions continue to relax, we cannot predict the impact of future government measures on our business during the course of the ongoing pandemic. However, Although we continued to operate during 2020, we have experienced, and are likely to continue to experience, significant reductions in demand and supply chain disruption. For example, the automotive industry, which is one of our significant end markets, has been experiencing a significant amount of disruption at a time of declining demand, resulting in a decline in profitability. We also may experience disruptions to our operations resulting from changes in government policy or guidance, including restrictions put in place to reduce the rate of infections and hospitalizations; quarantines of employees, customers and suppliers in areas affected by the COVID-19 outbreak; and closures of businesses or manufacturing facilities that are critical to our business or our supply chain.

The ongoing COVID-19 pandemic could also adversely affect our liquidity and ability to raise additional capital. Uncertainty regarding the duration of the COVID-19 pandemic and disruptions to the steel industry may, for example, adversely affect our ability to raise additional capital, or require additional capital, or require additional reductions in capital expenditures that are otherwise needed, to support working capital or continuation of our growth strategy. Additionally, government stimulus programs may not be available to us, our customers or our suppliers, or may prove to be ineffective. If we are unable to access additional capital at the levels we require, or the cost of credit is greater than expected, it could materially adversely affect our operating results.

The ongoing COVID-19 pandemic could negatively affect our internal controls over financial reporting as a portion of our workforce is continues to be required to work from home and, therefore, new processes, procedures, and controls could be required to respond to changes in our business environment.

We may be susceptible to increased litigation related to, among other things, the financial effects of the COVID-19 pandemic on our business, our ability to meet contractual obligations due to the COVID-19 pandemic, employment practices or policies adopted during the health crisis, or litigation related to individuals contracting COVID-19 as result of alleged exposures on Company premises.

In addition, the COVID-19 outbreak has continues to significantly increased economic and demand uncertainty. The current outbreak and continued spread of COVID-19 and the emergence of new and more contagious variants could cause a global recession, which would have a further material adverse effect on our results of operations, financial condition and cash flows. Global activity levels started to improve during the second half of 2020; however, the full extent to which the COVID-19 outbreak will affect our operations, and the steel industry generally, remains highly uncertain, differs from country to country and will ultimately depend on future developments which cannot be predicted at this time, including, but not limited to, the duration and scope of the restrictions put in place in different locations to reduce the rate of infections and hospitalizations, the development and spread of variants of COVID-19 and the effectiveness of vaccines as new variants of COVID-19 appear and spread the duration, severity, speed and scope of the outbreak, levels of unemployment, the length of time required for demand to return and normal economic and operating conditions to resume. While some restrictions were lifted in the second and third quarters of 2020, new restrictions were implemented in the fourth quarter of 2020 due to second waves and are expected to continue or to be implemented in the first part of 2021 and it is currently impossible to We cannot predict whether restrictions will be further relaxed, reinstated or made more stringent.



**26. Consolidated financial statements issuance**

These consolidated financial statements have been issued on May 14, 2021 by Ing. Rufino Vigil Gonzalez and C.P. Mario Moreno Cortez, General Director and Financial Coordinator of Grupo Simec, S.A.B. de C.V., for the approval of the Audit Committee and, where appropriate, by the Board of Director.