

GROUP SIMEC SA DE CV
Form 20-F
May 15, 2017

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, 2016

OR

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

OR

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

Commission File Number 1-11176

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

(Exact name of registrant as specified in its charter)

GROUP SIMEC

(Translation of registrant's name into English)

UNITED MEXICAN STATES

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

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

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

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

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

Series B Common Stock — 497,586,330 shares

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

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CERTAIN TERMS

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

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

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

This annual report contains translations of certain peso amounts to U.S. dollars at specified rates solely for your convenience. These translations do not mean that the peso amounts actually represent such dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated these U.S. dollar amounts from pesos at the exchange rate of Ps. 20.6640 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2016. On May 12, 2017, the interbank transactions rate for the peso was Ps. 18.7594 per U.S.\$1.00.

FORWARD LOOKING STATEMENTS

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

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

our inability to operate at high capacity levels;

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

future capital expenditures and acquisitions;

future devaluations of the peso;

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

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

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

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

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PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

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

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

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

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

consolidation process;

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

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

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

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

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

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

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

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

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

-Other mandatory exceptions were not applicable to us.

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

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

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

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

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

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

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

Moore Stephens International Limited. The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements included elsewhere herein.

	As of and for Year Ended December 31,					
	2012 ⁽¹⁾	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽²⁾	2016 ⁽²⁾
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)
Income Statement						
Data:						
IFRS:						
Net sales	29,524	24,369	26,829	24,476	27,516	1,332
Cost of sales	25,960	22,410	25,492	23,097	22,776	1,102
Impairment of property, plant and equipment	-	-	-	2,072	-	-
Gross profit (loss)	3,564	1,959	1,337	(693)	4,740	230
Administrative expenses	753	732	801	1,163	879	43
Depreciation and amortization	475	385	393	419	398	19
Other (expense) income, net	181	(59)	61	173	(36)	(2)
Interest income	23	20	25	34	107	5
Interest expense	23	28	23	40	40	2
Foreign exchange gain (loss)	(509)	(67)	474	(382)	1,775	86
Income (loss) before taxes	2,008	708	680	(2,490)	5,269	255
Income tax expense	54	(281)	162	771	926	45
Net income (loss)	1,954	989	518	(3,261)	4,343	210
Non-controlling interest income (loss)	(116)	(527)	(686)	(2,047)	1,458	70
Controlling interest income (loss)	2,070	1,516	1,204	(1,214)	2,885	140
Net income (loss) per share	4.16	3.06	2.44	(2.47)	5.93	0.29
Net income (loss) per ADS ⁽³⁾	12.48	9.18	7.33	(7.40)	17.79	0.86
Weighted average shares outstanding (thousands) ⁽³⁾	497,709	495,732	492,781	492,421	486,516	486,516
Weighted average ADSs outstanding (thousands) ⁽³⁾	165,903	165,244	164,260	164,140	162,172	162,172
Balance Sheet Data:						
IFRS:						
Total assets	32,456	33,280	35,896	32,244	41,639	2,015
Total short-term liabilities	3,737	4,705	5,821	5,588	5,519	267
Total long-term liabilities ⁽⁴⁾	3,052	2,300	2,295	1,535	2,910	141
Total stockholders' equity	25,667	26,275	27,780	25,121	33,210	1,607
Cash Flow Data:						
IFRS:						
Cash provided by operating activities	3,655	2,051	1,370	(382)	3,428	166
Cash provided by (used in) financing activities	(23)	(259)	(48)	(285)	(3,166)	(153)
Cash (used in) provided by investing activities	(1,507)	(2,948)	(2,060)	(655)	898	43
Other Data:						
IFRS:						

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Capital expenditures	1,304	3,178	1,858	648	3,100	150
Adjusted EBITDA ⁽⁵⁾	3,348	1,895	1,261	1,058	4,892	237
Working capital ⁽⁶⁾	13,583	11,497	11,852	11,392	17,488	846
Depreciation and Amortization	1,012	1,053	1,118	1,261	1,429	69
Dividends declared	0	0	0	0	0	0

Operational Data:

(capacity and production in thousands of tons):

Annual installed capacity ⁽⁷⁾	3,791	3,818	3,830	4,330	4,132	N/A
Mexico	1,357	1,288	1,419	1,452	1,495	N/A
United States, Canada, Brazil and elsewhere outside Mexico	905	776	778	574	590	N/A
Total tons shipped	2,262	2,064	2,197	2,026	2,085	N/A
SBQ steel	1,111	989	1,131	929	761	N/A
Structural and other steel products	1,151	1,075	1,066	1,097	1,324	N/A
Number of employees	5,086	5,117	4,861	4,420	3,973	N/A
Per ton data						
IFRS:						
Net sales per ton ⁽⁸⁾	13,052	11,807	12,212	12,081	13,197	639
Cost of sales per ton ⁽⁸⁾	11,477	10,858	11,603	11,400	10,924	529
Adjusted EBITDA ⁽⁵⁾ per ton ⁽⁸⁾	1,480	918	574	522	2,346	114

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

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

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

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

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

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

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

taxes, which are a necessary and recurring part of our operations;

depreciation, amortization and impairment loss which, because we must utilize property, equipment and other assets in order to generate revenues in our operations, is a necessary and recurring part of our costs;

comprehensive cost of financing, which reflects our cost of capital structure and assisted us in generating revenues; and

other income and expenses that are part of our net income.

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

Year Ended December 31,

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

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

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

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

Exchange Rates

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

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

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

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

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

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

affect the U.S. dollar conversion by the depositary of any cash dividends paid in pesos on series B shares represented by ADSs.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

prospects and financial condition. In either event, the market price of our series B shares and ADSs could decline significantly, and you could lose all or substantially all of your investment.

Risks Related to Our Business

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

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

Global steel prices increased significantly during 2004, fell in 2005, increased again in the first three quarters of 2006, then weakened in the last quarter of 2006 and in 2007 remained similar to prices in 2006. In 2008, global steel prices increased during the first three quarters of 2008, but weakened significantly in the last quarter of 2008 and 2009 as a result of the global economic recession. In 2010, 2011 and 2012, global steel prices began to recover and then remained relatively stable. Global steel prices decreased in 2013, 2014 and 2015, and in 2016 global steel prices began to recover. We cannot give you any assurance as to prices of steel in the future.

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

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and may do so in the future. Significant increases in raw material prices could adversely affect our gross profit. During periods when prices for scrap metal, iron ore, ferroalloys, coke and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw material costs to customers by means of price increases. For example, prices of scrap metal in 2011 increased approximately 21%, in 2012 increased approximately 1%, in 2013 decreased approximately 6%, in 2014 increased approximately 7%, in 2015 decreased approximately 16% and in 2016 increased approximately 2%; prices of ferroalloys in 2011 increased approximately 10%, in 2012 and 2013 decreased approximately 10% and 5%, respectively, in 2014 increased approximately 16%, in 2015 decreased approximately 9% and in 2016 decreased approximately 13%. We may not be able to pass along these and other cost increases in the future and, therefore, our profitability may be materially and adversely affected. Even when we can successfully increase our prices, interim reductions in profit margins frequently occur due to a time lag

between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that our customers will agree to pay increased prices for our steel products that compensate us for increases in our raw material costs.

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

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

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

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

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

Our production processes are dependent on adequate supplies of electricity and natural gas. A substantial increase in the cost of electricity or natural gas could have a material adverse effect on our gross profit. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales. Prices for electricity increased approximately 11% in 2011, 3% in 2012, 9% in 2013 and 7% in 2014, decreased approximately 12% in 2015 and in 2016 increased approximately 1.5%; and prices for natural gas decreased approximately 14% in 2011 and 32% in 2012, increased approximately 16% in 2013 and 25% in 2014, decreased approximately 23% in 2015 and increased approximately 8% in 2016. Moreover, energy costs constitute a significant and increasing component of our costs of operations. Our energy cost was 13.5% of our manufacturing conversion cost for 2016 compared to 13% for 2015, 14% for 2014, 13% for 2013 and 11% for 2012.

We pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or “CFE”) for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, (“PEMEX”), the national oil company of Mexico, for natural gas used at our facilities in Mexico. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future, particularly in light of recent energy reforms in Mexico. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States and Canada. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportation and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States, as appropriate. As of December 31, 2016, we have not entered into derivative financial instruments in Mexico, the United States or Brazil. We have not always been able to pass the effect of increases in our energy costs on to our customers and we cannot assure you that we will be able to pass the effect of these increases on to our customers in the future. We also cannot assure you that we will be able to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of electricity or natural gas would materially and adversely affect our business and results of operations.

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

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

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

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

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

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

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

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

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

disruption of our ongoing business;

diversion of our resources and of management's time;

decreased ability to maintain uniform standards, controls, procedures and policies;

difficulty managing the operations of a larger company;

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

potential liability to joint venture participants or to third parties;

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

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

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

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

the likelihood of any additional acquisitions being proposed or completed in the near future or the terms of any such acquisitions.

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

In connection with the preparation of our financial statements as of and for each of the years ended December 31, 2011, 2012, 2013, 2014, 2015 and 2016, we and our auditors identified material weaknesses (as defined under standards established by the Public Company Accounting Oversight Board, (United States of America)) in our internal controls over financial reporting (our management did not assess the effectiveness of our internal controls over financial reporting as of December 31, 2016). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

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

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

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

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

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

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

Significant deficiencies were detected also at our subsidiary Corporación Aceros DM, S.A. de C.V. which, in the aggregate, constitute a material weakness. These significant deficiencies include (i) lack of physical inventory of fixed assets; (ii) lack of proper segregation of duties analysis and authorization of personnel access to main information systems (iii) lack of evidence of reconciliation of physical and accounting information of raw material inventory; (iv) lack of evidence of review of interim financial statements; and (v) failure to document and communicate adequately responsibilities and authority of key financial roles.

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

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

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

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

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

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

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

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

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

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

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

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

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

physical inventory of fixed assets; and (vi) failure to document and communicate adequately responsibilities and authority of key financial roles.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A substantial part of our operations are outside the United States, and we export products from those facilities to the United States. In the past, the U.S. government has imposed anti-dumping and countervailing duties against Mexican and other foreign steel producers, but has not imposed any such penalties against us or our products. In the first quarter of 2002, the U.S. government imposed tariffs of 15% on rebar and 30% on hot rolled bar and cold finish bar against imports of steel from all countries with the exception of Mexico, Canada, Argentina, Thailand and Turkey; in the first quarter of 2003, the tariffs were reduced to 12% on rebar and 24% on hot rolled bar and cold finish bar, and these tariffs were eliminated in late 2003, prior to their originally scheduled termination date. On October 14, 2014, the United States International Trade Commission (USITC) determined that the U.S. steel industry is materially injured by reason of imports of steel concrete reinforcing bars from Mexico, that are sold in the United States at less than fair value, and from Turkey, that are subsidized by the government of Turkey. As a result of the USITC's affirmative determinations, the U.S. Department of Commerce issued an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government imposed tariffs of 66.7% against imports for rebar from Deacero, S.A.P.I de C.V. and us and tariffs of 20.58% for rebar imports from all other producers in Mexico.

Recent events, including the U.S. presidential election and Brexit in the U.K., have resulted in substantial regulatory uncertainty regarding international trade and trade policy. For example, President Trump and members of the U.S. Congress have called for substantial changes to tax policies, including the possible implementation of a

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

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

As of December 31, 2016, approximately 83% of our non-Mexican and 45% of our Mexican employees were members of unions. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. In addition, collective bargaining agreements are typically negotiated on a facility-by-facility basis for our Mexican facilities. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material and adverse effect on our business. Labor disruptions or significant negotiated wage increases could reduce our sales or increase our costs, which could in turn have a material adverse effect on our results of operations.

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

The operations of our Lackawanna facility depend upon certain arrangements and understandings relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. These service and utility arrangements, initially entered into with the Mittal Steel Company N.V. and its affiliates (“Mittal Steel”), were effective through April 30, 2009, at which time Mittal Steel transferred its Lackawanna plant to Tecumseh Redevelopment, Inc. (“Tecumseh”). In December 2010, Tecumseh transferred a portion of the former Mittal Steel facility to Great Lakes Industrial Development, LLC (“GLID”). Upon the transfer to GLID, we entered into a written agreement with GLID regarding the provision of compressed air to our facility. This lease assures that compressed air will be provided to our facility during the lease term (initially two years with automatic one year renewals until terminated by either party) and grants us an option to purchase the equipment at various times and at stated prices, thereby providing us some flexibility while we consider the installation of our own compressed air system at our facility. The water pump that services our plant is located on property still owned by Mittal Steel and is maintained by Mittal Steel, which also continues to furnish industrial water to us on a month-to-month basis. The electric system which services the compressed air equipment, as well as the electric system which services the GLID property, has been re-routed through our electric meter located at a substation on the adjacent GLID property. We continue to pursue a written

agreement with GLID covering our use of the electric substation and related equipment on the GLID property, as well as the sanitary sewer lift station on the GLID property that serves our facility, and a truck entrance and security monitoring equipment located on the GLID property. All of these rights are essential to the use and operation of our Lackawanna facility. It is our understanding that GLID has sold or is in the process of selling a portion of its property to an unrelated third party. In the event of a termination of any of our rights, either due to a failure to negotiate a satisfactory outcome with Mittal Steel, GLID or any third party to which it sells all or part of its facility, or for any other reason, we could be required to cease all or substantially all of our operations at the Lackawanna facility. Because we produce certain types of products in our Lackawanna facility that we do not produce in our other facilities, an interruption of production at our Lackawanna facility would result in a substantial loss of revenue and could damage our relationships with customers.

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

Our sales in the United States are concentrated among a relatively small number of customers. Any of our major customers can stop purchasing our products or significantly reduce their purchases at any time. During 2016,

2015, 2014, 2013 and 2012, sales to our ten largest customers in the United States accounted for approximately 62.1%, 56.8%, 51.4%, 40.6% and 42.4% of our consolidated revenues in the United States, respectively, and approximately 18.1%, 21.5%, 23.6%, 21.1% and 18.7% of our total consolidated revenues, respectively. A disruption in sales to one or more of our largest customers would adversely affect our cash flow and results of operations. Starting in the fourth quarter of 2008, due to the U.S. financial crisis and the ensuing worldwide economic recession, all of our top ten customers have suffered reduced demand for their products. This reduction in demand has in turn adversely affected our results of operations.

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

Negative trends in the operation in our United States segment.

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

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

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

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