
UNITED STATES OF AMERICA
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, 2023

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)

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

UNITED MEXICAN STATES
(Jurisdiction of incorporation or organization)

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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 three Series B shares) Series B Common Stock	SIM	NYSE American NYSE American*

* Not for trading, for listing purposes only.

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 — 461,676,539 shares as of December 31, 2023

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 ☐

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[†] provided pursuant to Section 13(a) of the Exchange Act. ☐

[†]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. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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 the Federative Republic 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 commercial 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. 16.8935 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2023. On November 4, 2024, the interbank transactions rate for the peso was Ps. 20.0367 per U.S.\$1.00.

FORWARD LOOKING STATEMENTS

This annual report contains words, such as “believe,” “expect,” “anticipate,” “plans” and similar expressions that identify forward-looking statements, which reflect our views about future events and financial performance. We have made forward-looking statements that address, among other things our:

- projected customer demand and supply chain;
- activities and strategies relating to raw material acquisition;
- trends in products and markets;
- activities relating to the import, export, sale, transportation and distribution of steel products;
- activities relating to our lines of business;
- projected capital expenditures and other costs.

Actual results could differ materially from those projected in such forward-looking statements as a result of various factors that may be beyond our control. These factors include, but are not limited to:

- general economic and business conditions, including changes in the international and Mexican prices of steel, iron ore, scrap steel and other related commodities;
- uncertainties and volatility surrounding the global economy, including excess world capacity for steel production, inflation and interest rate changes;
- national and international demand for steel products;
- capital investments and their impact on our performance;
- the availability and cost of electricity and natural gas which could negatively affect our cost of steel production;
- changes in, or failure to comply with, our legal regime or regulatory environment, including with respect to tax, environmental regulations, fraudulent activity, corruption and bribery;
- receipt of governmental approvals, permits and licenses;
- fluctuations in prevailing exchange rates;
- effects on us from competition, including on our ability to source materials at competitive prices and hire and retain skilled personnel;
- the outbreak of military hostilities, including an escalation of the military conflict involving Russia and Ukraine and the conflict in Gaza;
- national or international public health events, including the outbreak of pandemic or contagious disease; and
- the cyclical nature of the steel industry.

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.

For a discussion of important factors that could cause actual results to differ materially from those contained in any forward-looking statement, see “*Item 3—Key Information—Risk Factors.*”

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. Reserved

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to the Global Economy and Our Business

Our industry is cyclical and both recessions and prolonged periods of slow economic growth could have an adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries, such as the construction, energy, metals service centers, appliance and automotive industries. As a result, economic slowdowns or a downturn in any of these industries could materially and adversely affect our results of operations, financial condition and cash flows. The global economy experienced a strong recovery from the conditions experienced at the onset of the COVID-19 pandemic, but related labor shortages and supply chain disruptions, new or proposed legislation related to governmental spending, inflation and increases in interest rates have impacted, and will continue to impact, economic growth. Even with this economic recovery, challenges from global production overcapacity in the steel industry and ongoing uncertainties, both in the United States and in other regions of the world, remain.

We are unable to predict the duration of current economic conditions or the magnitude or timing of changes in economic activity. Future economic downturns, prolonged slow growth or stagnation in the economy, a sector-specific slowdown in one of our key end-use markets, such as nonresidential construction, or changes in inflation could materially adversely affect our business, results of operations, financial condition and cash flows, especially in light of the capital-intensive nature of our business.

Our operations are sensitive to volatility in steel prices and the cost and availability of raw materials.

We rely on international markets and certain key suppliers to obtain the raw materials that are critical to the manufacture of steel products. The prices of certain raw materials, including scrap metal and ferroalloys are negotiated on a monthly basis with our suppliers and are subject to market conditions. At any given time, we may be unable to obtain an adequate supply of these critical raw materials with price and other terms acceptable to us. The availability and prices of raw materials may also be negatively affected by new laws and regulations, allocation by suppliers, interruptions in production, accidents or natural disasters, war and other forms of armed conflict or political instability, changes in exchange rates, worldwide price fluctuations, including due to global political and economic factors, changes in governmental, business and consumer spending, inflation, increases in interest rates, labor shortages, and the availability and cost of transportation. Many countries that export steel restrict the export of scrap, protecting the supply chain of some foreign competitors. This trade practice creates an artificial competitive advantage for foreign producers that could limit our ability to compete.

If our suppliers increase the prices of our critical raw materials, we may not have alternative sources of supply. In addition, to the extent that we have quoted prices to our customers and accepted customer orders for our products prior to purchasing necessary raw materials, we may be unable to raise the price of our products to cover all or part of the increased cost of the raw materials or pass along increased transportation costs. Also, if we are unable to obtain adequate, cost-effective and timely deliveries of our required raw materials, we may be unable to timely manufacture sufficient quantities of our products. This could cause us to lose sales, incur additional costs, experience margin compressions or suffer harm to our reputation and customer relationships.

Excess capacity and oversupply have in the past and may continue in the future to weigh on the profitability of steel producers, including us.

The steel industry is affected by global and regional production capacity and fluctuations in steel imports and exports, which are themselves affected by the existence and amounts of tariffs and customer and distributor stocking and destocking cycles. The steel industry has historically suffered from structural overcapacity globally, and the current global steelmaking capacity exceeds the current global consumption of steel, especially for long products. This overcapacity is affected by global macroeconomic trends and amplified during periods of global or regional economic weakness, leading to weaker global or regional demand. In particular, China is both the largest global steel consumer and the largest global steel producer, and the balance between its domestic production and consumption has been an important factor influencing global steel prices. At various points in recent years, reduced Chinese steel demand has not been fully offset by reduced Chinese steel production, which has led to a flood of Chinese steel exports into the markets in which we compete, weighing on demand and depressing market prices. While most recently constraints imposed on Chinese steel production have tempered the risk of excess production, such risk remains, along with the risk of increased exports, in particular if there is a global recession or a Chinese slowdown. See “*Risk Factors—Risk Factors Related to Our Business—Unfair trade practices, import tariffs and/or barriers to free trade could negatively affect steel prices, which could in turn adversely affect our results of operations.*”

Market prices for iron ore also underpin those of steel (as its principal input component) to some extent, and iron ore prices depend both on supply and demand conditions. Excess iron ore supply relative to demand has led to depressed prices at various points in recent years and could recur, with potentially a corollary effect on steel prices. No assurance can be given that iron ore prices will not decline further, particularly if there is an economic downturn, Chinese steel demand declines, worldwide capacity increases due to new mines coming online or steel demand declines again due, for example, to impacts from the negative effects from the continuing Russia/Ukraine conflict, the Israel-Hamas conflict or other regional conflicts, in particular on energy supply and prices. A renewed phase of steel and iron ore oversupply could materially adversely affect our results of operations and financial condition.

Increases in the cost, disruption of supply or shortage of energy could adversely affect our business and results of operations.

Our steel plants are large consumers of electricity and natural gas. The prices for and availability of electricity and natural gas can be volatile. Energy prices are often affected by weather, political, regulatory and economic factors beyond our control, and we may be unable to raise the price of our products to offset increased energy costs. Disruptions that impact the supply of our energy resources could temporarily impair our ability to manufacture our products, which may adversely impact our results and financial condition. Furthermore, increases in our energy costs that are not similarly applicable to our competitors’ operations could materially adversely affect our business, results of operations, financial condition and cash flows.

We pay special rates for electricity and natural gas in Mexico and enter into fixed-price energy contracts. Failure to maintain such preferential or fixed-price agreements could increase our energy costs, which may adversely affect our business and results of operations.

We buy electricity from the Mexican federal electricity commission (*Comisión Federal de Electricidad* or “CFE”) at preferential rates after successfully obtaining the Qualified User Registry (*Registro de Usuario Calificado*). We also pay special rates to Petróleos Mexicanos (“PEMEX”), Iberdrola, Eustas, Shell, Ecogas and Engie for the natural gas used at our facilities in Mexico. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement that mitigate our exposure to volatility in energy markets. In addition, we purchase natural gas from various suppliers in the United States and Canada at purchase prices 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 and enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico, Brazil and the United States.

We cannot assure you that these special rates will continue to be available to us in Mexico or that such rates may not increase significantly in the future. We also cannot assure you that we will be able to continue entering into fixed-price arrangements or that the price paid in such agreements will not increase. Changes in the price or supply of electricity or natural gas in the markets in which we operate could materially and adversely affect our business and results of operations.

Competition from other steel producers may adversely affect our business.

We face significant competition from other steel producers that compete with our products on price, quality and service. The markets for our products are highly competitive and a number of firms, domestic and foreign, participate in the steel, steel products and raw materials markets. Depending on a variety of factors, including the cost and availability of raw materials, energy, technology, labor, transportation and capital costs, currency exchange rates, dumping and excessive production, government subsidies of foreign steel producers and other global political and economic factors, our business may be materially adversely affected by more intense competitive forces.

Competition from other materials could significantly reduce demand and market prices for steel products, which could have an adverse impact on our results of operation and financial condition.

In many applications, steel competes with other materials that may be used as steel substitutes, such as aluminum, concrete, composites, glass, plastics and wood. Increased use or availability of such materials in substitution for steel products could significantly reduce demand and market prices for steel products, which could in turn have an adverse impact on our business, results of operation and financial condition.

Unfair trade practices, import tariffs and/or barriers to free trade could negatively affect steel prices and our ability to export our products outside of Mexico, which could in turn adversely affect our results of operations.

Our business is significantly exposed to unfair trade practices, including “dumping”, government subsidies, and other unfair trade and pricing strategies by competitors. In particular, countries with centrally controlled economies, such as China, continue to subsidize their steel industries. In periods of lower global demand for steel, there is an increased risk of additional volumes of unfairly-traded steel exports into the markets in which we produce and sell our products. Such imports have had and could in the future have the effect of reducing prices and demand for our products.

Additionally, the global nature of our operations exposes us to import tariffs, quotas, protectionist policies, and other trade barriers that may limit our ability to access key markets or undermine our competitiveness. Countries may enact new tariffs or expand existing ones, potentially restricting the flow of steel and steel-related products into certain markets or making exports economically unviable. While these policies aim to protect domestic producers, they can also cause disruptions by displacing excess steel into markets that do not impose similar restrictions, further intensifying competition and exerting downward pressure on prices. Moreover, retaliatory tariffs or countermeasures by affected countries could create additional uncertainties, limiting our market access or inflating operational costs.

We are unable to predict how future trade policies or restrictions will evolve, nor can we guarantee that retaliatory or protectionist actions will not escalate, further complicating the global steel trade. Any prolonged application of tariffs, quotas, or other barriers to free trade could significantly disrupt the steel industry, negatively affecting our sales, profit margins, and long-term competitiveness. Consequently, these uncertainties could materially harm our financial performance and overall business outlook. See “Item 8—Financial Information—Legal Proceedings.”

Labor disputes may disrupt our operations and relationships with our customers. Our ability to reduce labor costs may be limited in practice or encounter implementation difficulties.

Approximately 58% of our employees in Mexico and 42% of our employees outside of Mexico are represented by labor unions and are covered by collective bargaining agreements, which are subject to periodic renegotiation. Strikes or work stoppages could occur prior to, or during, negotiations preceding new collective bargaining agreements, during wage and benefits negotiations or during other periods for other reasons, in particular in connection with any announced intentions to adapt our employee headcount. Further, any such strikes or stoppages could occur at various of our facilities. Prolonged strikes or stoppages could have an adverse impact on our results of operation and financial condition.

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

We are subject to a broad range of environmental, health and safety laws and regulations in each of the jurisdictions in which we operate. These laws and regulations impose increasingly stringent standards regarding general health and safety, air emissions, discharges of wastewater, the use, handling and transportation of hazardous, toxic or dangerous materials, waste disposal practices and the remediation of environmental contamination, and health and safety matters, among other things. The costs of complying with, and the imposition of liabilities pursuant to these laws and regulations can be significant, and compliance with new and more stringent obligations may require additional capital expenditures or modifications in operating practices. Failure to comply can result in civil and/or criminal penalties being imposed, the suspension of permits, requirements to curtail or suspend operations and lawsuits by third parties. 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 always 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 and continue to be the subject of administrative action by federal, state and local environmental authorities. See “Item 8—Financial Information—Legal Proceedings.”

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

Certain of our U.S. facilities are currently under investigation for environmental contamination and we incur costs and liabilities associated with the assessment and remediation of contaminated sites. While some of these investigations and remediation efforts relate to legacy activities by prior owners of our facilities, we may in the future be subject to similar investigations or required to undertake remediation measures. In addition to the impact on current facilities and operations, environmental remediation obligations can give rise to substantial liabilities in respect of divested assets and past activities. 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.”

Global or regional health epidemics, such as the COVID-19 pandemic, and other public health emergencies, have impacted and could continue to have a material adverse effect on our business, results of operations, financial condition and cash flows.

The COVID-19 pandemic continued to impact countries, communities, supply chains and markets in 2023, though to a generally lesser extent than during 2020-2022. Similar pandemics or global health emergencies in the future and related efforts to reduce their spread, including quarantines, travel restrictions, business closures, and mandatory stay-at-home or work-from-home orders, could be instituted. We may be subject to risks arising out of the turbulence of the economic recovery associated with global health crises, such as the COVID-19 pandemic, including inflationary pressures, which have generally increased the costs of our labor, raw materials, energy supplies and other production inputs, adversely impacting our results of operations and profitability. In addition, we have experienced, and may continue to experience, supply chain disruptions or operational issues with our vendors or logistics providers, as our suppliers and contractors face similar challenges related to pandemics or global health crises. Because global health crises, such as the COVID-19 pandemic, are unpredictable, we cannot predict the full extent to which our businesses, results of operations, financial condition or liquidity will ultimately be impacted by a public health emergency. Global health crises could exacerbate many of the other risks described in Item 3.D. “Risk Factors”, any of which could have material adverse effect on 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 resources, 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, Canada and Brazil. 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.

Disruptions to our manufacturing operations caused, for example, by equipment failures, natural disasters, accidents, explosions, epidemics or pandemics, geopolitical conflicts or extreme weather events could adversely affect our business, results of operations, financial condition and cash flows.

Steel manufacturing processes are dependent on critical steel-making equipment, such as furnaces, continuous casters, rolling mills and electrical equipment (such as transformers), and such equipment may incur downtime as a result of unanticipated failures or other events, such as fires, explosions, furnace breakdowns or as a result of natural disasters, accidents, epidemics or pandemics or severe weather conditions. Our manufacturing facilities have experienced, and may in the future experience, plant shutdowns or periods of reduced production as a result of such events.

Natural disasters and severe weather conditions could lead to significant damage at our production facilities and general infrastructure or cause shutdowns. Severe weather conditions can also affect our operations due to the long supply chain for certain of the raw materials we use in our processes. Water in particular is crucial to the steelmaking process, and the risk that the authorities may restrict license to withdraw water as a result of chronic drought could increase operating costs and reduce production capacity. Damage to our production facilities due to natural disasters and severe weather conditions could, to the extent that lost production cannot be compensated for by unaffected facilities, adversely affect our business, results of operations or financial condition. More generally, these severe weather conditions could increase in frequency and severity due to climate change.

We do not maintain insurance covering losses resulting from catastrophes or business interruptions. In the event we are not able to remedy any significant interruption of our manufacturing capabilities in a prompt or cost-effective manner, our operations could be adversely affected. In addition, if any of our plants are severely damaged or their production capabilities is otherwise significantly affected, we would likely incur significant losses and capital investments necessary to repair any destroyed or damaged facilities or machinery would adversely affect our profitability, liquidity and financial condition.

Failure to obtain or maintain quality and environmental management certifications may put us at a competitive disadvantage or reduce demand for our products.

Automotive parts customers in Mexico and the United States require us to obtain and maintain certifications regarding certain quality and environmental compliance standards, such as ISO 9001, TS 16949 and ISO 14001. While all of our facilities serving such customers comply with such certifications, any failure by us to maintain or renew such certifications, or any failure by us to obtain or comply with any new certifications that may be required by our customers or market practice from time to time, could adversely affect our ability to serve our target market, retain our client base or attract new customers. We cannot provide any assurance that we will be able to maintain these certifications in a timely or cost efficient manner, or at all.

Participants in the SBQ steel market must also maintain “approved supplier” certifications such as IATF 16949 (*International Automotive Task Force*) and ISO 9001 (*International Organization for Standardization*), which are required by the automotive industry to ensure vehicle quality and safety. While we are an “approved supplier” of steel products for our automotive parts customers, any failure by us to maintain or renew such certifications, including as a result of any future modifications to the requirements necessary to renew or maintain such certifications, could adversely affect our ability to serve our target market, retain our client base, or attract new customers. Maintaining these certifications is key to preserving our market share. We cannot provide any assurance that we will be able to maintain these certifications in a timely or cost-efficient manner, or at all.

Any legal proceedings, investigations or claims against us could be costly and time-consuming to defend, and, if adversely decided or settled, could materially and adversely affect our business, financial condition and results of operations and could harm our reputation regardless of the outcome.

We are and may in the future become subject to legal proceedings, investigations, such as the SEC investigation described under “Item 8—Financial Information—Legal Proceedings” and claims, including claims that arise in the ordinary course of business. Any litigation, investigation or claim, whether meritorious or not, could harm our reputation, increase our costs and divert management’s attention, time and resources, which may in turn harm our business, financial condition and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims and might not continue to be available on terms acceptable to us. Further, our share price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any proceedings, investigations and claims.

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, Brazil and 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 a signatory 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 21th session of the UNFCCC conference in 2015. The United States and Brazil are also members of the Paris Agreement.

We depend on our senior management and their unique knowledge of our business and of the SBQ steel 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 steel 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 steel 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.

We are subject to information technology and cyber-security threats which could have an adverse effect on our business and results of operations.

We utilize various information technology systems to efficiently address business functions ranging from the operation of our production equipment to administrative computation to the storage of data such as intellectual property and proprietary business information. We also utilize third-party service providers for certain information technology services that are important to our operations. We continuously evaluate our cyber-security systems and practices, assess potential threats, and improve our information technology networks, policies and procedures to address potential vulnerabilities. Despite efforts to assure secure and uninterrupted operations, in 2021, one of the Company's plants was the target of a cyberattack. Although the Company did not experience a material impact to its operations in this instance, threats from increasingly sophisticated cyber-attacks or system failures could result in materially adverse operational disruptions or security breaches of our systems or those of our third-party service providers. These risks could result in disclosure or destruction of key proprietary information or personal data or reputational damage, theft of assets or trade secrets, or could adversely affect our ability to physically produce or transport steel, resulting in lost revenues, as well as delays in reporting our financial results. We also could be required to spend significant financial and other resources to remedy the damage caused by a cyber-security breach, including to repair or replace networks and information technology systems. We may also contend with potential liability for stolen information, increased cyber-security protection costs and litigation expenses.

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.

We are listed on the Mexican Stock Exchange (*Bolsa Mexicana de Valores, S.A.B. de C.V.*), which requires us to prepare our financial statements in accordance with International Financial Reporting Standards ("IFRS"). IFRS significantly differs from U.S. GAAP in certain respects and 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 same way they would had such financial statements been prepared in accordance with U.S. GAAP. Accordingly, our financial statements and reported earnings may not be directly comparable companies in our business that prepare financial statements in accordance with U.S. GAAP.

An increase in interest rates in the United States could adversely impact the Mexican economy and may have a negative effect on our financial condition or performance.

A decision by the U.S. Federal Reserve to increase interest rates on banks' reserves may lead to a general increase in interest rates in the United States. This, in turn, may redirect the flow of capital away from emerging markets and into the United States, because investors may be able to obtain greater risk-adjusted returns in larger or more developed economies rather than in Mexico. Thus, companies in emerging market economies such as Mexico could find it more difficult and expensive to borrow capital and refinance existing debt. This may negatively affect our potential for economic growth and could have a material adverse effect on our business and financial condition.

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

Industrias CH, S.A.B. de C.V. ("Industrias CH"), which is controlled by the chairman of our board of directors, Rufino Vigil González, owns approximately 76.19% of our shares as of December 31, 2023. 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 American Depositary Shares ("ADSs").

Mr. Sergio Vigil González is the Chief Executive Officer of Industrias CH and has in previous years exercised a senior role in our management despite having no formal role in our Company. Since July 2024, he is the Chief Executive Officer of our Company. In this function, Mr. Vigil continues to direct our business strategies, negotiates potential acquisitions and directs intercompany loans, among other things. Mr. Vigil is the brother of our controlling shareholder and Chairman of our board of directors, Rufino Vigil González.

We have in the past and may in the future engage in 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."

Risks Related to Internal Controls and Financial Reporting

We are under investigation by the SEC and may face litigation and other risks as a result of the prior material weaknesses in our internal control over financial reporting.

In connection with the preparation of our financial statements as of and for each of the years ended December 31, 2021 and 2020, 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. The SEC is currently conducting an investigation focused on the Company's internal controls over financial reporting, including any material weaknesses in those controls in prior and subsequent years. A material weakness is a deficiency, or a combination of deficiencies, in internal controls 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 and corrected on a timely basis.

As a result of material weaknesses in our internal controls over financial reporting, and other matters raised or that may in the future be raised by the SEC, we may be exposed to a number of additional risks and uncertainties, including (i) potential litigation or other disputes or investigations that may include, among others, claims invoking the federal and state securities laws, contractual claims or other claims arising from the material weaknesses in our internal control over financial reporting and preparation and of our financial statements for certain periods; (ii) significant costs for accounting, advisory, compliance remediation and legal fees in connection with or related to such matters which may be difficult to forecast appropriately; (iii) diversion of the efforts and attention of management and other personnel from our business operations; and (iv) fines, penalties or other actions required as the outcome of government investigations, all of which could result in a potential loss of investor confidence and/or a negative impact on the price of our securities.

Although we are fully cooperating with the SEC's ongoing investigation and continue to respond to requests related to this matter, we cannot predict whether or when such matters will be completed or the outcome or impact this matter could have on our business, investor confidence or the price of our securities. Any remedial measures, sanctions, fines or penalties, including, but not limited to, financial penalties and awards, injunctive relief and compliance conditions, which may be imposed on us in connection with this matter could have a material adverse effect on our business, financial condition and results of operations. Additionally, the investigation has resulted in substantial costs and we are likely to continue to incur substantial costs, regardless of the outcome of the investigation.

If we are unable to develop and maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results in a timely manner, which may adversely affect investor confidence in us and materially and adversely affect our business and operating results.

In connection with the preparation of our financial statements as of and for each of the years ended in December 31, 2021, and December 31, 2020, we and our auditors identified material weaknesses in our internal controls over financial reporting in our Mexico, Brazil and United States segments including in relation to inadequate control monitoring, identified control deficiencies not being resolved in a timely manner, lack of an appropriate disaster recovery plan, and lack of a documented plan with respect to the continuity of operations in the event of a disruption of the information technology environment. For more information on country segment specific deficiencies, see “Item 15—Controls and Procedures” in our Form 20-F for the year-ended December 31, 2021, filed with the SEC on May 24, 2022.

Effective internal controls are necessary for us to provide reliable financial reports. We have taken a number of measures to remediate the past material weaknesses and to continue to evaluate steps to enhance our internal controls. However, these remediation measures have been and may continue to be time consuming and costly and we cannot be certain that these initiatives will ultimately have the intended effects. If we identify additional material weaknesses, we may be unable to provide required financial information in a timely and reliable manner and may incorrectly report financial information. If our financial statements continue to not be filed on a timely basis, we could be subject to sanctions or additional investigations by the SEC or other regulatory authorities.

In addition, the existence of material weaknesses in our internal controls over financial reporting could adversely affect our reputation or investor perceptions of us, which could have a negative effect on the price of our securities.

We cannot assure you that the measures we have taken and plan to take in the future will prevent the identification of any additional material weaknesses or that restatements of financial results will not arise in the future due to a failure to implement and maintain adequate internal controls over financial reporting. Even if we are successful in strengthening our controls and procedures, in the future those controls and procedures may not be adequate to prevent or identify irregularities or errors or to facilitate the fair presentation of our financial statements.

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,” 15.D. “Changes in Internal Control over Financial Reporting,” and 8 “Financial Information—Legal Proceedings.”

Risks Related to the Automotive Industry

Sales volume in the automotive industry is volatile and could decline if there is a financial crisis, recession, public health emergency, or significant geopolitical event. A reduction in automotive industry sales could adversely affect vehicle manufacturing, which could in turn have an adverse effect on our business and results of operations.

The automotive market accounted for approximately 15% of our net sales of SBQ products in 2023. Vehicle sales are affected by overall economic and market conditions, consumer behavior, and developing trends such as shared vehicle ownership and ridesharing services. A slowdown in automotive industry sales due to any of these factors could reduce the amount of vehicles manufactured, which could materially affect demand for the steel products we produce and sell. Any reduction in vehicles manufactured, including as a result of weaker demand, has had and could in the future have an adverse effect on our business and results of operations.

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.

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. Mexico has historically experienced prolonged periods of economic crises, caused by internal and external factors over which we have no control. Such 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, periods of negative growth, or increases in inflation in Mexico could result in lower demand for our products. In recent years, the federal government of Mexico (the “Mexican Government”) cut spending in response to downward trends in international crude oil prices and it may do so again 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 and operations.

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 the operations of our facilities, which could have an adverse impact on our financial performance. The Mexican Government has exercised, and continues to exercise, significant influence over the Mexican 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 recent change in Mexican Government administrations from president Andrés Manuel López Obrador to president Claudia Sheinbaum may result in political, social and other developments in Mexico that we cannot control. We cannot predict the impact that political developments in Mexico may have on the Mexican economy or in our industry, nor can we provide any assurances that these events, over which we have no control, will not have a material adverse effect on our business, results of operations and financial condition.

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

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

Mexico has experienced a period of heightened criminal activity, which could affect our operations.

In recent years, Mexico has experienced a period of heightened criminal activity, primarily due to the activities of drug cartels and related criminal organizations. Such criminal activity has at times been directed at private 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. Criminal activity can lead to increased insurance and security costs, and higher losses stemming from theft and extortion. Furthermore, corruption and links between criminal organizations and authorities could affect our business operations. Criminal activity continues to exist in Mexico and is likely to continue. 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 Mexico's economy and, as a result, on our operations and financial performance.

Exchange rate fluctuations could adversely affect our financial performance.

The Mexican peso has been subject to significant devaluations against the U.S. dollar in the past and may be subject to significant fluctuations in the future. Depreciations 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 the raw materials we require for production and any debt obligations denominated in U.S. dollars. The Mexican Government does not currently restrict the ability of Mexican companies or individuals to convert Mexican pesos into U.S. dollars (except for certain restrictions related to cash transactions involving a U.S. dollar payment to a Mexican bank) or other currencies. However, severe devaluations or depreciations of the Mexican peso may result in governmental intervention to institute restrictive exchange control policies, as has occurred before in Mexico and other countries in Latin America. Accordingly, fluctuations in the value of the Mexican peso against other currencies, particularly the U.S. dollar, could have a material adverse effect on our business and financial condition. Currency fluctuations or restrictions on transfer of funds outside Mexico may also 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 corresponding ADSs.

High interest rates in Mexico may increase our financing costs and negatively affect our business and operations.

Mexico has experienced, and may again experience, high real and nominal interest rates. Mexico also has, and is expected to continue to have, high real and nominal interest rates relative to the United States. Future changes by the Mexican Central Bank (*Banco de México*) may negatively impact the Mexican economy or the value of securities issued by Mexican companies, 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. In addition, if we incur peso-denominated debt in the future, it could be at high interest rates, which could increase our financing costs and adversely affect our business, financial condition and results of operations.

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

Mexico has in the past and may in the future experienced high annual rates of inflation. 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 our customers, and by decreasing the benefit to us of revenues earned if the inflation rate exceeds the growth in our pricing levels.

Economic and political developments in the United States and elsewhere may adversely affect Mexican economic policy and, in turn, our operations.

Economic conditions in Mexico are highly correlated with economic conditions in the United States due to the physical proximity and the high degree of economic activity between the two countries. As a result, political developments in the United States, including changes in the American administration and governmental policies, can also have an impact on the exchange rate between the U.S. dollar and the Mexican peso, economic conditions in Mexico and the global capital markets. In addition, because the Mexican economy is heavily influenced by the U.S. economy, policies that may be adopted by the U.S. government that are unfavorable to Mexico may adversely affect economic conditions in Mexico. The macroeconomic environment in which we operate is beyond our control and the future economic environment may be less favorable than in recent years. The risks associated with current and potential changes in the Mexican and United States political environment and economies are significant and could have an adverse effect on our financial condition and results of operations.

We are subject to Mexican and international anti-corruption, anti-bribery and anti-money laundering laws. Our failure to comply with these laws could result in penalties, which could harm our reputation and have an adverse effect on our business, results of operations and financial condition.

Our business encompasses multiple jurisdictions and complex regulatory frameworks, including in relation to economic sanctions, anti-corruption and anti-money laundering matters. Laws and regulations in these areas are complex and constantly evolving and enforcement of them continues to increase. We are subject to the risk that our management, employees, contractors or any person doing business with us may (i) engage in fraudulent activity, corruption or bribery, (ii) circumvent or override our internal controls and procedures or (iii) misappropriate or manipulate our assets to our detriment. Further, we cannot ensure that these compliance policies and processes will prevent intentional, reckless or negligent acts committed by our management, employees, contractors or anyone doing business with us. Any failure—real or perceived—to comply with applicable governance or regulatory obligations by our management, employees, contractors or any person doing business could harm our reputation, limit our ability to obtain financing and otherwise have a material adverse effect on our business, financial condition and results of operations.

If we fail to comply with any applicable anti-corruption, anti-bribery or anti-money laundering laws, we and our management, employees, contractors or any person doing business with us may be subject to criminal, administrative or civil penalties and other measures, which could in turn have material adverse effects on our reputation, business, financial condition and results of operations. Any investigation of potential violations of anti-corruption, anti-bribery or anti-money laundering laws by governmental authorities in Mexico or other jurisdictions could result in an inability to prepare our consolidated financial statements in a timely manner and could adversely impact our reputation, limit our ability to access financial markets and adversely affect our ability to obtain contracts, assignments, permits and other government authorizations necessary to participate in our industry, which, in turn, could have adverse effects on our business, results of operations and financial condition.

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 federal government’s economic policies may have important effects on companies that operate in Brazil, including us. 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;
- social and political instability;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Risks Related to Ownership of our ADSs

We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which reduces the level and amount of disclosure that you receive.

We are a foreign private issuer under the rules and regulations of the SEC and are therefore exempt from a number of rules under the Exchange Act and are permitted to file less information with the SEC than a domestic U.S. reporting company, which reduces the level and amount of disclosure that you receive.

As a foreign private issuer whose ADSs are listed on the NYSE American we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NYSE American. Among other things, as a foreign private issuer we may also follow home country practice with regard to, the composition of the board of directors, director nomination procedure, compensation of officers and quorum at shareholders' meetings. See Item 10.B "Memorandum and Articles of Association.

The market price of our ADSs has been, and may continue to be, highly volatile, and such volatility could cause the market price of our ADSs to decrease and could cause you to lose some or all of your investment in our ADSs.

The stock market in general and the market prices of the ADSs on NYSE American, in particular, are or will be subject to fluctuation, and changes in these prices may be unrelated to our operating performance. During the third quarter of 2024, the market price of our ADSs fluctuated from a high of \$30.47 per ADS to a low of \$26.00 per ADS, and the price of our ADSs continues to fluctuate. We anticipate that the market prices of our securities will continue to be subject to wide fluctuations. The market price of our securities may be subject to a number of factors, including:

- announcements of new products by us or others;
- announcements by us of significant acquisitions, strategic partnerships, in-licensing, joint ventures or capital commitments;
- the developments of the businesses and projects of our various subsidiaries;
- expiration or terminations of licenses, research contracts or other collaboration agreements;
- public concern as to the safety of the products we sell;
- the volatility of market prices for shares of companies with whom we compete;
- developments concerning intellectual property rights or regulatory approvals;
- variations in our and our competitors' results of operations;
- changes in revenues, gross profits and earnings announced by us;
- changes in estimates or recommendations by securities analysts, if the ADSs are covered by analysts;
- fluctuations in the share price of our publicly traded subsidiaries;
- changes in government regulations or patent decisions; and
- general market conditions and other factors, including factors unrelated to our operating performance.

These factors may materially and adversely affect the market price of our securities and result in substantial losses by our investors.

We cannot assure you that the ADSs will not be delisted from the NYSE American, which could negatively impact the price of the ADSs and our ability to access the capital markets.

We cannot assure you that the ADSs will not be delisted from the NYSE American, which could negatively impact the price of the ADSs and our ability to access capital markets.

The listing standards of the NYSE American provide that a company, in order to qualify for continued listing, must maintain a minimum share price of \$1.00 and satisfy standards relative to minimum shareholders' equity, minimum market value of publicly held shares and various additional requirements. If we fail to comply with all listing standards applicable to issuers listed on the NYSE American, the ADSs may be delisted. If the ADSs are delisted, it could reduce the price of the ADSs and the levels of liquidity available to our shareholders. In addition, the delisting of the ADSs could materially and adversely affect our access to the capital markets and any limitation on liquidity or reduction in the price of the ADSs could materially and adversely affect our ability to raise capital. Delisting from the NYSE American could also result in other negative consequences, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities.

There can be no assurance that we will not be classified as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. investors in shares of our common stock or ADSs.

We will be classified as a PFIC in a particular taxable year if, after applying certain look-through rules, either (i) 75 percent or more of our gross income for the taxable year is passive income; or (ii) the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from certain commodities transactions. Cash is generally considered a passive asset for these purposes. Goodwill is an active asset under the PFIC rules to the extent attributable to activities that produce active income.

Based on our audited financial statements and relevant market and shareholder data, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2022 and 2023 taxable years, and we do not expect to be a PFIC in the current taxable year or in the foreseeable future. However, whether we are a PFIC is a factual determination made annually after the close of the taxable year, and therefore may be subject to change depending, among other things, upon changes in the composition of our gross income and the relative quarterly average value of our assets. Because we hold a substantial amount of cash, we may be or become a PFIC for any taxable year if the value of our goodwill and other intangible assets that we believe should be treated as active assets are determined by reference to our market capitalization and our market capitalization fluctuates or declines considerably. Accordingly, there can be no assurance that we will not be a PFIC for any year in which a U.S. Holder, as defined in "Item 10.E. Additional Information—Taxation—Passive Foreign Investment Company Status," holds series B shares or ADSs.

If we were to be or become classified as a PFIC for any taxable year during which a U.S. Holder owns the ADSs or series B shares, certain adverse U.S. federal income tax could apply to such U.S. Holder, including increased tax on disposition gains and certain excess distributions and additional reporting requirements. See "Item 10.E. Additional Information—Taxation—Passive Foreign Investment Company Status".

Item 4. Information on the Company

A. History and Development of the Company

Overview

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 and our website is www.gsimec.com.mx.

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 2023, 2022 and 2021 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 2023, 2022 and 2021, 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 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 northwest and central parts of Mexico allow us to serve the structural steel and construction markets in those regions and southern California with an advantage in the cost of freight over competitors which do not have production facilities in such regions.

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. (Corporación 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 Steel (“Republic Steel” or “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. Industrias CH currently owns 0.59% of the capital stock, and Grupo Simec the remaining 99.41%.

On May 30, 2008, we acquired Aceros DM and certain affiliated companies (“Grupo San”), a long products rebar, wire rod and wire products steel mini-mill and the second-largest corrugated rebar producer in Mexico. Grupo San’s operations are based in San Luis Potosí, Mexico.

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, which started operations in 2015.

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, Grupo Simec, S.A.B de C.V. entered into a contract with Arcelor Mittal Brasil, S.A. for the acquisition of the steel products plants of Cariacica, in Espírito Santo, and the transfer of the lease contract and subsequent purchase for the plant in Itauna, in Minas Gerais, both in Brazil. The production capacity of the Cariacica plant is 600,000 tons of liquid steel per year and 348,000 tons of rolled steel products per year and the production capacity of the Itauna plant is 120,000 tons of rolled steel products per year.

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 June 11, 2021, CHQ Wire México, S.A. de C.V. (formerly Malla San 1, S.A. de C.V.) purchased the fixed assets of a wire production plant in Silao, Guanajuato.

In 2021, Republic signed a turnkey contract with GV Do Brasil for the construction of a plant in Pindamonhangaba. In June 2021, Republic also signed a turnkey contract with Companhia Siderúrgica do Espírito Santo for the construction of a rolling mill.

In August 2023, Republic Steel announced the closure of its steelmaking operations in Canton, Solon, Massillon Ohio and Lackawanna, New York effective September 2023, indefinitely due to various economic factors, including deteriorating market conditions and operational costs. Republic Steel will continue servicing its customers from its plant in Tlaxcala, Mexico. For this reason, management has determined that its long-lived assets at such facilities may not be fully recoverable. SIMEC's management performed an analysis of the fair value of the four facilities 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.

On October 30, 2024, fatalities occurred at one of our steel plants located in Apizaco, Tlaxcala, in connection with a liquid steel spill at the plant. Immediate actions were taken to contain the situation and ensure the safety of our employees and surrounding areas. As of the date of this filing, we remain in constant communication with the families of the deceased employees and are actively working to reach fair and timely compensation. The investigation into the incident is ongoing, and due to the recent nature of the event, we are unable to determine at this time the extent of potential exposure to governmental sanctions or whether such sanctions, if any, would be material. Additionally, we are assessing the extent of the damage caused by the incident, as well as the necessary work and investments required to restore the affected assets to full operational functionality.

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 2024 will be approximately Ps. 4,512 million (U.S.\$ 267.1 million), which consists of Ps. 477.8 million (U.S.\$ 28.3 million) of estimated capital expenditures in our facilities in Mexico and Ps. 4,034.2 million (U.S.\$238.8 million) consisting of capital expenditures in our facilities in Brazil. This estimate is subject to uncertainty and actual capital expenditures in 2024 may differ significantly from such estimate.

In 2023, our capital expenditures amounted to approximately Ps. 2,851.7 million (U.S.\$158.4 million), which consisted of Ps. 799.7 million (U.S.\$44.4 million) of estimated capital expenditures in our facilities in Mexico and Ps. 2,052.0 million (U.S.\$114.0 million) consisting of capital expenditures in our facilities in Brazil.

In 2022, our capital expenditures amounted to approximately Ps. 1,591.3 million (U.S.\$ 82.2 million), which consisted of Ps. 187.2 million (U.S.\$9.7 million) on capital improvements at our facilities in Mexico and Ps. 1,404.1 million (U.S.\$72.5 million) on

capital investments at our steel facilities in Brazil.

In 2021, our capital expenditures amounted to approximately Ps. 1,198.7 million (U.S.\$ 58.14 million), which consisted of Ps. 1,079.6 million (U.S.\$52.6 million) on capital improvements at our facilities in Mexico and Ps. 119.1 million (U.S.\$5.54 million) on capital investments at our steel facilities in the United States.

B. Business Overview

Prior to our United States steel facility closures in August 2023, we owned and operated 19 state-of-the-art steelmaking, processing and/or finishing facilities in the United States, Mexico, and Brazil. Although we continue to own all of our plants, including those in the United States, we no longer operate our United States facilities and currently operate 12 steelmaking, processing, and finishing facilities with a combined annual crude steel installed production capacity of 4.2 million tons and a combined annual installed rolling capacity of 4.6 million tons. We own both mini-mill and integrated steelmaking facilities, allowing us to optimize production and reduce costs based on the relative prices of raw materials (e.g., scrap for mini-mills and iron ore for blast furnaces).

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 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).

We report results in three segments: Mexico, United States and Brazil. In light of the closure of our Republic Steel plants, our reporting in future years may exclude operations in the United States.

Business Strategy

We seek to further consolidate our position as a leading producer, processor and distributor of SBQ steel in North America, structural steel and rebar in Mexico and rebar in Brazil. 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 costs 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, wire rods and wire products. In our U.S. facilities, we produced hot rolled bars, cold finished bars, 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-shaped steel structural sections with two equal parallel sides joined together by the center with a transversal section, forming 90 degree angles. We produce I-beams in our Mexican and Brazil facilities and they are mainly used by the industrial construction sector as structural supports.
- *Channels*. Channels, also known as U-Beams because of their U-shape, are steel structural sections with two equal parallel sides joined together by its ends with a transversal section, forming 90 degree angles. We produce channels in our Mexican and Brazil facilities, and they are mainly used by the industrial construction sector as structure supports and for stocking systems.
- *Angles*. Angles are two equal-sided sections joined by their ends with a 90 degree angle, in an L-shape. 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 hot rolled bars in our Mexican and Brazil 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 are reinforced, corrugated round steel bars with sections from 0.375 to 1.5 inches in diameter. We produce 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 facilities, primarily to supply the auto part industry.

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

Sales Volume by Steel Product

	2021	2022	2023
	<i>(thousands of tons)</i>		
I-Beams	116.0	91.6	93.8
Channels	32.3	31.6	37.4
Angles ⁽¹⁾	217.1	239.4	213.6
Hot-rolled bars (round, square and hexagonal rods)	618.7	430.4	332.3
Flat bar	102.9	101.2	75.6
Rebar	1,007.3	926.5	1,128.8
Cold finished bars	183.8	188.5	186.7
Other semi-finished trade products ⁽²⁾	0.0	0.0	0.0
Electro-Welded wire mesh	19.9	16.8	9.9
Wire rod	151.8	167.9	68.6
Electro-Welded wire mesh panel	26.5	21.6	7.9
Other	27.9	39.7	21.0
Total	2,504.2	2,255.2	2,175.6

(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 in Mexico, the United States, Brazil and Canada. We also export steel products from Mexico to Central and South America and Europe. In 2023, approximately 15% of our steel product sales in tons represented SBQ steel products, of which we sold 56% to the auto part industry, 29% to service centers and the remaining 15% to other industries.

In 2023, direct sales in tons to the automotive industry decreased by 12% compared to 2022. In 2022, direct sales in tons to the automotive industry decreased by 13% compared to 2021.

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		
	Year ended December 31,					
	2021	2022	2023	2021	2022	2023
I-Beams	71%	64%	59%	29%	36%	41%
Channels	86%	84%	83%	14%	16%	17%
Angles	53%	50%	47%	47%	50%	53%
Hot-rolled bars	39%	42%	46%	61%	58%	54%
Flat bar	75%	81%	87%	25%	19%	13%
Rebar	51%	56%	54%	49%	44%	46%
Cold finished bars	50%	46%	46%	50%	54%	54%
Other semi-finished trade products	-	-	-	-	-	-
Electro-welded wire mesh	100%	100%	100%	-	-	-
Wire rod	74%	63%	92%	26%	37%	8%
Electro-welded wire mesh panel	100%	100%	100%	-	-	-
Other	10%	11%	8%	90%	89%	6%
Total (weighted average)	52%	54%	54%	48%	46%	46%

During 2023, approximately 55.3% of our sales volume came from the Mexico segment, approximately 40.9% came from the Brazil segment and approximately 3.8% came from the U.S. segment. In 2023, SBQ products represented 28.0%, 0% and 100% of the Mexico, Brazil and U.S. segments, respectively.

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.

A significant portion of our sales in the United States and Canada 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 Canada 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 Canada markets through a staff of professional sales representatives and sales technicians located in the major manufacturing centers of the Great Lakes region of the United States.

We distribute our exports outside North America primarily through independent distributors who also carry other product lines.

During 2023 and 2022, 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 Canada 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 Steel plants, we had long-term relationships with most of our major customers, in some cases lasting 10 to 20 years or more. Our major direct and indirect customers spanned numerous market sectors, including automotive, manufacturing, industrial equipment, and defense.

Our U.S. facilities were strategically located to serve the majority of consumers of SBQ products in the United States. These facilities shipped products between mills and delivered finished goods to customers by rail and truck. Customer needs and location determined the type of transportation used for deliveries. The proximity of our rolling mills and cold finishing plants to our U.S. customers allowed us to offer competitive rail and truck freight rates and flexible deliveries to meet just-in-time and other customer manufacturing requirements.

We believed that meeting our customers' product delivery requirements in a timely and flexible manner was key to attracting and retaining them, especially as more SBQ product consumers reduced their in-plant raw material inventory. We optimized freight costs by leveraging our greater operational scale to maintain favorable transportation arrangements, combining 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 890,000 tons for 2023, 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. 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 steel production increased 7% in 2023 compared with 2022.

Our major customers in 2023 include: Pires Do Rio Cibraco Comercio e Industria de Ferro e Aco, Ltda, Marson Distribuicao, Ltda, Aco e Aco Vergalhoes Ltda, Udiaco Comercio e Industria de Ferro e Aco Ltda, Aco Fera Com Ferro e Aco Ltda, Cedisa Central de Aco, S.A., Menetoni Distribuidora de Productos Siderurgicos Importacao e Exportacao, LTDA., Ferragens Santa Monica, LTDA., Brametal, S.A., Automolas Equipamentos, LTDA., Fachchini, S.A., VK Industria de Molas e Grampos, LTDA., Mattheis Borg Adm Part Com Ind, LTDA., Konesul Ind Com, LTDA., RDG Acos Do Brasil, S.A., Aam North America Inc., Mahle Componentes de Motor de Mexico, S. de R.L. de C.V., Rassini Suspensiones, S.A. de C.V. Weg Mexico, S.A. de C.V., Thyssenkrupp Presta de Mexico, S.A. de C.V., Thyssenkrupp Metalurgica de Mexico, S.A. de C.V., Hendrickson Spring Mexico, S.A. de C.V. and Dana Automotive Manufacturing Inc.

Competition

Competition in the steel industry is significant. Competition in the steel industry also 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 Mexico, Brazil 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, 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 long 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 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 2023, we sold approximately 267,778 tons of I-beams, channels and angles at least three inches in width, which represented approximately 12.3% of our total finished product sales for the year. In 2022, we sold approximately 266,840 tons of I-beams, channels and angles at least three inches in width, which represented approximately 11.8% of our total finished product sales for the year. In 2021, we sold approximately 275,545 tons of I-beams, channels and angles at least three inches in width which represented approximately 11% of our total finished product sales for the year.

We believe that the domestic competitors in the Mexican market for structural steel are Gerdau Corsa, Deacero, 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 14.8% in 2021, 12.7% in 2022 and 11.0% in 2023, according to information provided by Mexico's Cámara Nacional de la Industria del Hierro y del Acero (CANACERO).

In 2023, we sold approximately 498,959 tons of hot rolled and cold finished steel bars compared to 626,864 tons in 2022. 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 15.0% and 13.0%, respectively, in 2023 and 12.8% and 16.6%, respectively, in 2022 and 14.3% and 16.1%, respectively, in 2021.

Rebar and light structural steel together accounted for approximately 1,397,000 tons, or 64.19%, of our total production of finished steel products in Mexico, Brazil and the United States in 2023.

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 Lázaro Cárdenas, S.A. de C.V., Ternium Mexico, S.A. de C.V., Grupo Acerero Fonderia, Suacero, S.A. de C.V. and Gerdau Corsa., and CMC Metals.

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. Furthermore, 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, depending on the product, include Nucor, Corporation, Charter Steel, Steel Dynamics, Cascade Rolling Mills, Commercial Metals Company, Vinton Steel and Gerdau.

In August 2023, Republic Steel announced the closure of its steelmaking operations in Canton, Solon, Massillon Ohio and Lackawanna, New York effective September 2023, indefinitely due to various economic factors, including deteriorating market conditions and operational costs.

Republic Steel's operations accounted for approximately 15% of our total revenues in 2021, 11% in 2022 and 6% in 2023. Republic Steel's steel production accounted for approximately 11% of our total steel production in 2021, 8% in 2022 and 3% in 2023.

Brazil

The Brazilian steel industry is comprised of 12 business groups operating 31 mills in 10 Brazilian states, making Brazil the 9th largest producer in the world.

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

We compete in the Brazilian domestic market for long steel products primarily based on price and product quality. Additionally, we differentiate ourselves through our ability to meet customer delivery requirements. The flexibility of our production facilities enables us to quickly respond to fluctuations in product demand. The growing needs of Brazil, along with our diverse product range, help us maintain a strong competitive position in the Brazilian 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 Choluta have received ISO/TS 16949:2009 certification from International Quality Certifications, effective until September, 2024.

All of Republic Steel's plants are certified to ISO9001:2015 and IATF16949:2016. Our plants in Canton, Ohio, Lackawanna, New York, and Massillon, Ohio, are certified to IATF16949, effective until January 2024. The plant in Solon, Ohio, is certified to ISO 9001:2015, and the current certification is effective until January 2024. The IATF 16949:2016 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.

Prior to the Republic Steel plant closures, Republic's Environmental, Health & Safety Management System was 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 62% in 2021, increased 0.5% in 2022 and decreased by 19.6% in 2023, and prices of ferroalloys increased 32.9% in 2021, increased 36.4% in 2022 and decreased 30.8% in 2023. 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 2023, our cost of sales in Mexico, as a percentage of sales in Mexico, was 72%, compared to 141% in the U.S. and 70% in Brazil. Our consolidated cost of sales, as a percentage of consolidated sales, was 76%. 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 61.0% of our consolidated manufacturing conversion cost in 2023 (60% of the manufacturing conversion cost in our Mexico operations, 34% of the manufacturing conversion cost in our U.S. operations and 63% in our Brazil operations). Scrap metal accounted for 60.5% of our consolidated manufacturing conversion cost in 2022 (62% of the manufacturing conversion cost in our Mexico operations, 31% of the manufacturing conversion cost in our U.S. operations and 66% in our Brazil operations), compared to 70% of our consolidated manufacturing conversion cost in 2021 (67% of the manufacturing conversion cost in our Mexico operations, 43% of the manufacturing conversion cost in our U.S. operations and 72% 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 13.8% and 11.5% of our refined scrap tonnage in 2023 and 2022, respectively, and (ii) purchases from third party scrap processors in Mexico and the southwestern United States, which, in the aggregate, provided us with approximately 85.1% and 1.2 of our refined scrap tonnage, respectively, in 2023 and approximately 87.3% and 1.2%, respectively, in 2022. 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.

Ferroalloys, electrodes and refractory products collectively accounted for i) approximately 13% of our manufacturing conversion cost in 2023 in our Mexican operations, compared to 14% in 2022, ii) 25% of our manufacturing conversion cost in 2023, compared to 19% in 2022 for our U.S. and Canada operations and iii) 10% of our manufacturing conversion cost in 2023 compared to 9% in 2022 in our Brazil facilities.

Ferroalloys are essential for the production of steel and are added to the steel during manufacturing process to reduce undesirable elements and to enhance its hardness, durability and resistance to friction and abrasion. For our Mexican operations, we buy most of our manganese ferroalloys from Compañía Minera Autlán, S.A., 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., Metaloides, S.A. de C.V., Micro Abrasivos, 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 Inc., Kennecott Molybdenum Company, Vale Americas Inc., Minerais U.S. LLC, Greenwich Metals Inc. and BPI Inc. Our Brazil facilities purchase most of their ferroalloys from Multiligas Eireli. Ltda, Comercial Cometa Industria y Comercio Ltda., Fertileg Ferro Liga Ltda, Granha Ligas Ltda., and Cia de Ferro Ligas de Bahia Ferbasa.

For our Mexican operations, we obtain electrodes used to melt raw materials (scrap metal) from Jilin Carbon Co. Ltd., Interfer Edelsthal H. Mbh, Duracarbon Latinoamerica LCC, FRC Global Inc, CNBM International Corp, Dalian Xihua Refractories Materials Co., and HEG Limited. Our U.S. facilities purchase most of their electrodes from Sangraf International and Starex Inc. Our Brazil facilities purchase most of their electrodes from Jilin Carbon Import Cimm Group Co. Ltd and Export Company and Dura Carbon Singapur.

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., FRC Global Inc, Puyang Refractories group Co. Ltd. Kumas, Manyezit Sanayi A.S., Calderys France S.A.S., and Rectix Materiales Refractorios, S.A. de C.V.. Our U.S. facilities purchase most of their refractory products from RHI US, Inc., Vesuvius USA, Corp., Magna a Division of Timab, Vibrantz Minerías LLC, Harbison-Walker Refractories Company and FRC Global Inc. Our Brazil facilities purchase most of their refractory products from Magnesitas Navarrasm S.A., Vesivius and Magnesita Refractories Mexico S.A. de C.V.

Electricity. In 2023, 2022 and 2021, electricity accounted for approximately 9%, 8% and 7% of our consolidated manufacturing conversion cost, respectively. Electricity accounted for 9%, 7% and 7% in 2023, 2022 and 2021, respectively, of our manufacturing conversion in our Mexico facilities and is supplied by CFE for basic service and Iberdrola for qualified service. Electricity also accounted for 11%, 9% and 4% of the manufacturing conversion cost in our U.S. operations in 2023, 2022, and 2021, respectively, and is supplied by American Electric Power Company, Archer Energy, National Grid, The Illumination Company, New York Power and Ohio Edison. It accounted for 7%, 5% and 8% in 2023, 2022 and 2021, respectively, of the manufacturing conversion cost in our Brazil operations, where it is supplied by Ecom Energia Ltda., Comercializadora de Energiaeletrica Ltda. and Comerc 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 (2% of the manufacturing conversion cost of our Mexican operations, 3% of the manufacturing conversion cost of our U.S. operations and 4% of our Brazil operations) in 2023 and approximately 5% of our consolidated manufacturing conversion cost (3% of the manufacturing conversion cost of our Mexican operations, 6% of the manufacturing conversion cost of our U.S. operations and 4% of our Brazil operations) in 2022. 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, 2023, 2022 and 2021, we did not have natural gas cash-flow exchange contracts or swaps. For the derivatives that qualified for hedge accounting, their fair value was adjusted through the stockholders’ equity under the caption fair value of derivative financial instruments until such time as the related item in the derivative hedges is recognized as income.

We do not enter into contracts for speculation purposes.

Regulation

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 relating to the protection of human health, the environment and natural resources.

The major federal environmental laws applicable to our operations, among others, are

- the General Law of Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente* or the “General Law on Environmental Protection”) and its regulations;

- the General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de los Residuos* or the “General Law on Waste Management”);
- the National Waters Law (*Ley de Aguas Nacionales*) and its regulations; and
- the Federal Law on Environmental Responsibility (*Ley Federal de Responsabilidad Ambiental*)

The General Law on Environmental Protection, the General Law on Waste Management and the Federal Law on Environmental Responsibility are administered by the Ministry of the Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales* or the “Ministry of the Environment”) and enforced by the Federal Attorney’s Office for the Protection of the Environment (*Procuraduría Federal de Protección al Ambiente* or “PROFEPA”). The National Waters law is also administered by the Ministry of the Environment and is enforced by the National Waters Commission (*Comisión Nacional de Agua* or “CONAGUA”).

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.

The General Law on Environmental Protection 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, the General Law on Waste Management regulates the generation, handling, transportation, storage and final disposal of hazardous waste.

The General Law on Environmental Protection also mandates that companies that contaminate soil be responsible for the clean-up. Furthermore, the General Law on Waste Management 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 General Law on Waste Management 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 the Ministry of the Environment 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 the Ministry of the Environment.

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

The National Waters Law regulates water resources in Mexico. In addition, the Mexican Official Rules govern water quality standards. A concession granted by CONAGUA 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 CONAGUA 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 the 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 our products are in material compliance with all applicable DGN regulations.

United States

Our operations in the United States 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—Key Information—Risk Factors—Risks Related to the Global Economy and 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 always 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 and Canton, Ohio plants (which are not currently in operation) 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, Brazil 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 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 a signatory to the UNFCCC, Mexico became subject to the Paris Agreement to fight climate change, which was taken by the parties at the 21th session of the UNFCCC conference of the Parties in 2015. In August 2017, the U.S. State Department officially informed the United Nations of the United States withdrawal from the Paris Agreement. Following the 2020 U.S. presidential election, the U.S. formally rejoined the Paris Agreement in February 2021. As a result, some of our significant facilities may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage greenhouse emissions. More stringent greenhouse policies and regulations could adversely affect our business and results of operations.

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

In the United States, the federal Environmental 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.

Brazil operations

We produce according to 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.

Trade Regulation

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 relative to other currencies, making imports cheaper and more competitive in peso terms. Recently, the Mexican government, at the request of CANACERO, has taken several measures to prevent unfair trade practices such as dumping in the steel import market. The overall climate for imports in Mexico is influenced by the free trade agreements that Mexico has entered with other countries, as well as the level of tariffs and anti-dumping duties.

We benefit from Mexico's free trade agreements. 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.

United States-Mexico-Canada Agreement (USMCA)

The 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 competed with our main product lines. After a 13-month negotiation period, on September 30, 2018, the United States, Mexico and Canada signed the United States a-Mexico-Canada Agreement (the "USMCA"), which replaced NAFTA on July 1, 2020. See "*Item 3—Key Information—Risk Factors—Risks Related to Mexico—Economic and political developments in the United States and elsewhere may adversely affect Mexican economic policy and, in turn, our operations.*" The USMCA 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 ("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 was 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. 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 *Mexico-Japan Economic Association* (the “Association”) was negotiated in the following terms: (i) the specialized steel not produced in Mexico used to produce vehicles, spare parts, electronics, machinery and heavy equipment was relieved from any tariffs, (ii) steel products coming from Japan into Mexico are subject to a zero percent rate and (iii) the products to be imported from programs established by the Association pay tariffs pursuant to the fixed rates established in such programs. The electronic and vehicles industries are exempted as of the date of the Association.

Other Trade Agreements. In the last several years, Mexico has signed other free trade agreements, including 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 withdrew from the free trade agreement with Mexico and Colombia in 2006.

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 (the “USITC”) started an official anti-dumping investigation against rebar exports from Mexico and Turkey promoted by Nucor, Gerdau, Commercial Metals, and Cascade Steel Buyer.

On 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 anti-dumping 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.

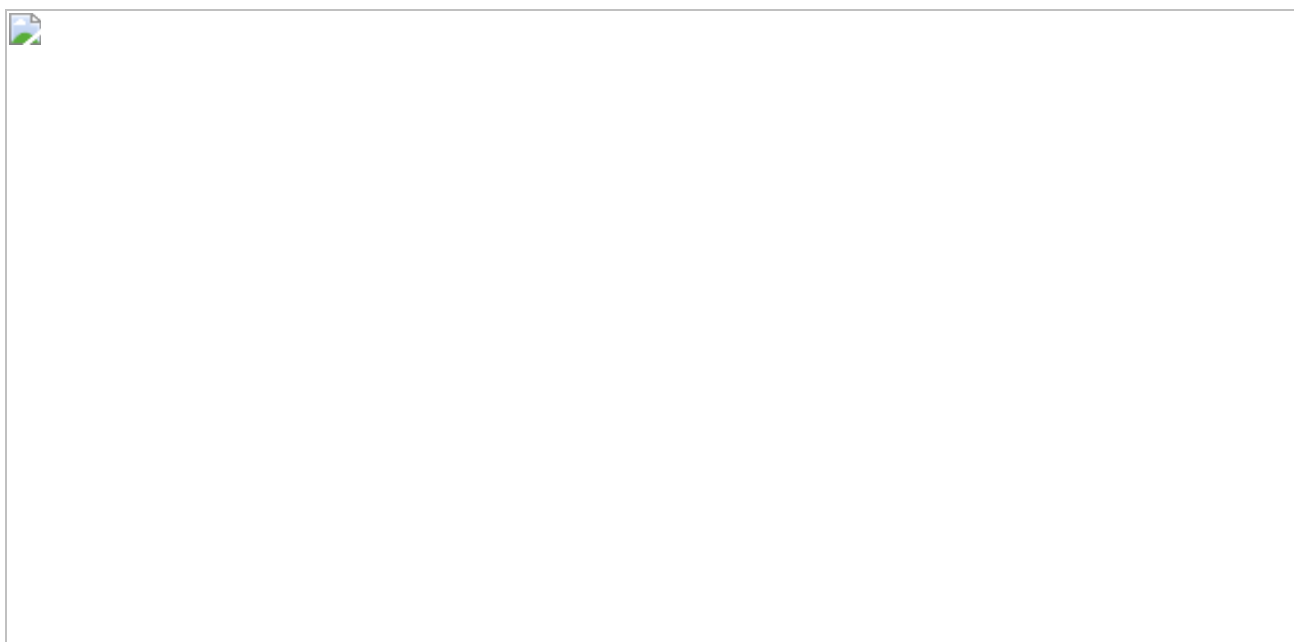
On January 6, 2021, a preliminary dumping rate of 66.7% was imposed on our exports of rebar to the United States. Such dumping rate was ratified in June 1, 2022. Following the U.S. Department of Commerce's physical review carried out at our San Luis Potosí plant on February 17, 2020 after we argued that there were deficiencies and adverse facts during the U.S. Department of Commerce's information process, a preliminary dumping rate of 6.35% was imposed and will be ratified in the first semester of 2023. On August 9, 2023 a dumping rate of 5.93% was published and imposed.

On January 19, 2023, the International Trade Practices Unit (UPCI) published the final resolution of the China wire rod countervailing duty examination, extending the countervailing duty on wire rod imports from China for 5 years. And on February 24, 2023, the UPCI published the final resolution imposing countervailing duties on imports of type I and II steel beams from Spain, Germany and the United Kingdom.

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 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.



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- (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. (100.00%); Industrias del Acero y del Alambre, S.A. de C.V. (100.00%); Procesadora Mexicali, S.A. de C.V. (99.99%); Servicios Simec, S.A. de C.V. (100.00%); Sistemas de Transporte de Baja California, S.A. de C.V. (100.00%); Operadora de Metales, S.A. de C.V. (100.00%); Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100.00%); Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (100.00%); Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V. (100.00%); Arrendadora Simec S.A. de C.V. (100.00%); CSG Comercial, S.A. de C.V. (99.95%); Compañía Siderúrgica de Guadalajara, S.A. de C.V. (99.99%); Simec Acero, S.A. de C.V. (100.00%); Undershaft Investment N. V., (100.00%); Simec USA Corp. (100.00%); Pacific Steel Projects Inc. (100.00%); Simec Steel Inc. (100.00%); Simec International, S.A. de C.V.(100.00%); Corporativos G&DL, S.A. de C.V. (100.00%); Simec International 6, S. A. de C. V., (100.00%), Simec International 7, S. A. de C. V., (99.99%), Simec International 9, S.A.P.I. de C.V., (100.00%); Corporación ASL, S.A. de C.V. (99.99%); Siderúrgica del Occidente y Pacífico, S.A. de C.V. (100.00%), Aceros Especiales Simec Tlaxcala, S.A. de C.V. (100.00%), Gases Industriales de America, S.A. de C.V. (100.00%), GSIM de Occidente, S.A. de C.V.(100.00%), Siderúrgicos

Noroeste, S.A. de C.V.(100.00%), Fundiciones de Acero Estructural, S.A. de C.V. (100.00%) and Simec Siderúrgico, S.A. de C.V. (100.00%).

- (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.(100.00%) until October 31, 2012 (began operations in November 2010). Since November 1, 2012 these facilities were operated by Orge, S.A. de C.V. (99.99%). These facilities were operated by RRLC, S.A.P.I. de C.V. (99.99%) and Grupo Chant, S.A.P.I. de C.V. (99.99%), since April, 2015 and October 2015, respectively. These facilities were operated by GSIM de Occidente, S.A. de C.V. (100.00%) and Aceros Especiales Simec Tlaxcala, S.A. de C.V.(100.00%), since March 2016 and July 2016, respectively. The Guadalajara plant is currently operated by Corporación ASL, S.A. de C.V., the Mexicali plant by Simec International 6,S,A, de C.V., the Apizaco and Cholula plants by Simec international, S.A. de C.V., the new Tlaxcala plant by Aceros Especiales Simec Tlaxcala, S.A. de C.V., the San Luis plants by Aceros DM, S.A. de C.V., Aceros San Luis, S.A. de C.V., Malla San 2, S.A. of C.V. and Fundiciones de Acero Estructural, S.A. de C.V: and the Silao plant by CHQ Wire México, S.A. of C.V. (formerly Malla San 1, S.A. de C.V. The group's marketer is Simec Acero, S.A. de C.V.
- (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 three cold finishing facilities in Massillon, Ohio and Solon, Ohio; all, of which are owned directly by Republic, and none of which are currently operational.
- (4) Grupo San facilities are conformed by Corporación Aceros DM, S.A. de C.V. (100.00%) and Subsidiaries, Aceros DM, S.A. de C.V. (100.00%) Acero Transportes SAN, S.A. de C.V. (100.00%), Aceros San Luis, S.A. de C.V. (100.00%), CHQ Wire México, S.A. de C.V. (100.00%) (formerly Malla San 1, S.A. de C.V.), Malla San 2, S.A. de C.V. (100.00%) and Alambres Trefilados de San Luis Potosí, S.A. de C.V. (100.00%).
- (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.

The following table identifies each of our significant operating subsidiaries, including its country of incorporation and our percentage ownership thereof at December 31, 2023 and December 31, 2022:

	Percentage of equity owned		
	2023	2022	2021
Subsidiaries established in Mexico:			
Compañía Siderúrgica de Guadalajara, S.A. de C.V.	99.99%	99.99%	99.99%
Arrendadora Simec, S.A. de C.V.	100.00%	100.00%	100.00%
Simec International, S.A. de C.V.	100.00%	100.00%	100.00%
Compañía Siderúrgica del Pacífico, S.A. de C.V.	99.99%	99.99%	99.99%
Coordinadora de Servicios Siderúrgicos de Calidad, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Industrias del Acero y del Alambre, S.A. de C.V.	99.99%	99.99%	99.99%
Procesadora Mexicali, S.A. de C.V.	99.99%	99.99%	99.99%
Servicios Simec, S.A. de C.V.	100.00%	100.00%	100.00%
Sistemas de Transporte de Baja California, S.A. de C.V.	100.00%	100.00%	100.00%
Operadora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Operadora de Metales, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V.	100.00%	100.00%	100.00%
CSG Comercial, S.A. de C.V.	99.95%	99.95%	99.95%
Operadora de Servicios de la Industria Siderúrgica ICH, S.A. de C.V.	100.00%	100.00%	100.00%
Corporación Aceros DM, S.A. de C.V. and subsidiaries (1)	100.00%	100.00%	100.00%
Acero Transportes San, S.A. de C.V. (1)	100.00%	100.00%	100.00%
Simec Acero, S.A. de C.V.	100.00%	100.00%	100.00%
Corporación ASL, S. A. de C.V.	99.99%	99.99%	99.99%
Simec International 6, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Simec International 7, S.A. de C.V.	99.99%	99.99%	99.99%
Simec International 9, S.A.P.I. de C.V.	100.00%	100.00%	100.00%
Corporativos G&DL, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Orge, S.A. de C.V.	99.99%	99.99%	99.99%
Siderúrgica del Occidente y Pacífico, S.A. de C.V.	100.00%	100.00%	100.00%
RRLC, S.A.P.I. de C.V.	99.99%	95.10%	95.10%
Grupo Chant, S.A.P.I. de C.V.	99.99%	97.61%	97.61%
Aceros Especiales Simec Tlaxcala, S.A. de C.V. (7)	100.00%	100.00%	100.00%
Gases Industriales de America, S.A. de C.V. (7)	100.00%	100.00%	100.00%
GSIM de Occidente S.A. de C.V.	100.00%	100.00%	100.00%
Fundiciones de Acero Estructural, S.A. de C.V.	100.00%	100.00%	100.00%
Siderúrgicos Noroeste, S.A. de C.V.	100.00%	100.00%	100.00%
Simec Siderúrgico, S.A. de C.V.	100.00%	100.00%	100.00%
Subsidiaries established in countries outside of Mexico:			
SimRep Corporation and Subsidiaries (3) (4) (5)	99.41%	99.41%	99.41%
Pacific Steel, Inc. (4)	100.00%	100.00%	100.00%
Pacific Steel Projects, Inc. (4)	100.00%	100.00%	100.00%
Simec Steel, Inc. (4)	100.00%	100.00%	100.00%
Simec USA, Corp. (4)	100.00%	100.00%	100.00%
Undershaft Investments, NV. (6)	100.00%	100.00%	100.00%
GV do Brasil Industria e Comercio de Aço LTDA (2)	100.00%	100.00%	100.00%
Companhia Siderurgica do Espiritu Santo S.A. (2)	100.00%	100.00%	100.00%

(1) Companies located in San Luis Potosi. For purposes of this report constitute the “Grupo San.”

(2) Companies located in Brazil.

(3) ICH owns 0.59% of the shares in this company at December 31, 2023.

(4) Companies established in the United States, 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 that have lost the entire capital stock, except Operadora de Metales, S.A. de C.V., Administradora de Servicios Siderúrgicos de Tlaxcala, S.A. de C.V. and Gases Industriales de America, S.A. de C.V. and which only has lost 2/3 of their capital stock.

D. Property, Plants and Equipment

Our Operations and Production Facilities

As of the date of this annual report, we conduct our operations at 12 facilities throughout North and South America. At December 31, 2023, our crude steel production capacity was 6 million tons, of which 1.2 million tons were based on an integrated blast furnace technology, and 4.8 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 2.3 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 5.6 million tons of rolling and finishing capacity, of which 2.9 million are in Mexico, 1.8 million are in the United States and Canada and 0.9 million are in Brazil.

We operate nine mini-mills, six in Mexico, one in the United States and two in Brazil. The Mexican mini-mills are 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 in Canton, Ohio. Our mini-mills in Brazil are 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 it 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 prior 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

	Year Ended December 31,		
	2021	2022	2023
	(thousands of tons)		
Melt shops			
Steel billet production	3,005.9	2,472.8	2,313.11
Annual installed capacity ⁽¹⁾	6,006.0	6,006.0	6,006.0
Effective capacity utilization	50.05%	41.2%	38.5%
Rolling mills			
Total production	2,708.1	2,674.8	2,534.6
Annual installed capacity ⁽¹⁾	5,205.0	5,792.6	5,720.6
Effective capacity utilization	52.0%	46.2%	44.3%

(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 as of December 31, 2023.

Mexican Production per Facility by Product Location

Product	Guadalajara	Mexicali	Apizaco/ Cholula	San Luis	Total
	Production (%)				
I-Beams	24.0%	0.3%	0%	0%	4.6%
Channels	12.9%	4.1%	0%	0%	3.1%
Angles	39.0%	9.6%	0%	0.1%	9.0%
Hot rolled bars (round, square and hexagonal rods)	15.3%	2.2%	46.4%	0.7%	13.0%
Rebar	0.0%	80.4%	0.0%	84.2%	50.5%
Flat bars	8.2%	3.4%	26.5%	0.0%	7.5%
Cold finished bars	0.0%	0.0%	27.0%	0.0%	5.5%
Electro-Welded wire mesh	0.0%	0.0%	0.0%	1.8%	0.8%
Wire rod	0.0%	0.0%	0.1%	11.7%	5.3%
Electro-Welded wire mesh panel	0.0%	0.0%	0.0%	1.5%	0.6%
Other	0.6%	0.0%	0.0%	0.0%	0.1%
Total	100%	100%	100%	100%	100%

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 480,000 tons of billet and an annual installed capacity of finished product of 480,000 tons. In 2023, the Guadalajara mini-mill produced 234,486 tons of steel billet and 229,877 tons of finished product, operating at 49% capacity for billet production and 48% 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, and light structural steel.

Guadalajara Mini-Mill

	As of December 31,		
	2021	2022	2023
Steel sales (thousands of tons)	302	252	230
Average finished product price per ton	Ps. 21,361	Ps. 26,880	Ps. 23,656
Average scrap cost per ton	9,720	9,966	8,443
Average manufacturing conversion cost per ton of finished product ⁽¹⁾	12,217	4,714	4,372
Average manufacturing conversion cost per ton of billet ⁽¹⁾	2,853	3,359	2,940

(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 380,000 tons of steel billet and an annual installed capacity of finished product of 220,000 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 2023, the Mexicali mini-mill produced approximately 192,717 tons of billet. In 2023, the Mexicali mini-mill produced 187,054 tons of finished products. In 2023, we operated the Mexicali mini-mill at 51% capacity for billet production and at 85% 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.

Mexicali Mini-Mill

	Years Ended December 31		
	2021	2022	2023
Steel sales (thousands of tons)	170	163	189
Average finished product price per ton	Ps. 20,371	Ps. 23,145	Ps. 18,834
Average scrap cost per ton	8,412	8,183	7,067
Average manufacturing conversion cost per ton of finished product ⁽¹⁾	10,734	4,603	4,226
Average manufacturing conversion cost per ton of billet ⁽¹⁾	2,489	2,859	2,835

(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 our 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 510,000 tons of steel billet and an annual installed capacity of finished product of 450,000 tons. In 2023, mini-mill 1 produced 277,477 tons of steel billet. In 2023, mini-mill 1 produced 249,893 tons of finished products. In 2023, we operated mini-mill 1 at 54% capacity for billet production and at 55% capacity for finished product production. Mini-mill 2 has an installed capacity of 630,000 tons of steel billet and an installed capacity of finished product of 550,000 tons. In 2023, mini-mill 2 produced 118,835 tons of steel billet. In 2023, mini-mill 2 produced 106,044 tons of finished products. In 2023, we operated mini-mill 2 at 19% capacity for billet production and at 19% 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, and light structural. 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 72,000 tons. In 2023, the Cholula facility produced 70,061 tons of finished products, at 97% capacity. Our Cholula facility mainly produces cold finished SBQ steel.

In 2023, our plants in Apizaco and Cholula produced 396,312 tons of billet and 425,998 tons of finished product, operating at 35% of its billet capacity and 40% capacity for finished product.

Apizaco Mini-Mills and Cholula Facility

	Years Ended December 31,		
	2021	2022	2023
Steel sales (thousands of tons)	346	306	243
Average finished product price per ton	Ps. 23,587	Ps. 26,732	Ps. 23,551
Average scrap cost per ton	9,486	10,106	8,444
Average manufacturing conversion cost per ton of finished product ⁽¹⁾	13,243	4,416	15,517
Average manufacturing conversion cost per ton of billet ⁽¹⁾	4,748	6,397	4,732

(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, 2023, these facilities had an annual installed capacity of 650,000 tons of billet and 1,180,000 tons of finished product. In 2023, the San Luis facilities produced 485,026 tons of steel billet. In 2023, the San Luis facilities produced 711,510 tons of finished product, operating at 75% capacity for billet production and 60% capacity for finished product production. Our San Luis facilities mainly produce rebar, light structural steel and wire rod.

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

	Years Ended December 31,		
	2021	2022	2023
Steel sales (thousands of tons)	554	543	541
Average finished product price per ton	Ps. 20,494	Ps. 22,334	Ps. 18,603
Average scrap cost per ton	9,894	10,097	8,583
Average manufacturing conversion cost per ton of finished product ⁽¹⁾	12,713	858	11,665
Average manufacturing conversion cost per ton of billet ⁽¹⁾	3,327	3,723	2,373

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

U.S. Operations and Facilities

In August, 2023, Republic Steel announced the closure of its steelmaking operations in Canton, Solon, Massillon, Ohio and Lackawanna, New York effective September 2023, indefinitely due to various economic factors, including deteriorating market conditions and operational costs.

Prior to the closures, we operated the Republic Steel facilities since we acquired them from the shareholders of PAV Republic, Inc. on July 22, 2005. As of December 31, 2023, these facilities had an annual installed capacity of 2,296,000 tons of billet and 1,830,000 tons of finished product. In 2023, Republic facilities produced 93,763 tons of steel billet. For the same period, Republic facilities produced 87,384 tons of hot-rolled bars. Republic facilities produced 8,600 tons of cold finish bars. In 2023, Republic facilities produced 0 tons of wire products.

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

	Years Ended December 31,		
	2021	2022	2023
Steel sales (thousands of tons)	275	161	83
Average finished product price per ton	Ps. 29,880	Ps. 36,562	Ps. 29,120
Average scrap cost per ton	9,995	7,952	9,100
Average manufacturing conversion cost per ton of finished product ⁽¹⁾	17,173	5,354	26,901

Average manufacturing conversion cost per ton of billet ⁽¹⁾	7,267	12,246	10,694
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(1) Manufacturing conversion cost is defined as all production costs excluding the cost of scrap and related yield loss.

Lorain, Ohio. The Lorain facility operated 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, 2023, 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 2023 as it has been idled since 2016.

Canton, Ohio. Our Canton facility mainly produced SBQ steel and included 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 included a combination Caster rolling facility that continuously casted blooms in a 4-strand caster, heated the blooms to rolling temperature in a walking beam furnace, then rolled 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 included a Mecana billet inspection line, four stationary billet grinders, a saw line and a quality verification line (or “QVL line”).

Canton produced blooms and billets for the three rolling mills in Republic facilities and for trade customers. We used the QVL inspection line to inspect finished bar produced in Lackawanna. As of December 2023, the Canton facility had annual installed capacity of 1,247,000 tons of steel billet. In 2023, this facility produced 93,762 tons of blooms, billets and other semi-finished trade product and was operated at 8% capacity of steel billet. This facility has ceased operations since August 2023.

Lackawanna, New York. Our Lackawanna facility primarily produced SBQ steel and featured a three-zone walking beam billet reheat furnace, a 17-stand conventional mill with a 5-stand sizing mill, and two saw lines capable of producing rounds, squares, and hexagons in both cut lengths and coils. This facility produced hot rolled bar sizes ranging from 0.562” to 3.250” with coil weights of up to 6,000 lb. The finishing equipment at the Lackawanna facility included a QVL inspection line and three saw lines. We sold a portion of the hot rolled bars produced at this facility to trade customers and shipped another portion to our cold finishing operations for further processing. As of December 31, 2023, the Lackawanna facility had an annual installed capacity of 720,000 tons of hot rolled bars. In 2023, it produced 78,784 tons of hot rolled bars, operating at 11% of its installed capacity for finished products. This facility has ceased operations since August 2023.

Massillon, Ohio. Our Massillon facility mainly produced SBQ steel and contained a cold finishing facility which included the machinery and equipment to clean, draw, turn, chamfer, anneal, grind, straighten and saw bars. Our Massillon facility had, at December 31, 2023, an annual installed capacity of 138,000 tons of finished product. During 2023, the Massillon facility was operated at 6% capacity of finished product and produced 8,600 tons of cold finished bars. This facility has ceased operations since August 2023.

Solon, Ohio. Our Solon facility, acquired in February 2011, mainly produced Cold Heading Quality (CHQ) wire products and had wire drawing and finishing facilities that included the machinery and equipment to clean and coat, draw, and anneal wire. As of December 31, 2023, the Solon facility had installed capacities of 72,000, for wire products. During 2023, the Solon facility produced and shipped 0 tons of wire products and was operated at 0% capacity of finished product. This facility has ceased operations since August 2023.

Hamilton, Ontario, Canada. Our Hamilton facility was shut down permanently during 2021.

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. 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 were acquired in August 2018, and include an electric arc furnace and two rebar and wire rod rolling mills. As of December 31, 2023, 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 2023 our plant in Pindamonhangaba produced 465,571 tons of billet and 466,242 tons of finished product, operating at 89% of its capacity for billet and 104% 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 2023, our plant in Cariacica produced 445,238 tons of billet and 299,448 tons of finished product, operating at 74% of its capacity for billet and 86% capacity for finished product. The plant in Itauna had installed capacity to produce 140,000 tons of finished product. In 2023, our plant in Itauna produced 127,081 tons of finished product, operating at 91% capacity for finished product.

In 2023, our plants in Brazil produced 910,809 tons of billet and 892,771 tons of finished product, operating at 81% of its billet capacity and 95% capacity for finished product.

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

	Years Ended December 31,					
	2021		2022		2023	
Steel sales (thousands of tons)		857		828		890
Average finished product price per ton	Ps.	20,973	Ps.	20,978	Ps.	15,667
Average scrap cost per ton		9,320		9,419		6,776
Average manufacturing conversion cost per ton of finished product ⁽¹⁾		11,628		1,463		10,748
Average manufacturing conversion cost per ton of billet ⁽¹⁾		3,173		4,644		2,704

(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

Location	Product (%)	Equipment	2023 Annual Production Volume (tons)	Finished Product Annual Installed Capacity (tons)
Guadalajara	I-Beams, Channels, Angles, Hot rolled bars, Flat bars	electric arc furnace with continuous caster rolling mill and bar processing lines	229,877	480,000
Mexicali	Angles, Rebar, Channels, Hot rolled bars, Other	electric arc furnace with continuous caster and rolling mills	187,054	220,000
Apizaco and Cholula	SBQ	electric arc furnace with vacuum tank degasser, continuous caster, rolling mills, cold drawn and bar turning equipment	425,998	1,072,000
Aceros DM, San Luis Potosí	Rebar, Wire rod, Electro-Welded wire mesh, Electro-Welded wire mesh panel, Bars	electric arc furnaces, with continuous casters, rolling mill and wire rod rolling mill	350,449	410,000
Aceros San Luis, San Luis Potosí	Rebar	electric arc furnaces, with continuous casters, reheating furnace and rebar rolling mill	134,715	183,000
Fundiciones de Acero, San Luis Potosí	Wire	Pickling line, wire drawing machines	148,884	325,000
Malla San, San Luis Potosí	Wire rod, Electro- Welded wire mesh, Electro-Welded wire	Wire drawing machines, reheating furnace, electrowelders	65,436	235,000
CHQ Wire, Guanajuato	Wire rod	Pickling line, wire drawing machines	12,027	27,600
Lorain ⁽¹⁾	SBQ	electric arc furnace, blast furnace, vacuum tank degasser, continuous caster, and rolling mills	0	900,000
Canton ⁽²⁾	SBQ	electric arc furnace, vacuum tank degasser and continuous caster	Our billet and bloom for internal consumption 93,762	Our billet and bloom for internal consumption 1,247,000
Lackawanna ⁽³⁾	SBQ	rolling mill and wire rod rolling mill	78,784	720,000
Massillon ⁽⁴⁾	SBQ	cold drawn, bar turning and heat treating equipment	8,600	138,000

Solon ⁽⁵⁾	SBQ	equipment to clean and coat, draw, and anneal wire	0	72,000
Brazil	Rebar, Angles, Bars. Flat bars, Other	electric arc furnace, with continuous caster with rolling mills and wire rod rolling mill	892,771	938,000

(1) Production capacity is for rolling only.

(2) Production capacity is for billets only.

(1), (2), (3), (4) and (5) ceased operations in August 2023.

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 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 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—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.

Basis of Preparation - International Financial Reporting Standards (IFRS)

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. We prepare our financial information in pesos.

A. Operating Results

Overview

We are producers of SBQ, rebar 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. 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 2021, the total increase in net revenue from sales of SBQ products compared to 2020 was 17%. In 2022, the total decrease in net revenue from sales of SBQ products compared to 2021 was 24%. In 2023, the total decrease in net revenue from sales of SBQ products compared to 2022 was 28%

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 consists 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 2023, 2022, and 2021, 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 idle during these periods. There is a correlation between the prices of scrap and iron ore and finished product prices, although the degree and timing of this correlation varies from time to time, so we may not always be able to fully pass along scrap 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 U.S. segment are primarily due to under-utilized production capacity, which has significantly increased costs. While the automotive sector remained stable until 2019, it experienced a sharp decline following the pandemic. As a result, we shifted our customer focus to other industries to adapt to the changing market conditions.

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.

A significant percentage of our business uses a fixed base price that is negotiated annually, plus monthly scrap and alloy surcharges. In the transaction business, we can adjust the base pricing as required. Scrap metal and commodity prices increased by 62% and 0.5% in each of 2021 and 2022, respectively, and decreased by 19.6% in 2023.

Sales Volume, Price and Cost Data, 2021 – 2023.

	Year ended December 31,		
	2021	2022	2023
Shipments (thousands of tons)	2,504	2,254	2,176
Guadalajara and Mexicali	472	415	419
Apizaco and Cholula	346	308	243
San Luis facilities	554	543	541
Republic facilities	275	160	83
Brazil	857	828	890
Net sales (Ps. millions)	55,620	54,159	41,139
Guadalajara and Mexicali	9,914	10,534	8,991
Apizaco and Cholula	8,161	8,244	5,723
San Luis facilities	11,354	12,136	10,064
Republic facilities	8,217	5,867	2,417
Brazil	17,974	17,378	13,944
Cost of sales (Ps. millions)	39,973	39,684	31,100
Guadalajara and Mexicali	7,083	6,640	6,091
Apizaco and Cholula	6,101	6,902	4,741
San Luis facilities	8,154	8,034	7,105
Republic facilities	7,159	5,764	3,399
Brazil	11,476	12,344	9,764
Average price per ton (Ps.)	22,212	24,015	18,906
Guadalajara and Mexicali	21,004	25,410	21,458
Apizaco and Cholula	23,587	26,732	23,551
San Luis facilities	20,495	22,334	18,603

Republic facilities	29,880	36,562	29,120
Brazil	20,973	20,978	15,667
Average cost per ton (Ps.)	15,964	17,597	14,292
Guadalajara and Mexicali	15,006	16,017	14,537
Apizaco and Cholula	17,633	22,378	19,510
San Luis facilities	14,718	14,785	13,133
Republic facilities	26,033	35,920	40,952
Brazil	13,391	14,901	10,971

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, structural steel product and rebar.

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, Brazilian 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 2023 increased by 3.2% (according to preliminary figures of the INEGI) and 3.0% in 2022 (according to figures of the INEGI). The U.S. GDP increased 2% in 2023 (according to preliminary figures of the U.S. Department of Commerce) and increased 2.0% in 2022. Brazil's IBGE in 2023 was increased by 2.9% (according to preliminary figures of Brazilian Institute of Geography and Statistics) and 2.0% in 2022. 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 1% in 2020 compared to 2019. Our average steel price increased approximately 55% in 2021 compared to 2020. Our average steel price decreased approximately 8% in 2022 compared to 2021. Our average steel price decreased approximately 21% in 2023 compared to 2022.

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, Brazilian 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 2021, imports to Mexico in tons increased 32.8% compared to 2020 according to information of CANACERO. In 2022, imports to Mexico in tons decreased 11.7% compared to 2021 according to information of CANACERO. In 2023, imports to Mexico in tons increased 8.6% compared to 2022 according to information of CANACERO.

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 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. For example, prices of scrap metal decreased approximately 20% in 2019, increased 9% in 2020, increased 9% in 2021, increased 0.5% in 2022 and in 2023 decreased by 19%; and prices of ferroalloys decreased approximately 1%, and 20% in 2019 and 2020 and increased 62.6% and 36.4% in 2021 and 2022, respectively, and decreased approximately 24.2% in 2023. As with other raw materials, iron ore and coking coal prices fluctuate significantly. However, in 2019, 2020, 2021, 2022 and 2023 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, Brazil and the United States. These prices are impacted by general demand and supply for energy in the United States, Brazil and Mexico as economic activity fueled energy demand and the supply and price of oil was impacted by geopolitical events. Natural gas and electricity prices in the United States, Brazil and Mexico have remained highly volatile. Prices for electricity increased approximately 0.1% in 2019, decreased approximately 10% in 2020, increased 4.7% and 7.7% in 2021 and 2022 and increased 2.0% in 2023; and prices for natural gas increased approximately 1.8% in 2019, decreased 18.0% in 2020 and decreased 1% in 2021, increased 54.3% in 2022 and decreased 30.6% in 2023.

If inflation rates in Mexico and Brazil 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 2.8% for 2019, 3.2% in 2020, 7.4% in 2021, 7.8% in 2022 and 4.6% in 2023. 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. According to the Mexican Central Bank (*Banco de Mexico*), during the period from 2020 to 2022, the exchange rate registered a low of Ps. 18.57 per U.S.\$1.00 at February 17, 2020, and a high of Ps. 24.88 per U.S.\$1.00 at April 27, 2020. The appreciation of the Mexican peso relative to the U.S. dollar in 2022 was 5.6%. The exchange rate at December 31, 2022 was 19.3615 compared to 20.5157 at December 31, 2021. At April 28, 2023, the exchange rate was Ps. 18.1030 per U.S.\$1.00. The exchange rate at December 31, 2023 was 16.8935 compared to 19.3615 at December 31, 2022. At October 25, 2024, the exchange rate was Ps.19.93 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 Potosí;

- 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.

For the year ended December 31, 2023					
	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	24,777,369	2,417,219	13,944,660	—	41,139,248
Cost of sales	(17,937,267)	(3,398,928)	(9,763,911)	—	(31,100,106)
Gross profit (loss)	6,840,102	(981,709)	4,180,749	—	10,039,142
Administrative expenses	(970,482)	(291,552)	(1,055,024)	—	(2,317,058)
Other (expense) income, net	16,319	(309,117)	173,252	—	(119,546)
Interest income	931,866	82,224	—	(82,224)	931,866
Interest expense	(89,293)	(146,592)	(122,921)	269,513	(89,293)
Exchange gain (loss), net	(2,430,781)	(219)	(181,424)	181,424	(2,431,000)
Income (loss) before income tax	4,297,731	(1,646,965)	2,994,632	368,713	6,014,111
Income tax	(1,234,278)	144,630	(650,350)	—	(1,739,998)
Net (loss) income	3,063,453	(1,502,335)	2,344,282	368,713	4,274,113
Other Data	Mexico	United States	Brazil	Operations between Segments	Total
Depreciation and amortization	618,445	155,794	261,005	—	1,035,244
Total assets	43,890,081	9,069,596	18,203,408	(4,375,473)	66,787,612
Total liabilities	6,912,766	4,602,653	9,842,201	(4,375,473)	16,982,147
Additions of property, plant and equipment, net	210,422	(350,360)	2,632,611	—	2,492,673
For the year ended December 31, 2022					
	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	30,914,890	5,867,193	17,377,164	—	54,159,247
Cost of sales	(21,575,758)	(5,764,239)	(12,343,864)	—	(39,683,861)
Gross profit (loss)	9,339,132	102,954	5,033,300	—	14,475,386
Administrative expenses	(1,096,330)	(286,611)	(1,618,151)	544,392	(2,456,700)
Other (expense) income, net	(71,202)	1,015,586	140,205	(1,012,744)	71,845
Interest income	415,704	30,175	—	—	445,879
Interest expense	(779,134)	(55,867)	(383,646)	383,646	(835,001)
Exchange gain (loss), net	(540,770)	(58)	(60,625)	60,625	(540,828)
Income (loss) before income tax	7,267,400	806,179	3,111,083	(24,081)	11,160,581
Income tax	(2,565,834)	(88,679)	(645,009)	—	(3,299,522)
Net (loss) income	4,701,566	717,500	2,466,074	(24,081)	7,861,059
Other Data	Mexico	United States	Brazil	Operations between Segments	Total
Depreciation and amortization	627,078	236,601	253,193	—	1,116,872
Total assets	44,025,917	12,930,111	14,149,332	(3,472,457)	67,632,903
Total liabilities	8,375,028	7,243,113	7,492,843	(3,472,457)	19,638,527
Additions of property, plant and equipment, net	151,783	252,116	1,292,586	—	1,696,485

For the year ended December 31, 2021

	Mexico	United States	Brazil	Operations between Segments	Total
	(in thousands of pesos)				
Net sales	29,678,133	8,216,595	17,725,628	—	55,620,356
Cost of sales	(21,337,462)	(7,159,354)	(11,471,370)	—	(39,968,186)
Gross profit (loss)	8,340,671	1,057,241	6,254,258	—	15,652,170
Administrative expenses	(907,798)	(256,875)	(877,969)	—	(2,042,642)
Other (expense) income, net	(77,530)	454,303	1,793	(455,972)	(77,406)
Interest income	65,631	317	—	—	65,948
Interest expense	(28,904)	(61,494)	(96,486)	99,439	(87,445)
Exchange gain (loss), net	325,389	(378)	(120,300)	120,300	325,011
Income (loss) before income tax	7,717,459	1,193,114	5,161,296	(236,233)	13,835,636
Income tax	(2,472,751)	(477,380)	(1,439,638)	—	(4,389,769)
Net (loss) income	5,244,708	715,734	3,721,658	(236,233)	9,445,867

	Mexico	United States	Brazil	Operations between Segments	Total
Other Data					
Depreciation and amortization	667,167	270,119	237,852	—	1,175,108
Total assets	47,917,643	10,836,083	8,815,051	(10,226,205)	57,342,572
Total liabilities	7,665,924	5,544,135	12,396,190	(10,226,205)	15,380,044
Additions of property, plant and equipment, net	367,496	288,487	410,439	—	1,066,422

Our net sales by product during as of and for the years ended December 31, 2023, 2022 and 2021 were as follows:

SALES BY PRODUCT
(in thousands of pesos)

	2021	2022	2023
Light structural	2,600,484	3,453,952	2,182,665
Structural	5,342,228	5,701,308	4,983,426
Bars	4,456,151	4,117,613	3,265,897
Rebar	19,625,065	18,834,890	18,192,586
Flat bar	3,376,554	3,673,660	3,023,550
Hot rolled bars	11,413,275	9,189,257	4,743,970
Cold drawn bars	3,213,061	3,092,410	2,105,625
Other	5,593,538	6,096,157	2,641,529
Total	55,620,356	54,159,247	41,139,248

Our net sales by country or region during 2023, 2022 and 2021 are as follows:

SALES BY COUNTRY OR REGION
(in thousands of pesos)

	2021	2022	2023
Mexico	28,060,405	29,650,766	24,324,933
United States	9,050,696	6,812,650	2,824,477
Brazil	17,548,823	16,969,641	13,884,152
Canada	441,856	291,963	0
Latin America	513,524	424,436	89,672
Other (Europe and Asia)	5,052	9,791	16,014
Total	55,620,356	54,159,247	41,139,248

Consolidated Statements of Comprehensive Income

Comparison of Years Ended December 31, 2022 and 2023

Net Sales

Net sales decreased 24%, to Ps. 41,139 million in 2023 compared to Ps. 54,159 million in 2022. This decrease resulted primarily from a 21% decrease in the average price per ton of steel products and also a lower sales volume sold of 2023 compared to 2022. Total sales outside of Mexico decreased 31%, to Ps. 16,814 million in 2023 compared to Ps. 24,508 million in 2022. Total sales in Mexico decreased 18%, from Ps. 29,651 million in 2022 to Ps. 24,325 million in 2023.

Shipments of finished steel products decreased 3.5%, to 2.176 million tons in 2023, compared to 2.255 million tons in 2022. Total sales volume outside of Mexico of finished steel products increased 1% to 0.995 million tons in 2023, compared to 0.989 million tons in 2022, while total Mexican sales decreased 7%, from 1.266 million tons in 2022, compared to 1.181 million tons in 2023. The average price of steel products decreased 21% in 2023 compared to 2022.

Cost of Sales

Our cost of sales decreased 22%, from Ps. 39,684 million in 2022 to Ps. 31,100 million in 2023, the decrease is mainly attributable to a lower volume of steel tons sold (79 thousand tons less). Cost of sales as a percentage of net sales was 76% in 2023 and 73% in 2022. 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.\$3.17 (Ps. 57) per hour in 2023 and U.S.\$2.4 (Ps. 47) per hour in 2022, compared to U.S.\$33.6 (Ps. 605) and U.S.\$28.3 (Ps. 549) per hour for 2023 and 2022, respectively, at our U.S. operations. Although some 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. 10,039 million in 2023 compared to a Ps. 14,475 million gross profit in 2022. This decrease in gross profit is attributable mainly to a decrease of 79,000 tons of finished steel products shipped and a 21% decrease in the average price of steel products sold. As a percentage of net sales, our gross profit was 24% in 2023 and 26.7% in 2022.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) decreased 6%, to Ps. 2,317 million in 2023, compared to Ps. 2,457 million in 2022. This decrease was due to a reduction in depreciation, which declined in proportion to production, and similarly, expenses aligned with the decrease in sales. Administrative expenses as a percentage of sales represented 6% and 4.5% in 2023 and 2022, respectively.

Other (Income) Expense, Net

We recorded other expense, net, of Ps. 119 million in 2023, compared against other income of Ps. 72 million in 2022, mainly from account debugging.

Interest Income

We recorded interest income of Ps. 932 million in 2023 compared to Ps. 446 million in 2022. This increase in interest income was primarily due to returns on investments.

Interest Expense

We recorded interest expense of Ps. 89 million in 2023 compared to Ps. 835 million in 2022, of which Ps. 779 million corresponded to losses from investments in steel company shares, initially made based on high industry margins and demand expectations.

Foreign Exchange Loss (Gain)

We recorded a foreign exchange loss of Ps. 2,431 million in 2023, compared to a foreign exchange loss of Ps. 541 million in 2022. This increase was primarily due to a 13% appreciation of the peso against the U.S. dollar in 2023.

Income Tax

In 2023 we recorded an income tax provision of Ps. 1,740 million, which included an income tax provision of Ps. 1,695 million and an income tax expense provision for deferred income taxes of Ps. 45 million. In 2022 we recorded an income tax provision of Ps. 3,299 million, which included an income tax provision of Ps. 3,149 million and an income tax expense provision for deferred income taxes of Ps. 150 million.

Our effective income tax rates for 2023 and 2022 were 28.93% and 29.56%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2023 and years thereafter is 30.0%.

Net Income (Loss)

We recorded net profit of Ps. 4,274 million in 2023, compared to net profit of Ps. 7,861 million in 2022. The net profit for the year 2023 compared to the net profit in 2022 is mainly a result of (i) a 21% decrease in the average price of steel products sold, (ii) the foreign exchange loss in 2023 to Ps. 2,431 million compared to the foreign exchange loss of Ps. 541 million in 2022, (iii) a 4% decrease in tons of steel products shipped.

Mexico Segment

Comparison of Years Ended December 31, 2022 and 2023

Net Sales

Net sales decreased 20%, to Ps. 24,777 million in 2023 compared to Ps. 30,915 million in 2022. This decrease resulted principally from a 20% decrease in the average price per ton of steel products in 2023 compared to 2022. Shipments of finished steel products decreased 5%, to 1.203 million tons in 2023, compared to 1.266 million tons in 2022, primarily to the decline in the average price and a decrease in product sales caused by the contraction of the domestic market.

Cost of Sales

Our cost of sales decreased 17%, from Ps. 21,576 million in 2022 to Ps. 17,937 million in 2023. This decrease is mainly attributable to a 5% decrease in tons of steel products shipped. As a percentage of net sales, our cost of sales was 72% in 2023, compared to 69.8% in 2022.

Gross Profit

Our gross profit decreased 27%, to Ps. 6,840 million in 2023 compared to Ps. 9,339 million in 2022. This decrease is attributable mainly to a 20% decrease in the average price of steel products sold and a 5% decrease in tons of steel products shipped as a percentage of net sales. Our gross profit was 28% in 2023, compared to 30% in 2022.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) decreased 11%, to Ps. 970 million in 2023, compared to Ps. 1,096 million in 2022. The decrease was mainly originated by lower administrative and maintenance expenses. Administrative expenses as a percentage of net sales were 4% in 2023 and 3.6% in 2022. Depreciation and amortization expenses were Ps. 618 million in 2023 compared to Ps. 627 million in 2022.

Other Expense (Income), Net

We recorded other income, net, of Ps. 16 million in 2023, related to other financial operations not related to our core business, compared to other expenses, net, of Ps. 71 million in 2022, reflecting expenses related to the allowance for doubtful accounts recovery.

Interest Income

We recorded interest income of Ps. 932 million in 2023 compared to Ps. 416 million in 2022. This increase in interest income was primarily due to returns on investments.

Interest Expense

We recorded interest expense of Ps. 89 million in 2023, compared to Ps. 779.1 million of interest expense in 2022. This decrease was primarily due to losses from investments in steel company shares, initially made based on high industry margins and demand expectations.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 2,431 million in 2023, compared to a foreign exchange loss of Ps. 541 million in 2022. This foreign exchange loss was primarily due to a 13% appreciation of the Mexican peso against the U.S. dollar in 2023.

Income Tax

In 2023, we recorded an income tax provision of Ps. 1,234 million, which included an expense tax provision of Ps. 1,045 million and an expense tax provision for deferred income taxes of Ps. 189 million. In 2022, we recorded an income tax provision of Ps. 2,566 million, which included an income tax provision of Ps. 2,686 million and an income tax provision for deferred income taxes of Ps. 120 million. According to the Income Tax Law in Mexico, the tax rate for 2023 and thereafter is 30%.

Net Income

We recorded net income of Ps. 3,063 million in 2023, compared to net income of Ps. 4,701 million in 2022. This variance is attributable mainly to; (i) a decrease of 20% in the average price of steel products sold (ii) a foreign exchange loss of Ps. 2,431 million in 2023 compared to Ps. 541 million of foreign exchange loss in 2022 and (iii) a decrease of 5% tons of steel products shipped.

United States Segment
Comparison of Years Ended December 31, 2022 and 2023

Net Sales

Net sales decreased 59%, to Ps. 2,417 million in 2023 compared to Ps. 5,867 million in 2022. This decrease resulted principally from a decrease of 77,000 tons in shipments of finished steel products. Shipments of finished steel products decreased 48%, to 83,000 tons in 2023, compared to 160,000 tons in 2022. The average price of steel products in pesos decreased 20% in 2023 compared to 2022.

Cost of Sales

Our cost of sales decreased 41%, from Ps. 5,764 million in 2022 to Ps. 3,399 million in 2023, the decrease is mainly due to a decrease of approximately 71,000 tons of shipments of finished steel products and a 20% decrease in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 141% in 2023, compared to 98% in 2022.

Gross Profit (Loss)

Our gross loss was Ps. 982 million in 2023 compared to a Ps. 103 million gross profit in 2022. This decrease was primarily due to a reduction of 77,000 tons of shipments of finished steel products and a decrease in the average price per ton of steel products sold due to the market contraction and the high fixed and variable costs of products.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 291 million in 2023, compared to Ps. 287 million in 2022. This increase was primarily due to expenses related to the severance of administrative personnel. Administrative expenses as a percentage of net sales were 12% in 2023 and 5% in 2022. Depreciation and amortization expenses were Ps. 156 million in 2023 compared to Ps. 237 million in 2022.

Other Expense (Income), Net

We recorded other expenses, net, of Ps. 309 million in 2023, mainly due to a reserve to pension trust for the termination of the collective labor contract in our Republic facility, compared to other income, net, of Ps. 1,016 million in 2022, related to other financial operations.

Interest Income

We recorded an interest income of Ps. 82 million in 2023 compared to Ps. 30 million in 2022. This increase was primarily due to the collection of interest from our clients with overdue payments.

Interest Expense

We recorded an interest expense of Ps. 147 million in 2023, compared to Ps. 56 million in 2022. This increase was primarily due to fees from letters of credit with banks.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 0 million in 2023 compared to a foreign exchange loss of Ps. 0 million in 2022.

Income Tax

In 2023, we recorded an income tax provision of Ps. 144 million. In 2022, we recorded a tax provision of Ps. 88.7 million. This decrease was primarily due to a deferred income tax benefit of Ps. 146 million, resulting from an inventory valuation loss, and a current tax expense of Ps. 2 million. In contrast, the 2022 tax provision included a deferred tax expense of Ps. 77 million, also related to inventory valuation, and a current tax expense of Ps. 12 million.

Net Profit

We recorded a net loss of Ps. 1,502 million in 2023, compared to a net profit of Ps. 718 million in 2022. Our net loss in 2023 is attributable mainly to a decrease in the average price of steel tons produced of 20% and a 48% decrease in tons of steel products shipped compared to 2022.

Brazil Segment

Comparison of Years Ended December 31, 2022 and 2023

Net Sales

Net sales decreased 20% to Ps. 13,945 million in 2023, compared to Ps. 17,377 million in 2022. This resulted principally from a 25% decrease in the average price of finished steel products. Shipments of finished steel products increased to 890,000 tons in 2023 compared to 828,000 tons in 2022 (including the shipment of the plants Cariacica and Itauna).

Cost of Sales

Our cost of sales decreased to Ps. 9,764 million in 2023, compared to Ps. 12,344 million in 2022. The average cost per ton of steel products sold decreased 26% compared to 2022. Cost of sales as a percentage of net sales was 70% in 2023, compared to 71% in 2022.

Gross Profit

Our gross profit was Ps. 4,181 million in 2023 compared to Ps. 5,033 million of gross profit in 2022. This decrease was primarily due to the reduction in the average price of the products shipped. As a percentage of net sales, our gross profit was 30% in 2023, compared to 29% of gross profit in 2022.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 1,055 million in 2023, compared to Ps. 1,618 million in 2022. Administrative expenses as a percentage of net sales were 9%, in 2022 and 8%, in 2023, respectively. Lower technical administrative expenses, royalties and legal provisions decreased the administrative expenses. Depreciation and amortization expenses were Ps. 261 million in 2023 compared to Ps. 253 million in 2022.

Other Expense, Net

We recorded other income net of Ps.173 million in 2023, compared to other income, net of Ps.140 million in 2022. This increase was primarily due to other income not related to our core business.

Interest Expense

We recorded an interest expense of Ps. 123 million in 2023, compared to Ps. 384 million in 2022. This decrease was primarily due to the repayment of intercompany debts, which are eliminated in the consolidated financial statements.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 181 million in 2023, compared to a foreign exchange loss of Ps. 60 million in 2022. This increase was primarily due to accounts receivable with intercompany entities, mainly with Republic, where the Brazilian real depreciated by 7% against the dollar.

Income Tax

In 2023 we recorded an income tax provision of Ps. 650 million, compared to Ps. 645 million of income tax provision in 2022. This slight increase was primarily due to variations in tax benefits.

Net Income (Loss)

We recorded a net income of Ps. 2,344 million in 2023, compared to a net income of Ps. 2,466 million in 2022. This decrease was mainly due to the lower average price of steel products sold in 2023 compared to 2022.

Consolidated Statements of Comprehensive Income

Comparison of Years Ended December 31, 2021 and 2022

Net Sales

Net sales decreased 2.6%, to Ps. 54,159 million in 2022, compared to Ps. 55,620 million in 2021. This decrease resulted primarily from a 10% decrease in the average shipments of steel products of 2022 compared to 2021. Total sales outside of Mexico decreased 11.1%, to Ps. 24,508 million in 2022, compared to Ps. 27,560 million in 2021. Total sales in Mexico increased 5.7%, from Ps. 28,060 million in 2021 to Ps. 29,651 million in 2022.

Shipments of finished steel products decreased 10.0%, to 2.255 million tons in 2022, compared to 2.504 million tons in 2021. Total sales volume outside of Mexico of finished steel products decreased 12.7% to 0.989 million tons in 2022, compared to 1.132 million tons in 2021, while total Mexican sales decreased 7.7%, from 1.372 million tons in 2021, compared to 1.266 million tons in 2022. The average price of steel products increased 8.1% in 2022 compared to 2021.

Cost of Sales

Our cost of sales decreased 0.7%, from Ps. 39,968 million in 2021 to Ps. 39,684 million in 2022. This decrease was mainly attributable to a 10.3% increase in the average cost per ton of steel products sold and a lower volume of steel tons sold. Cost of sales as a percentage of net sales was 73% in 2022 and 72% in 2021. 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.\$2.4 (Ps. 47) per hour in 2022 and U.S.\$1.8 (Ps. 37) per hour in 2021, compared to U.S.\$28.3 (Ps. 549) and U.S.\$23.7 (Ps. 486) per hour for 2022 and 2021, respectively, at our U.S. operations. Although some 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. 14,475 million in 2022, compared to Ps. 15,652 in 2021. This decrease was attributable mainly to a decrease of 249,000 tons of finished steel products shipped, an 8.1% increase in the average price of steel products sold. As a percentage of net sales, our gross profit was 27% in 2022 and our gross profit was 28% in 2021.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 20.3%, to Ps. 2,457 million in 2022, compared to Ps. 2,043 million in 2021. The variation of Ps. 414 million corresponds to the increase of Ps. 188 million in the Mexican segment (mainly administrative and maintenance expenses), the increase of Ps. 196 million in the Brazil segment and an increase of Ps. 30 million in the U.S. segment. In 2022 and 2021, our general and administrative expenses included Ps. 1,117 million and Ps. 1,175 million, respectively, 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 4.5% in 2022 and 3.7% in 2021. Depreciation and amortization expense were Ps. 11 million in 2022 compared to Ps. 16 million in 2021.

Other (Income) Expense, Net

We recorded other income, net, of Ps. 72 million in 2022 compared to an other expense, net, of Ps. 77 million in 2021. This increase in other income was primarily due to the sale of non-core byproducts in 2022, while in 2021, there was an expense related to account adjustments.

Interest Income

We recorded interest income of Ps. 446 million in 2022, compared to Ps. 66 million in 2021. This increase was primarily due to interests earned on investment performance.

Interest Expense

We recorded interest expense of Ps. 835 million in 2022, compared to Ps. 87 million in 2021. This increase was primarily due to losses from investments in steel company shares, initially made based on high industry margins and demand expectations.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 541 million in 2022 compared to a foreign exchange gain of Ps. 325 million in 2021. This increase was primarily a result of a 5.6% appreciation of the peso against the U.S. dollar in 2022.

Income Tax

In 2022 we recorded an income tax provision of Ps. 3,299 million, which included an income tax provision of 3,150 million and an income tax expense provision for deferred income taxes of Ps. 150 million. In 2021 we recorded an income tax provision of Ps. 4,390 million, which included an income tax provision of Ps. 3,818 million and an income tax expense provision for deferred income taxes of Ps. 572 million.

Our effective income tax rates for 2022 and 2021 were 30.0% and 31.7%, respectively. According to the Income Tax Law in Mexico, the tax rate for the year 2022 and years thereafter is 30%.

Net Income (Loss)

We recorded net income of Ps. 7,861 million in 2022, compared to net profit of Ps. 9,446 million in 2021. The net income decrease for the year 2022 compared to the net profit in 2021 is mainly as a result of (i) a 10% decrease in shipments of steel products, (ii) the foreign exchange loss in 2022 to Ps. 541 million compared to the foreign exchange gain of Ps. 325 million in 2021, (iii) the loss on stock sale of Ps. 779 million and (iv) the decrease in the provision of income taxes in 2022 to Ps. 3,299 million compared to Ps. 4,390 million in 2021.

Mexican Segment

Comparison of Years Ended December 31, 2021 and 2022

Net Sales

Net sales increased 4%, to Ps. 30,915 million in 2022, compared to Ps. 29,678 million in 2021. This increase resulted principally from a 13.8% increase in the average price per ton of steel products in 2022 compared to 2021. Shipments of finished steel products decreased 7.7%, to 1.266 million tons in 2022, compared to 1.372 million tons in 2021.

Cost of Sales

Our cost of sales increased 1.1%, from Ps. 21,337 million in 2021 to Ps. 21,576 million in 2022. This increase was mainly attributable to an increase in energy costs. As a percentage of net sales, our cost of sales was 69.8% in 2022, compared to 71.9% in 2021.

Gross Profit

Our gross profit increased 12.0%, to Ps. 9,339 million in 2022, compared to Ps. 8,341 million in 2021. This increase was mainly attributable to an increase of 12.8% in the average price of steel products sold. As a percentage of net sales, our gross profit was 30% in 2022, compared to 28% in 2021.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) increased 20.7%, to Ps. 1,096 million in 2022, compared to Ps. 908 million in 2021. The increase was mainly originated by higher administrative and maintenance expenses. Administrative expenses as a percentage of net sales were 3.6% in 2022 and 3.1% in 2021. Depreciation and amortization expense were Ps. 627 million in 2022 compared to Ps. 667 million in 2021.

Other Expense (Income), Net

We recorded other expenses, net, of Ps. 71 million in 2022, compared to Ps. 77.5 million in 2021. This decrease was primarily due to extraordinary items not related to our core business activities.

Interest Income

We recorded an interest income of Ps. 416 million in 2022, compared to Ps. 66 million in 2021. This increase was primarily the result of dividend benefits received from investments recorded in 2022.

Interest Expense

We recorded an interest expense of Ps. 779.1 million in 2022, compared to Ps. 29 million in 2021. This increase was primarily due to losses from investments in steel company shares, initially made based on high industry margins and demand expectations.

Foreign Exchange Loss (Gain)

We recorded a foreign exchange loss of Ps. 541 million in 2022, compared to a foreign exchange gain of Ps. 325 million in 2021. This increase in foreign exchange loss was primarily due to a 5.6% appreciation of the Mexican peso against the dollar in 2022.

Income Tax

In 2022, we recorded an income tax provision of Ps. 2,566 million, which included an income tax provision of Ps. 2,686 million and an income tax provision for deferred income taxes of Ps. 120 million. In 2021, we recorded an income tax provision of Ps. 2,473 million, which included an income tax provision of Ps. 2,569 million and an income tax provision for deferred income taxes of Ps. 96 million.

According to the Income Tax Law in Mexico, the tax rate for 2022 and thereafter is 30%.

Net Income

We recorded net income of Ps. 4,702 million in 2022, compared to net income of Ps. 5,245 million in 2021. This decrease was attributable mainly to (i) a 12.8% increase in the average price of steel products sold, (ii) higher administrative expenses of Ps. 188 million, (iii) a foreign exchange loss of Ps. 541 million in 2022 compared to Ps. 325 million of foreign exchange gain in 2021 and (iv) a higher income tax provision in 2022 of Ps. 2,566 million compared to Ps. 2,473 million in 2021.

United States Segment
Comparison of Years Ended December 31, 2021 and 2022

Net Sales

Net sales decreased 28.6%, to Ps. 5,867 million in 2022 compared to Ps. 8,217 million in 2021. This decrease resulted principally from a decrease of 115,000 tons in shipments of finished steel products. Shipments of finished steel products decreased 42%, to 160,000 tons in 2022, compared to 275,000 tons in 2021. The average price of steel products in pesos increased 22.4% in 2022 compared to 2021.

Cost of Sales

Our cost of sales decreased 19.5%, from Ps. 7,159 million in 2021 to Ps. 5,764 million in 2022. This decrease was mainly due to a decrease of approximately 115,000 in tons of shipments of finished steel products and a 38.1% increase in the average cost per ton of steel products sold. Cost of sales as a percentage of net sales was 98% in 2022, compared to 87% in 2021.

Gross Profit

Our gross profit was Ps. 103 million in 2022 compared to a Ps. 1,057 million gross profit in 2021. This decrease was mainly due to a decrease of approximately 115,000 tons of shipments of finished steel product. As a percentage of net sales, our gross profit was 2% in 2022, compared to a gross profit of 13% in 2021.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 287 million in 2022, compared to Ps. 257 million in 2021. This increase was primarily due to the recording of additional provisions for salaries and benefits.

Administrative expenses as a percentage of net sales were 5% in 2022 and 3% in 2021. Depreciation and amortization expense were Ps. 237 million in 2022 compared to Ps. 270 million in 2021.

Other Income, Net

We recorded other income, net, of Ps. 1,016 million in 2022, compared to Ps. 454 million in 2021. This increase was primarily due to intercompany income, which is deleted in the consolidated results.

Interest Income

We recorded interest income of Ps. 30 million in 2022 compared to Ps. 0 million in 2021. This increase was primarily due to interest earned from suppliers, specifically American Electric Power.

Interest Expense

We recorded an interest expense of Ps. 56 million in 2022, compared to Ps. 61 million in 2021. This decrease was primarily due to lower fees on letters of credit.

Foreign Exchange Gain (Loss)

We recorded a foreign exchange loss of Ps. 0 million in 2022 compared to a foreign exchange loss of Ps. 0 million in 2021.

Income Tax

In 2022, we recorded a tax provision of Ps. 88.7 million and an income tax profit provision. In 2021, we recorded a deferred income tax provision of Ps. 477 million.

Net Profit

We recorded a net profit of Ps. 718 million in 2022, compared to a net profit of Ps. 716 million in 2021. Our net income in 2022 is attributable mainly to a small increase in the average price of steel tons produced of 22.4% and a lower tax provision of Ps. 389 million than in 2021.

Brazil Segment

Comparison of Years Ended December 31, 2021 and 2022

Net Sales

Net sales decreased 2% to Ps. 17,377 million in 2022, compared to Ps. 17,726 million in 2021. This resulted principally from very small variations in the number of steel tons shipped and on the average price of finished steel products. Shipments of finished steel products decreased to 828,000 tons in 2022 compared to 857,000 tons in 2021 (including the shipment of the plants Cariacica and Itauna).

Cost of Sales

Our cost of sales increased to Ps. 12,344 million in 2022, compared to Ps. 11,471 million in 2021. This increase was primarily due to the rise in sales, which consequently led to higher costs. The average cost per ton of steel products sold increased by 11.3% compared to 2021. Cost of sales as a percentage of net sales was 71% in 2022, compared to 65% in 2021.

Gross Profit

Our gross profit was Ps. 5,033 million in 2022, compared to Ps. 6,254 million of gross profit in 2021. This decrease was primarily due to a reduction in the shipment of steel products in Brazil, along with an increase in costs. As a percentage of net sales, our gross profit was 29% in 2022, compared to 35% of gross profit in 2021.

Administrative Expenses

Our administrative expenses (including depreciation and amortization) were Ps. 1,618 million in 2022 compared to Ps. 878 million in 2021. This increase was primarily as a result of higher technical administrative expenses, royalties and legal provisions. Administrative expenses as a percentage of net sales were 9% and 5% in 2022 and 2021, respectively.

Depreciation and amortization expenses were Ps. 0.9 million in 2022 compared to Ps. 2 million in 2021.

Other Expense, Net

We recorded other income net of Ps. 253 million in 2022, compared to Ps. 238 million in 2021. This increase was primarily due to the recognition of a tax benefit recorded in 2022.

Interest Expense

We recorded an interest expense of Ps. 384 million in 2022 compared to Ps. 96 million in 2021. This increase was primarily due to intercompany interest expenses, which are eliminated in our consolidated results.

Foreign Exchange Loss

We recorded a foreign exchange loss of Ps. 60 million in 2022, compared to a foreign exchange loss of Ps. 120 million in 2021. This decrease was primarily due to a depreciation of the Brazilian real against the U.S. dollar in 2022.

Income Tax

In 2022 we recorded an income tax provision of Ps. 645 million compared to Ps. 1,440 million of income tax provision in 2021. This decrease was primarily due to a tax benefit received in 2022.

Net Income (Loss)

We recorded a net income of Ps. 2,466 million in 2022, compared to a net income of Ps. 3,722 million in 2021. This decrease was primarily a result of higher administrative expenses and higher interest expenses.

B. Liquidity and Capital Resources

On December 31, 2023, our total consolidated debt was Ps. 5,102 million (U.S.\$302 thousand) of 10.5% 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.

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 company 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. As of December 31, 2023, we had cash and cash equivalents of Ps. 23,584 million and as of December 31, 2022 we had cash and cash equivalents of Ps. 21,546 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, 2023, 2022 and 2021:

Principal Cash Flows

	Years ended December 31,		
	2021	2022	2023
	(millions of pesos)		
Funds provided by operating activities	8,387	8,790	4,263
Funds used in investing activities	(1,010)	(4,138)	(1,283)
Funds used in financing activities	(162)	2,235	(243)

Our net funds provided by operations were Ps. 4,263 million in 2023 compared to Ps. 8,790 million of net funds provided by operations in 2022. The decrease of Ps. 4,527 million in the net funds provided by operations between 2023 and 2022 originated mainly from operations. 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. 1,283 million in 2023 compared to Ps. 4,138 million in 2022. In 2023 the acquisition of property, plant and equipment equaled Ps.2,493 million, we had interest income of Ps. 932 million and other non-current assets used for Ps. 302 million.

Our net funds used for financing activities in 2023 were Ps. 243 million, compared to Ps. 2,235 million used for financing activities in 2022. In 2023, there was a decrease of Ps. 89 million in the buy-back of our own shares, and we paid interest for Ps. 154 million.

Our net funds provided by operations were Ps. 8,790 million in 2022 compared to Ps. 8,387 million of net funds provided by operations in 2021. The increase of Ps. 403 million in the net funds provided by operations between 2022 and 2021 was primarily due to an increase in sales prices, which resulted in better performance and higher cash flow. We attribute our net funds used in investing activities primarily to fund the acquisition of new facilities, property, plant and equipment and other non-current assets.

Our net funds used in investing activities were Ps. 4,138 million in 2022 compared to Ps. 1,010 million in 2021. In 2022, the acquisition of property, plant and equipment was Ps.1,696 million, we had interest income of Ps. 446 million, we invested in short-term investments of Ps. 2,076 million, we had a loss in financial instruments of Ps. 779 million and other non-current assets used for Ps. 33 million. In 2021, the acquisition of property, plant and equipment was Ps.1,066 million, we had interest income of Ps. 66 million and other non-current assets used for Ps. 9 million.

Our net funds generated by financing activities in 2022 were Ps. 2,235 million, compared to Ps. 162 million used by financing activities in 2021. In 2022, we obtained Ps. 2,381 million in loans from related parties, there was a decrease of Ps. 90 million in the buy-back of our own shares and we paid interest for Ps. 56 million. In 2021, there was a decrease of Ps. 74 million in the buy-back of our own shares and we paid interest for Ps. 87 million.

As of December 31, 2023, we have the following material commitments:

On May 1, 2018, the Company entered into an agreement with ArcelorMittal S.A. in Brazil, for the acquisition of the steel production plants in Cariacica and Itauna and drawing equipment for the production of wires and derivatives.

The Cariacica unit has the capacity to produce 600,000 metric tons of billet per year and 348,000 metric tons of finished products. In 2023, 2022 and 2021, said plant has more than 800 employees in both periods and can produce rebar and light structural sections. 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 m².

The Itauna unit has an installed capacity to produce 140,000 metric tons per year of finished products, being able to 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, in 2023 and 2022 it has 160 and 160 employees respectively. The factory was leased under a contract expiring in August 2020, however, upon expiration of said contract, the purchase of the Itauna factory was formalized. With this acquisition, it is expected to have greater stability in the market.

Republic has leased certain equipment, office space and computer equipment under operating contracts that cannot be cancelled. These rents expired on various dates. During the years ended December 31, 2022 and 2021, no expenses were incurred related to income from these operations. There are currently no additional obligations beyond 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 through May 31, 2022 on that date. In January 2022, Republic entered into a similar agreement with NRG Curtailment Solutions, Inc. with a term of five years. During the years ended December 31, 2022 and 2021, Republic recognized income of Ps. 11.6 million (U.S.\$0.6 million) and of Ps. 24.6 million (U.S.\$1.2 million), respectively.

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 Primetals Technologies of Italy, 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. As of January 2021, steel bars are already being produced. Currently, some adjustments are being made to start the production of steel rods and steel profiles. The budget used for this project is U.S.\$24 million (Ps. 492 million).

In order to maintain and increase the continuity and quality of the electric supply in all the Group's plants, the scheme changed from Basic Supply (SSB) to Qualified Supply Service (SSC), with the provision of acquiring energy in the wholesale electricity market. This project 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 costs. The cost of this project has been U.S.\$1.415 million, as of October 2021. The modernization of the Mexicali plant is ongoing.

On December 20, 2020, the purchase of the Itauna plant was made by Cia. Siderúrgica de Espírito Santo, S.A. to Companhia Itaunense Energia y Participacoes Real Estate and Real Estate Equipment, located on Rua Clara Chaves street in Villa Santa Maria, city of Itauna, committing to pay R\$ 4.0 million reais (U.S. \$ 0.7 million) per month, up to a value of R\$ 105.0 million reais (U.S. \$18.8 million), payments made until June 2022.

Our Brazil plants' electric energy purchase agreements have been made with different termination dates. As of June 30, 2023 with the supplier NEWCOM for R\$9.48 million, another agreement was celebrated with ENEL for R\$17.05 million, with termination date on December 31, 2023. With energy supplier NEWCOM, we have a purchase agreement for R\$ 33.9 million with a termination date on December 31, 2023. With energy supplier AMERICA, we have a purchase agreement for R\$16.5 million, with a termination date on December 31, 2024. With energy suppliers SQUADRA we have a purchase agreement for R\$ 7.650 million with a termination date on December 31, 2024 and an agreement for R\$ 7.680 million with a termination date on December 31, 2025. We have three purchase agreements with CESP/AUREN for R\$ 4.336 million, R\$ 4.021 million, and R\$ 3.981 million, with termination dates on December 31, 2024, 2025, and 2026, respectively. Additionally, we have six contracts with ENEL TRADING BRASIL S.A., two per year, valued at R\$ 101.4 million, R\$ 90.0 million, and R\$ 90.9 million, also terminating on December 31, 2024, 2025, and 2026, respectively. Finally, with AES, we have three contracts, one per year, valued at R\$ 60.1 million, R\$ 56.3 million, and R\$ 59.9 million, with the same termination dates of December 31, 2024, 2025, and 2026, respectively.

In 2021, Republic signed an agreement with SMS Group to purchase and build machinery in order to fulfill its contract with GV Do Brasil for the turn key project.

C. Research and Development, Patents and Licenses

The San Luis facilities brands 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 nine months of 2024, net sales decreased by 23% as compared to the first nine months of 2023. Sales in tons of finished steel decreased by 6% in the first nine months of 2024 as compared to the first nine months of 2023. Prices of finished products sold in the first nine months of 2024 decreased by approximately 18% as compared to the first nine months of 2023.

Overall, in 2024, the market expects to experience a decline in sales, primarily driven by political changes and slightly cautious expectations. For the last quarter of 2024, we anticipate gradual price increases extending through January 2025. This trend is expected to develop progressively, and as the end of the year approaches, we may experience some product shortages, which could support price increases. From October onward, we expect to receive an additional number of orders. These trends or forecasts may materialize net sales, revenues, profitability, liquidity, or capital resources.

With the closure of our U.S. operations, we expect a positive impact on our overall financial performance. Historically, these operations have relied on subsidies from the Company, and their closure is anticipated to improve efficiency and reduce the financial burden on the Company and subsidiaries.

E. Critical Accounting Estimates

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.

During 2022 and 2021, the Company invested in certain improvements in Republic Steel's Lorain facility to be better prepared to reactivate the plant, with U.S.\$5.5 million and U.S.\$15.6 million recorded to construction-in-progress for the years ended December 31, 2022, and 2021, respectively. The construction-in-progress in the last three years amounted to U.S.\$27.1 million. However, construction activities were paused as a result of the cessation of operations at the other U.S. facilities. The Company has property, plant, and equipment with a net book value of approximately U.S.\$61.7 million (Ps. 1,194.6 million), U.S.\$54.6 million (Ps. 1,120 million), and U.S.\$41.5 million (Ps. 827 million) as of December 31, 2022, 2021, and 2020, respectively, pertaining to the Lorain, Ohio, facility, after recording an 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 and experts 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, 2023, no other asset groups were impaired based on current projections. No further impairment was considered necessary or appropriate.

In August of 2023, Republic Steel indefinitely ceased operations indefinitely in all of its U.S. plants (Canton, Solon, Massillon and Lackawanna), including due to deteriorating market conditions and operational costs in the U.S. Republic is the only producer of leaded steel in the U.S. and will continue servicing our customers from our plant in Tlaxcala, Mexico. For this reason, management has determined that its long-lived assets at such facilities may not be fully recoverable. Management performed an analysis of the fair value of the four facilities 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.

As discussed in Note 9 to our audited financial statements included elsewhere in this Annual Report, the Company has Ps. \$1,249,353 and Ps. \$1,237,188 of physical coke stock inventory as of December 31, 2023 and 2022, respectively, which the Company used as raw material to supply the blast furnace at the Lorain facility. Management periodically evaluates the potential degradation of coke inventory and determines whether it remains suitable as blast furnace feedstock or alternatively for sale to other blast furnace steel mills. The factories located in the United States ceased operations in September 2023. The existing inventories in these plants amounted to Ps. \$3,924,172 in the short term and Ps. \$1,249,353 in the long term. At the end of the year, the coke inventories and a significant part of the other inventories were valued by an expert in the field.

		Net Tons	Metric Tons	U.S.\$ Cost⁽¹⁾	Cost U.S.\$/MT	Market U.S.\$/MT⁽²⁾	Market Value⁽¹⁾
12/31/2020	Coke inventory	150,509	136,541	U.S.\$ 99,932,739.59	U.S.\$ 731.88	U.S.\$ 465.50	U.S.\$ 63,559,835.50
2021	Sale of Coke	325	295	0			
12/31/2021	Coke inventory	150,184	136,246	U.S.\$ 99,716,832.59	U.S.\$ 731.88	U.S.\$ 469.00	U.S.\$ 63,899,374.00
2022	Sale of Coke	6,154	5,584	0			
12/31/2023	Coke inventory	144,030	130,662	U.S.\$ 95,628,904.56	U.S.\$ 731.88	U.S.\$ 566.00	U.S.\$ 73,954,692.00

1) In 2023, the applicable exchange rate was Ps. 16.89 per 1 U.S. dollar. In 2022, the applicable exchange rate was 19.36 per 1 U.S. dollar. In 2021, the applicable exchange rate was 20.52 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, 2022 and 2023, there was no impairment charge to other intangible assets.

As of December 31, 2023, the main key assumptions used in the valuation models of the San Luis reporting unit are as follows:

- discount rate: 12.9%; and
- sales: we estimate a decrease in sales volume of approximately 5% in 2024, mainly attributable to a decrease in volume due to the industries' consolidation process. After 2024, no sales increases in volume terms are considered in the valuation model. For the years after 2023, we estimate only an increase in sales prices in line with estimated inflation.

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

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

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

International Financial Reporting Standards, interpretations and amendments, not yet in force.

There are a number of IFRS, interpretations and amendments that have been issued by the IASB and are effective for future accounting periods that the Company has elected not to early adopt.

The following amendments are effective as of January 1, 2024:

- Amendment to IFRS 16: Liabilities on sale and leaseback transactions.
- Amendment to IAS 1: Classification of liabilities as current or non-current.
- Amendments to IAS 1: Non-current liabilities with covenants.
- Amendments to IAS 7 (Cash Flow Statements) and IFRS 7 (Financial Instruments): Disclosures related to supplier financing arrangements.

The following amendment is effective as of January 1, 2025:

- Amendment to IAS 21: Effects of changes in foreign exchange rates - Lack of exchangeability.

As of the date of this Annual Report, the Company is evaluating the impact that these modifications could have on its financial statements.

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

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 by-laws, 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 by-laws 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 2023 general meeting of shareholders as proposed by Industrias CH held on April 21, 2023. We expect that Industrias CH will be in 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 for 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 information confidentiality 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— 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

Rufino Vigil González. Mr. Vigil was born in 1948. He is currently the chairman of our board of directors and has been a member of the board of directors since 2001. Since 1973, Mr. Vigil has been chief executive officer of 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.

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.

Luis García Limón. Mr. García was born in 1944. He was our chief executive officer and is still a member of our board of directors since 2016. 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.

Rodolfo García Gómez de Parada. Mr. García was born in 1953. He has been a member of our board of directors since 2001, a member of our audit and corporate practices committee 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.

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.

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
Mr. Sergio Vigil González	Chief Executive Officer	2024
Mario Moreno Cortez	Finance Coordinator	2012
Armando Rueda Granados	Chief Operating Officer	2021

Sergio Vigil González. Mr. Vigil was born in 1962. He is the chief executive officer of Industrias CH, which, together with its wholly-owned subsidiaries, currently hold approximately 1% of our series B shares. Mr. Vigil is also the chief executive officer of the Company since July 5, 2024. Mr. Vigil is the brother of our controlling shareholder and chairman of our board of directors, Rufino Vigil González.

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.

Armando Rueda Granados. Mr. Rueda was born in 1965. He is currently our chief operating officer. From 1998 to 2017, he has been working in several operational departments, like machining and laminations. From 2017 to 2021, he worked as operational controller.

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.

B. Compensation

For the years ended December 31, 2023, 2022 and 2021, we paid no compensation to our five directors, and the aggregate compensation our executive officers earned was approximately Ps. 113.7 million, Ps. 120.1 million and Ps. 78.3 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 21, 2023, 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 by-laws 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 21, 2023, 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." In accordance with the by-laws of Grupo Simec, the Audit and Corporate Practices Committee is made up exclusively of independent directors and a minimum of 3 members. The Chairman of said Committee is appointed by the Shareholders' Meeting, and the rest of its members may be appointed by the Board of Directors.

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 for 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 for 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 2023.

D. Employees

As of December 31, 2023, we had 4,260 employees (2,979 were employed at our Mexico facilities, of whom 1,615 were unionized, 21 were employed at Republic facilities, of whom 5 were unionized and 1,260 were employed at our Brazil plants, of whom 1,174 were unionized). As of December 31, 2022, we had 5,092 employees (3,066 were employed at our Mexico facilities, of whom 1,408 were unionized, 625 were employed at Republic facilities, of whom 465 were unionized and 1,401 were employed at our Brazil plants, of whom 1,315 were unionized) compared to 5,331 employees (3,177 were employed at our Mexico facilities, of whom 1,524 were unionized, 815 were employed at Republic facilities, of whom 620 were unionized and 1,339 were employed at our Brazil plants, of whom 1,248 were unionized) in 2021.

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 13, 2026.
- *Mexicali facilities:* Sindicato de Trabajadores de la Industria Procesadora y Comercialización de Metales de Baja California. The contract expires on March 1, 2025.
- *Apizaco facilities:* Sindicato Nacional de Trabajadores de Productos Metálicos, Similares y Conexos de la República Mexicana. The contract expires on April 1, 2025.

- *Cholula facilities:* Sindicato Industrial “Acción y Fuerza” de Trabajadores Metalúrgicos Fundidores, Mecánicos y Conexos CROM del Estado de Puebla. The contract expires on January 30, 2026.
- *San Luis facilities:* At the Aceros San Luis facility: Sindicato de Empresas adherido a la CTM, the contract expires on January 15, 2024; and at the Aceros DM facility: Sindicato de Trabajadores de la Industria Metal Mecánica, Similares y Conexos del Estado de San Luis Potosí CTM, the contract expires on January 23, 2026.

We have had good relations with the unions in our 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 offered other benefits and pension plans to their employees prior to closing of the U.S. facilities. Republic’s benefit plans to its prior employees are described below.

Collective Bargaining Agreements

On October 23, 2023, Republic executed a shutdown agreement with the USW that terminated a collective bargaining agreement between Republic and the unionized employees at the now-shut down facilities in Canton, Solon, Massillon and Lackawanna. As of the date of the shutdown agreement, 18% of the company’s workers were insured through the collective bargaining agreement (compared to 70% in 2022 and 76% in 2021). Under the terms of the agreement, all benefits ceased on December 31, 2023. There were approximately U.S.\$5.4 million severance payments, grievance payments and vacation payouts paid during the year ended December 31, 2023.

Defined Contribution Plans

Steelworkers Pension Trust

Prior to the closure of Republic’s facilities in Canton, Solon, Massillon and Lackawanna, Republic participated in the Steelworkers Pension Trust (SPT), a defined benefit multi-employer pension plan under the terms of the collective bargaining agreement. The Company obligations to the plan were based upon fixed contribution requirements. Republic contributed a fixed amount of U.S.\$1.68 per hour for each covered employee’s contributory hours, as defined under the plan.

A complete withdrawal from the SPT has occurred due to closure of Republic’s facilities and the termination of the collective bargaining agreement. Under the SPT, Republic’s employer withdrawal liability is U.S. \$8,345,769 payable in five quarterly payments to be paid beginning in April 2024. As of the date of this annual report, Republic is disputing the withdrawal liability under the SPT. If Republic’s claim against the payment of the withdrawal liability is successful, the liability would be reduced or potentially eliminated.

VEBA Benefit Trust

Prior to the closure of Republic’s facilities in Canton, Solon, Massillon and Lackawanna, Republic was 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, 2023, 2022 and 2021, the Company recorded expenses of U.S.\$ 0.3, U.S.\$ 0.3 million and U.S.\$ 0.5 million, respectively, related to this benefits plan.

For the years ended December 31, 2023, 2022 and 2021, Republic recorded combined expenses of U.S.\$ 2.7 million, U.S.\$ 1.9 and U.S.\$ 2.5 million, respectively, related to the funding obligations of the retirement healthcare and pension benefits.

401(k) Plans

Prior to the closure of Republic's facilities in Canton, Solon, Massillon and Lackawanna, Republic had a 401(k) defined contribution retirement plan that covered 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 funded 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 were permitted to make contributions to this 401(k)-retirement plan through payroll deferrals. In this case, the Company provided a 25.0% matching contribution for the first 5.0% of payroll that an employee elected to contribute. Employees are 100% vested in both their and Republic matching 401(k) contributions.

For the years ended December 31, 2023, 2022 and 2021 the Company recorded expenses of U.S.\$ 0.8 million, U.S.\$ 1.1 million and U.S.\$ 1.0 million, respectively, related to this defined contribution retirement plan.

Employees who were 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 were no Company contributions or employer matching contributions relating to these employees.

E. Share Ownership

Industrias CH and its direct wholly-owned subsidiaries currently hold approximately 76.19% of our series B shares. As of the date of this report, Rufino Vigil González, the chairman of our board of directors, owned, directly or indirectly, approximately 63% 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 October 25, 2024, we had 461,141,214 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.

Industrias CH and its direct wholly-owned subsidiaries currently indirectly hold approximately 76.19% of our series B shares. As of the date of this report, 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 the date of this report.

Name of Shareholder	Number of shares owned	% of shares owned
Industrias CH, S.A.B. de C.V	275,369,337	55.33%
Tuberías Procarsa, S.A. de C.V. ⁽¹⁾	99,461,866	19.98%
Aceros y Laminados Sigosa, S.A. de C.V. ⁽¹⁾	4,377,776	0.88%
Joist Estructuras, S.A. de C.V. ⁽²⁾	6,188,406	1.24%
Industrial de Herramientas CH, S.A. de C.V. ⁽²⁾	2,240,628	0.45%
Public Investors	73,535,391	14.78%
Treasury Shares	36,535,810	7.34%
Total	497,709,214	100%

- (1) A subsidiary of Industrias CH.
- (2) Companies directly or indirectly owned by members of the Vigil family.

As of October 25, 2024, 461,152,904 series B common shares were held in Mexico by approximately 45 shareholders who were record holders in Mexico (several shareholders were not disclosed due to confidentiality) and 10 were ADS record holders in the United States. The ADSs represent 1,449,546 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 20 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") and Industrias CH.

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 Tuberías 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.

In the event that Sigosa fails to repay the outstanding balance, it will be paid by Industrias CH. As of December 31, 2023, there is a balance pending collection derived from loan interest for Ps. 125,612.

Other Loans to Related Parties

In 2017, we extended two loans to Industrias CH. The first loan was for U.S.\$ 21.4 million, accruing interest at a rate of LIBOR plus 1%. The second loan was for Ps. 89.4 million, accruing interest at a rate of TIIE plus 1%. Interest accrues and will be paid upon the final repayment and termination of the loans. In 2018, we issued two additional loans to Industrias CH: the first was for U.S.\$ 25.4 million at an interest rate of TIIE plus 1%, and the second was for Ps. 186.7 million at the same rate. Interest for these loans also accrues and is payable upon their final repayment and termination.

In 2019, the agreed interest rate for these loans was set at the equivalent of the Interbank interest rate plus one percentage point. The loans were issued in both U.S. and Ps. On January 1, 2022, an agreement was signed to convert the outstanding loan amounts into Mexican pesos. As of December 31, 2022, the total outstanding amount, including interest, was Ps. 959,153. In contrast, as of December 31, 2021, the outstanding amount was Ps. 858,510. The breakdown for 2022 includes a principal of Ps. 707,851, interest of Ps. 217,357, and VAT of Ps. 33,945, resulting in a total of Ps. 959,153. For 2021, the principal was Ps. 186,752, with interest of Ps. 59,054 and VAT of Ps. 9,449, totaling Ps. 255,255.

In September 2022, the Company extended a loan to Perfiles Comerciales Sigosa, S.A. of C.V. The outstanding principal and accrued interest on this loan was Ps.125,612 as of December 31, 2023, and as of December 31, 2022, the outstanding amount was Ps.145,910.

Loans from Related Parties

We have a loan from Sigosa, intended for investment in treasury bonds. The balances for the years ending December 31, 2023, 2022, and 2021 were Ps. 2,499 million, Ps. 2,381 million and Ps. 0 million, respectively. The interest derived from this investment, upon maturity, will be remitted to Sigosa.

Purchases and Sales

From time to time, we purchase and/or sell steel products, primarily “billet,” to Industrias CH and its affiliates. In 2023, 2022 and 2021 such purchases totaled, Ps. 220.9 million, Ps. 253.9 million and 40.1 million, respectively. In addition, in 2023, 2022 and 2021 we sold Ps. 631.8 million, Ps. 392.5 million and 391.6 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 arm’s-length basis.

As of December 31, 2023, we have accounts payable corresponding to the purchase of finished products from the following related parties: Ferrovisa, S.A. de C.V. in the amount of Ps. 0.6 million, Aceros y Laminados Sigosa, S.A. de C.V. in the amount of Ps.4.1 million, Operadora de Perfiles Sigosa, S.A. de C.V. in the amount of Ps. 2.8 million, Operadora Pytsa Industrial, S.A. de C.V. in the amount of Ps. 7.9 million, Perfiles Comerciales Sigosa, S.A. de C.V. in the amount of Ps. 3.8 million, Compania Manufacturera de Tubos, S.A. de C.V. in the amount of Ps. 13.3 million, Compania Laminadora Vista Hermosa, S.A. de C.V. in the amount of Ps. 0.5 million, Operadora Compañía Mexicana de Tubos, S.A. de C.V. in the amount of Ps. 6.9 million and other related parties in the amount of Ps. 2.4 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 is indefinite. Under the service agreement, in 2023, 2022 and 2021, we paid Ps. 133.9 million, Ps. 275 million and Ps. 113 million, respectively.

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 6, 2021, a preliminary dumping rate of 66.7% was imposed on our exports of rebar to the United States. Such dumping rate was ratified in June 1, 2022. Following the U.S. Department of Commerce's physical review carried out at our San Luis Potosí plant on February 2020 after we argued that there were deficiencies and adverse facts during the U.S. Department of Commerce's revision process, a preliminary dumping rate of 6.35% was imposed and will be ratified in the first semester of 2023. On August 9, 2023 a dumping rate of 5.93% was published and imposed.

Legal Proceedings

United States

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

The SEC renewed its investigation focused on the Company's disclosures and internal controls in 2022. On July 13, 2022, the Company received an oral "Wells Notice" (subsequently confirmed in writing on August 11, 2022) from the SEC's Enforcement Division ("the Division") stating that the Division had preliminarily determined to recommend an enforcement action to the Commission against the Company and several of its present and former officers and directors alleging violations of Securities Act Section 17(a); Exchange Act Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) and Rules 10b-5, 13a-1, 13a-13, and 13a-15; and providing false Sox 302 Certifications. A Wells Notice is a notice of an intent on the part of the Division staff to recommend an enforcement action and not a finding of wrongdoing. Upon receipt of a Wells Notice, the recipient is typically afforded an opportunity to present its positions to the Division before the Commission considers whether enforcement proceedings will be authorized or any finding by the Commission with respect to any wrongdoing. Any enforcement action would need to be approved by the Commission before formally being brought.

Following the Wells Notice, the Division sent multiple additional subpoenas to the Company focused on its investigation into potential violations of the above-cited securities laws, in connection with its Wells Notice, which is ongoing. The Company cannot predict the ultimate outcome of the investigation and any related legal and administrative proceedings which could include a variety of outcomes including the institution of administrative or civil injunctive proceedings against the Company and/or current or former employees and/or officers, the imposition of fines and other penalties, remedies and/or sanctions, and modifications to compliance programs and the Company's framework for internal controls regarding financial reporting and information technology. We cannot accurately predict at this time when matters relating to the Inquiry will be completed, what actions may be taken by the Commission or the effect that such actions may have on our business, prospects, operating results and financial condition, any of which could be material.

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

Republic Steel has received tax assessment notices for the periods from January 1, 2009 to December 31, 2012, and from January 1, 2014, to September 30, 2018, totaling respectively, \$1,631,827 (including interest) and \$2,452,028 (including interest) The assessment was issued by the Ohio Department of Taxation following a sales and use tax audit. The Company disagrees with each assessment in its entirety and on November 7, 2022 filed a Memorandum in Support of its Petition for Reassessment with the Ohio Board of Tax Appeals. No resolution has been obtained from any of the appeals.

In September 2023, the Ohio Department of Taxation initiated a separate sales and use tax audit of Republic Steel, covering the period from July 2020 through June 2023. The audit is currently being reviewed by the Company, which is assessing the audit and following steps.

Our operations in the U.S. 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 Steel's (PS) facilities based on an alleged complaint from neighbors due to PS's excavating to recover scrap metal on its property and on a neighbor's property, which PS rents from a third party (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 the Hazardous Waste Control Laws in the State of California and imposed an obligation to make necessary changes to the location. On July 26, 2004, DTSC filed a Complaint for Civil Penalties and Injunctive Relief against PS in San Diego Superior Court. On July 26, 2004, the court issued a judgment, whereby PS was obligated to pay U.S.\$235,000 (Ps. 5 million). This payment was made by PS in 2004 and 2005.

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

The disposition of a stack estimated at 8,000 tons of material classified as hazardous for Federal purposes under the Resource Conservation and Recovery Act (the "RCRA") was also considered for shipment to Mexico. The process began in early 2013, but to date they have been very slow to grant the permits. On April 9, 2015, a letter from the California Attorney General Department of Justice (Attorney General) was received pursuant to which PS was required, in the absence of obtaining permission from the Mexican authorities, to present a program for transporting the pile of contaminated soil classified as hazardous under the RCRA to an authorized confinement in the United States at the latest on April 22, 2015. This letter warned that PS must ship the stack 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 shipment of the stack classified as hazardous under the RCRA to an authorized landfill. PS began transporting the soil classified as hazardous under the RCRA 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 filed 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 must pay U.S.\$138,000 as a civil penalty for alleged violations of the 2004 Corrective Action Consent Agreement. PS has made all the required payments to DTSC as of December 31, 2017.
- PS agreed to remove the stack classified as hazardous under the RCRA and send it to an approved landfill. The Judgment indicates that the Company complied with this commitment by October 2, 2015.
- After removing the stack classified as hazardous under the RCRA, the Company must take samples of the soil in the area where the stack of land was located. Samples were taken and the results indicate that the soil had pollution levels which, although not equal to those of the stack classified as hazardous under the RCRA, exceed the limits set by the State of California. On April 7, 2016, the Attorney General and DTSC demanded that the Company remove the soil 10 feet across and 2 feet deep on the perimeter of the area where the stack classified as hazardous under the RCRA land was located and dispose of it in an approved confinement. On August 5, 2016, DTSC informed PS that it did not need to remove the soil in the vicinity of the former stack classified as hazardous under the RCRA that exceeds California hazardous waste standards. Instead, PS and DTSC entered 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 Agreement was extended in August 10, 2018, for an additional period of two years, effective December 2018 and ending August 10, 2020. This agreement was extended until August 10, 2021, when the DTSC decided not to extend it.
- PS shall continue to meet the conditions of the final judgment of 2016, the corrective measures, and all tasks arising therefrom, which were entered in the same court in 2004. On May 29, 2019, PS presented a new work plan proposal (IM workplan) to the DTSC to remedy the leased land to BNSF Railway. On October 21, 2021, the Company submitted the final draft of the IM work plan. On May 31, 2022, DTSC approved the work plan. No litigation was filed against the DTSC approval which is now final.

On December 6, 2022, the DTSC sent a letter requesting a preliminary study and a work plan implementation schedule, both documents were delivered on February 3, 2023. DTSC has not responded to either document.

On January 13, 2023, BNSF Railway issued a contract termination notice to PS, notifying BNSF’s unilateral termination of two lease contracts with PS which ended on February 12 and 22, 2023, through its legal counsel informed PS that no longer has access to BNSF Railway property. DTSC is entering into a voluntary agreement with BNSF to implement a work plan.

On June 29, 2023, BNSF filed a lawsuit against PS in the Southern District of California, alleging causes of action for performance, breaches of contracts, of the implicit covenant of goodwill faith and fair dealing, express contractual indemnification under federal common law and declaratory relief. As of the date of this annual report, the agreement is still in force.

As of the date of this report, we cannot estimate the costs of implementing the work plan of the provisional measures due to the uncertainty of whether BNSF or PS will implement the work and the DTSC authorizations to whom they designate and their approval date.

Environmental Liabilities

Republic has incurred and could in the future incur significant expenses related to environmental matters, including those arising from environmental compliance activities and remediation resulting from the historical waste management practices at Republic facilities. The reserve created as of December 31, 2023 and 2022 to cover probable environmental liabilities, as well as compliance activities amounts to U.S.\$2.5 million, and U.S.\$2.5 million respectively. The reserve includes the direct costs of remediation efforts and the costs of post-remediation follow-up. The short- and long-term portions of the environmental reserve as of December 31, 2023 and 2022 for U.S.\$1.0 and 1.5 million respectively, are included in other accounts payable and short-term accumulated liabilities and long term liabilities, respectively, in the consolidated statement of financial position.

In December 2023, the Environmental Protection Agency imposed a U.S.\$700,000 civil penalty on Republic, payable in three equal installments, in connection with violations of the Clean Water Act at its Lorain and Canton facilities in Canton, Ohio. The civil penalty has been recorded as of December 31, 2023.

In a related Final Judgment and Consent Order signed on December 20, 2023 between the EPA and Republic, Republic certified that (i) it has completed the administrative orders on consent (“AOCs”) issued by the EPA, which include, among others, Republic submitting for EPA approval a plan for compliance with its NPDES permit, eliminating all unauthorized discharges, providing confirmation monitoring to ensure the unauthorized discharges have ceased, increasing monitoring and reporting, and submitting a stormwater corrective action plan; (ii) the Lorain Facility will remain idle with no current plans to resume activities; and (iii) the Canton Facility is permanently shut down with no intention to reopen.

On December 6, 2023, the Environmental Protection Agency and Republic signed a Consent Decree requiring the company to install certain security controls emissions at the Canton facilities, perform compliance testing and implement monitoring and related recordkeeping. The EPA imposed penalties of U.S.\$0.001 million.

On February 1, 2024, the establishment of the Republic Canton Community Fund (the “Community Fund”) was announced. As part of the terms outlined in the Consent Order, Republic was required to pay \$300,000 into the Community Fund. The funds are designated for cleaning residential properties impacted by dust accumulation and staining caused by Republic’s operations, or for other initiatives determined by the City of Canton, with input from the local community.

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. In March 2021, it was agreed with the actor to terminate the matter by paying U.S. \$450,000, after several date changes, the payment was made on July 8, 2021.

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 typically do not pay dividends to our shareholders with certain specific exceptions. 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 depositary under a Deposit Agreement, dated as of July 8, 1993, as amended, among us, the depositary and the holders from time to time of ADSs.

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 B share would entitle its holder to one vote at any meeting at which holders of series B shares are entitled to vote. Holders of series B 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 payment 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 our Ordinary Shareholders Meeting held on April 25, 2022, an increase in the reserve for repurchase of shares of Ps. 2,000 million was approved and the total reserve at April 25, 2022 amounts to 7,000 million. At December 31, 2021, we had 35,194,691 treasury shares. In 2021, we did not register a gain or loss in the repurchase of shares. At December 31, 2022, we had 35,573,326 treasury shares. In 2022, we did not register a gain or loss in the repurchase of shares. At December 31, 2023, we had 36,032,675 treasury shares. In 2023, 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 depositary with respect to the ADSs representing our shares, with the National Registry of Foreign Investment (*Registro Nacional de Inversión Extranjera*).

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

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

Certain Differences between Mexican and U.S. Corporate Law

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

Independent Directors

The Mexican Securities Market Law requires that 25% of the directors of Mexican public companies must be independent, but the Audit Committee must be comprised entirely of independent directors. 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 with 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 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 time period 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. federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of the series B shares or ADSs by a U.S. Holder (as defined below) and the material Mexican federal income tax considerations that are likely to be relevant to the purchase, ownership and disposition of the series B shares or ADSs by a non-Mexican Holder (as defined below).

This summary is not a comprehensive discussion of all of the tax considerations that may be relevant to a particular investor's decision to purchase, hold, or dispose of the series B shares or ADSs. In particular, this summary is directed only to U.S. Holders that hold series B shares or ADSs as capital assets and does not address particular tax consequences that may be applicable to U.S. Holders who may be subject to special tax rules, such as banks, brokers or dealers in securities or currencies, traders in securities electing to mark to market, financial institutions, life insurance companies, tax-exempt entities, regulated investment companies, entities or arrangements that are treated as partnerships for U.S. federal income tax purposes (or partners therein), holders that own or are treated as owning 10% or more of our stock by vote or value, persons holding series B shares or ADSs as part of a hedging or conversion transaction or a straddle, or persons whose functional currency is not the U.S. dollar. In addition, the summary does not address any U.S. or Mexican state or local tax considerations that may be relevant to a U.S. Holder, nor does it address the U.S. federal estate and gift taxes, the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of acquiring, holding or disposing of series B shares or ADSs.

The summary is based upon the federal income tax laws of the United States and Mexico as in force as of the date of this Form 20-F, including the provisions of the income tax treaty between the United States and Mexico and protocol thereto (the "Treaty"), all of which are subject to change, possibly with retroactive effect in the case of U.S. federal income tax law.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of series B shares or ADSs that is a citizen or resident of the United States or a U.S. domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of such series B shares or ADSs and that is fully eligible for benefits under the 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.

You should consult your own tax advisors about the consequences of the acquisition, ownership, and disposition of the series B shares or ADSs, including the relevance to your particular situation of the considerations discussed below and any consequences arising under foreign, state, local or other tax laws.

In general, if you are a U.S. Holder of ADSs, you will be treated, for U.S. federal income tax purposes, as the beneficial owner of the underlying series B shares that are represented by those ADSs. References to “shares” below apply to both series B shares and ADSs, unless the context indicates otherwise.

Mexican Tax Considerations

Taxation of Dividends

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 2023. 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 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 2023, or at the rate mentioned above, as the case may be.

Taxation of Dispositions of Shares or ADSs

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 2023 of gains realized from the disposition.

Under the Treaty, a U.S. Holder that is eligible to claim the benefits of the 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

Taxation of Dividends

Subject to the discussion below under “—Passive Foreign Investment Company Status,” 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 generally be includible in your taxable income as ordinary dividend income on the day on which you receive the dividend, in the case of shares, or the date the depositary receives the dividends, in the case of ADSs, and will not be eligible for the dividends-received deduction allowed to corporations under the U.S. Internal Revenue Code of 1986, as amended (the “Code”). We do not expect to maintain calculations of our earnings and profits in accordance with U.S. federal income tax principles. U.S. Holders therefore should expect that distributions generally will be treated as dividends for U.S. federal income tax purposes.

If you are a U.S. Holder, dividends paid in a currency other than U.S. dollars generally will be includible in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day you receive the dividends, in the case of series B shares, or the date the depositary receives the dividends, in the case of shares represented by ADSs. Any gain or loss on a subsequent sale, conversion or other disposition of such non-U.S. currency by such U.S. Holder generally will be treated as ordinary income or loss and generally will be income or loss from sources within the United States.

The U.S. dollar amount of dividends received by an individual with respect to the shares will be subject to taxation at a preferential rate if the dividends are “qualified dividends.” Subject to certain exceptions for short-term positions, dividends paid on the shares will be treated as qualified dividends if:

- the shares are readily tradable on an established securities market in the United States or we are eligible for the benefits of a comprehensive tax treaty with the United States that the U.S. Treasury determines is satisfactory for purposes of this provision and that includes an exchange of information program; and
- 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 (a “PFIC”).

The ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. In addition, the U.S. Treasury has determined that the Treaty meets the requirements for reduced rates of taxation, and we believe we are eligible for the benefits of the Treaty. As discussed in more detail below under “—Passive Foreign Investment Company Status,” based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2022 and 2023 taxable years. U.S. Holders should consult their own tax advisors regarding the availability of the reduced dividend tax rate in light of their own particular circumstances.

Subject to generally applicable limitations and conditions, Mexican dividend withholding tax paid at the appropriate rate applicable to the U.S. Holder may be eligible for a credit against such U.S. Holder’s U.S. federal income tax liability. These generally applicable limitations and conditions include new requirements adopted by the U.S. Internal Revenue Service (“IRS”) in regulations promulgated in December 2021 and any Mexican tax will need to satisfy these requirements in order to be eligible to be a creditable tax for a U.S. Holder. In the case of a U.S. Holder that either (i) is eligible for, and properly elects, the benefits of the Treaty, or (ii) consistently elects to apply a modified version of these rules under recently issued temporary guidance and complies with specific requirements set forth in such guidance, the Mexican tax on dividends will be treated as meeting the new requirements and therefore as a creditable tax. In the case of all other U.S. Holders, the application of these requirements to the Mexican tax on dividends is uncertain and we have not determined whether these requirements have been met. If the Mexican dividend tax is not a creditable tax for a U.S. Holder or the U.S. Holder does not elect to claim a foreign tax credit for any foreign income taxes paid or accrued in the same taxable year, the U.S. Holder may be able to deduct the Mexican tax in computing such U.S. Holder’s taxable income for U.S. federal income tax purposes. Dividend distributions will constitute income from sources without the United States and, for U.S. Holders that elect to claim foreign tax credits, generally will constitute “passive category income” for foreign tax credit purposes.

The availability and calculation of foreign tax credits and deductions for foreign taxes depend on a U.S. Holder’s particular circumstances and involve the application of complex rules to those circumstances. The temporary guidance discussed above also indicates that the Treasury and the IRS are considering proposing amendments to the December 2021 regulations and that the temporary guidance can be relied upon until additional guidance is issued that withdraws or modifies the temporary guidance. U.S. Holders should consult their own tax advisors regarding the application of these rules to their particular situations.

Taxation of Dispositions of Shares or ADSs

Subject to the discussion below under “—Passive Foreign Investment Company Status,” upon a sale, exchange or other taxable disposition of the shares, U.S. Holders will realize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the disposition and the U.S. Holder’s adjusted tax basis in the shares, as determined in U.S. dollars as discussed below. Such gain or loss will be capital gain or loss, and will generally be long-term capital gain or loss if the shares have been held for more than one year. Long-term capital gain realized by a U.S. Holder that is an individual generally is subject to taxation at a preferential rate. The deductibility of capital losses is subject to limitations.

If a U.S. Holder sells or otherwise disposes of our series B shares or ADSs in exchange for currency other than U.S. dollars, the amount realized generally will be the U.S. dollar value of the currency received at the spot rate on the date of sale or other disposition (or, if the shares are traded on an established securities market at such time, in the case of cash basis and electing accrual basis U.S. Holders, the settlement date). An accrual basis U.S. Holder that does not elect to determine the amount realized using the spot exchange rate on the settlement date will recognize foreign currency gain or loss equal to the difference between the U.S. dollar value of the amount received based on the spot exchange rates in effect on the date of the sale or other disposition and the settlement date. A U.S. Holder generally will have a tax basis in the currency received equal to the U.S. dollar value of the currency received at the spot rate on the settlement date. Any currency gain or loss realized on the settlement date or the subsequent sale, conversion, or other disposition of the non-U.S. currency received for a different U.S. dollar amount generally will be U.S.-source ordinary income or loss, and will not be eligible for the reduced tax rate applicable to long-term capital gains. If an accrual basis U.S. Holder makes the election described in the first sentence of this paragraph, it must be applied consistently from year to year and cannot be revoked without the consent of the IRS. U.S. Holders should consult their own tax advisors regarding the treatment of any foreign currency gain or loss realized with respect to any currency received in a sale or other disposition of the series B shares or ADSs.

A U.S. Holder generally will not be entitled to credit any Mexican tax imposed on the sale or other disposition of the shares against such U.S. Holder’s U.S. federal income tax liability, except in the case of a U.S. Holder that consistently elects to apply a modified version of the U.S. foreign tax credit rules that is permitted under recently issued temporary guidance and complies with the specific requirements set forth in such guidance. If the Mexican tax is not a creditable tax, the tax would reduce the amount realized on the sale or other disposition of the series B shares or ADSs even if the U.S. Holder has elected to claim a foreign tax credit for other taxes in the same year. The temporary guidance discussed above also indicates that the Treasury and the IRS are considering proposing amendments to the December 2021 regulations and that the temporary guidance can be relied upon until additional guidance is issued that withdraws or modifies the temporary guidance. 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.

Passive Foreign Investment Company Status

Special U.S. tax rules apply to companies that are considered to be PFICs. We will be classified as a PFIC in a particular taxable year if, after applying certain look-through rules, either

- 75 percent or more of our gross income for the taxable year is passive income; or
- the average percentage of the value of our assets that produce or are held for the production of passive income is at least 50 percent.

Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from certain commodities transactions. Cash is generally considered a passive asset for these purposes. Goodwill is an active asset under the PFIC rules to the extent attributable to activities that produce active income.

Based on our audited financial statements and relevant market and shareholder data, we believe that we were not a PFIC for U.S. federal income tax purposes with respect to our 2022 and 2023 taxable years, and we do not expect to be a PFIC in the current taxable year or in the foreseeable future. However, whether we are a PFIC is a factual determination made annually after the close of the taxable year, and therefore may be subject to change. Because we hold a substantial amount of cash, we may be or become a PFIC for any taxable year if the value of our goodwill and other intangible assets that we believe should be treated as active assets are determined by reference to our market capitalization and our market capitalization fluctuates or declines considerably. Accordingly, there can be no assurance that we will not be a PFIC for any year in which a U.S. Holder holds series B shares or ADSs.

If we are a PFIC for any taxable year and any entity in which we own or are deemed to own equity interests is also a PFIC (a “Lower-tier PFIC”), you will be deemed to own a proportionate amount (by value) of the shares of each Lower-tier PFIC and will be subject to U.S. federal income tax according to the rules described in the next paragraph on (i) certain distributions by the Lower-tier PFIC and (ii) dispositions of shares of the Lower-tier PFIC, in each case as if you held such shares directly, even though you will not receive any proceeds of those distributions or dispositions.

If we are a PFIC for any taxable year in which you hold series B shares or ADSs, and you do not make a mark-to-market election, as described in the following paragraph, you will be subject to a special tax at ordinary income tax rates on “excess distributions,” (generally, any distributions that you receive in a taxable year that are greater than 125 percent of the average annual distributions that you have received in the preceding three taxable years, or your holding period, if shorter) and gain that you recognize on the sale of your series B shares or ADSs. Under these rules (a) the excess distribution or gain will be allocated ratably over your holding period, (b) the amount allocated to the current taxable year and any taxable year prior to the first taxable year in which we are a PFIC will be taxed as ordinary income, and (c) the amount allocated to each of the other taxable years will be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit will be imposed with respect to the resulting tax attributable to each such other taxable year.

You may be able to avoid the unfavorable rules described in the preceding paragraph by electing to mark your series B shares or ADSs to market. If you make this mark-to-market election, you will be required in any year in which we are a PFIC to include as ordinary income the excess of the fair market value of your shares at year-end over your basis in those shares. In addition, any gain you recognize upon the sale of your shares will be taxed as ordinary income in the year of sale. The mark-to-market election is available only for “marketable stock,” which is stock that is regularly traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable Treasury regulations. We expect the ADSs to be “marketable stock” because our ADSs are listed on the NYSE, but it is unclear whether our series B ordinary shares would be so treated. A mark-to-market election cannot be made for any Lower-Tier PFICs unless the shares of such Lower-Tier PFICs are themselves “marketable.” As a result, if you make a mark-to-market election with respect to the ADSs, you could nevertheless be subject to the PFIC rules described in the preceding paragraph with respect to your indirect interest in any Lower-tier PFIC. You should consult your tax adviser regarding the availability and advisability of making a mark-to-market election in your particular circumstances if we are a PFIC for any taxable year.

A U.S. Holder that owns an equity interest in a PFIC must annually file IRS Form 8621, and may be required to file other IRS forms. A failure to file one or more of these forms as required may toll the running of the statute of limitations in respect of each of the U.S. Holder’s taxable years for which such form is required to be filed. As a result, the taxable years with respect to which the U.S. Holder fails to file the form may remain open to assessment by the IRS indefinitely, until the form is filed.

Investors are encouraged to consult their own tax advisors as to our potential status as a PFIC, the tax consequences to them of such status, and the desirability of making a mark-to-market election.

Foreign Financial Asset Reporting.

Individual U.S. Holders that own “specified foreign financial assets” with an aggregate value in excess of U.S.\$50,000 on the last day of the taxable year, or U.S.\$75,000 at any time during the taxable year, are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on objective criteria. U.S. Holders who fail to report the required information could be subject to substantial penalties. In addition, the statute of limitations for assessment of tax would be suspended, in whole or part. Prospective investors are encouraged to consult with their own tax advisors regarding the possible application of these rules, including the application of the rules to their particular circumstances.

Backup Withholding Tax and Information Reporting

Dividends paid to, and proceeds from a sale or other disposition by, a U.S. Holder in respect of the series B shares or ADSs generally may be subject to the information reporting requirements of the Code and may be subject to backup withholding unless the U.S. Holder provides an accurate taxpayer identification number and makes any other required certification or otherwise establishes an exemption. Backup withholding is not an additional tax. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a refund or credit against the U.S. Holder's U.S. federal income tax liability, provided the required information is furnished to the IRS in a timely manner.

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 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. 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 Mexican pesos. 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 4% lower than the Mexico's inflation.

We are exposed to market risk due to fluctuations of the purchase price of natural gas. To limit our exposure, we have in the past, and may in the future, used derivative financial instruments, which 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. As of December 31, 2023, 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, 2023 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 200 basis point increase in interest rates and a 13% 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, 2023. 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 200 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 13% decline in the peso/dollar exchange rate would result in a decrease in our earnings before taxes of approximately Ps. 0.75 million (U.S.\$0.04 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, 2023 and assuming that the hypothetical market rate changes selected by us in our market risk analysis occur during 2024. 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 depositary for our ADSs and our American Depositary Receipts. 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 deductions 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.

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

Depositary service	Fee payable by ADS 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 depositary 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
Depositary 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 2023.

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 internal control over financial reporting was effective.

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

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act, and for its assessment of the effectiveness of internal control over financial reporting. In making this assessment, it used the criteria established in the Internal Control Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). 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 with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness of the internal control over financial reporting to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The effectiveness of our internal control over financial reporting as of December 31, 2023 has been audited by Marcelo de los Santos y Cía., S.C., a member of Moore Global Network, 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, 2023. 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 determined that internal controls over financing reporting were effective on December 31, 2023.

During their audit of Republic Steel, our external auditors for that subsidiary, Doeren Mayhew CPA, a member of Moore Global Network, identified a material weakness relating to several journal entries and reclassification adjustments related to accounts receivable; property, plant and equipment; inventories; accounts payable; accrued liabilities; intercompany and related party balances; income taxes; and lease accounting. According to our auditors for Republic Steel, certain transactions were not properly recorded in subsidiary ledgers and timely reconciliations of account balances were not performed due to the lack of appropriate personnel within the accounting function, the net effect of which decreased net earnings at Republic Steel by approximately \$6,300,000. Although our auditors for Republic Steel identified such a material weakness for Republic Steel, we determined alongside our auditors for Grupo Simec that there was no material weakness at the consolidated entity level.

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.**

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, 2023, 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows of the Company, and our report dated October 25, 2024, expressed an unqualified opinion on those consolidated financial statements.

Basis for 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 of 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 Limitations of Internal Control over Financial Reporting

A Company 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.

Marcelo de los Santos y Cía, S.C.
Member of Moore Global Network Limited

/s/ Carlos de los Santos Anaya, C.P.A.

San Luis Potosí, S.L.P., México

October 25, 2024

D. Changes in Internal Control Over Financial Reporting

There were no changes in internal control during 2023.

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. For more information about Mr. Trejo’s relevant experience see Item 6.A. “— Directors and Senior Management.”

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 2022 and 2023, 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.

Item 16C. Principal Accountant Fees and Services

Our Audit Committee 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, 2023.

Audit Fees. We paid Ps. 14.3 million (U.S.\$0.85 million) in fees to Marcelo de los Santos y Cia., S.C. in connection with the audit of our annual consolidated financial statements for the year ended December 31, 2023, which are included in this annual report. In 2022, we paid Ps. 13.2 million (U.S.\$0.68 million) in fees to Marcelo de los Santos y Cia., S.C. in connection with the audit of our annual consolidated financial statements for the year ended December 31, 2022. In 2021, we paid Ps. 12.3 million (U.S.\$0.6 million) in fees to Marcelo de los Santos y Cia., S.C. in connection with the audit of our annual consolidated financial statements for the year ended December 31, 2021.

We paid Ps. 3.8 million (U.S.\$0.22 million) in fees to Doeren Mayhew & Co. 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, 2023. In 2022, we paid Ps. 6.6 million (U.S.\$0.34 million) in fees to Doeren Mayhew & Co. Certified public accountants and advisors, P.C., in connection with the audit of our annual financial statements of the United States segment for the year ended December 31, 2022. In 2021, we paid Ps. 6.6 million (U.S.\$0.32 million) in fees to Doeren Mayhew & Co. Certified public accountants and advisors, P.C., in connection with the audit of our annual financial statements of the United States segment for the year ended December 31, 2021.

We paid Ps. 2.2 million (U.S.\$0.13 million) in fees to Moore Prisma in connection with the audit of our annual financial statements of the Brazil segment for the year ended December 31, 2023. We paid Ps. 2.2 million (U.S.\$0.11 million) in fees to Moore Prisma in connection with the audit of our annual financial statements of the Brazil segment for the year ended December 31, 2022. 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, 2021.

Audit Related Fees. In 2023 and 2022, we did not incur any expenses associated with audit related fees.

Tax Fees. In 2023 and 2022, we did not incur any expenses associated with tax compliance.

Other Fees.

In 2023, we incurred fees of Ps. 1.9 million (U.S. \$0.11 million) to Marcelo de los Santos y Cia., S.C. for services related to compliance with regulations established by the Public Company Accounting Oversight Board (PCAOB). These services were essential for ensuring adherence to PCAOB standards in our financial reporting processes *Other Fees*.

We paid no other fees to Moore Global Network Limited or Moore Global Prisma in 2023 and 2022.

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 services incurred in 2022 and 2023, 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 2023.

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 by-laws. 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 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 applicable provisions of the Mexican Securities Market Law and the regulations issued by the CNBV.

Item 16H. Mine Safety Disclosure

Not applicable.

Item 16I. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

Item 16J. Insider Trading Policies

Not applicable.

Item 16K. Cybersecurity

Risk Management and Strategy

We maintain a comprehensive process for assessing, identifying and managing material risks from cybersecurity threats including risks relating to disruption of business operations or financial reporting systems, intellectual property theft; fraud; extortion; harm to employees or customers; violation of privacy laws and other litigation and legal risk; and reputational risk, as part of our overall risk management system and processes.

Our cybersecurity risk management processes include the following:

- Conforming our cyber practices to internationally established cybersecurity frameworks. Our information systems processes and practices are aligned with established frameworks, such as COBIT, developed by ISACA for the governance and management of information technology. Additionally, we are in the process of implementing the NIST Cybersecurity Framework to further enhance our security posture.
- Utilizing material components in our cybersecurity framework, such as employing multifactor authentication for accessing security consoles, ensuring an additional layer of protection. We have implemented next-generation firewalls and integrated vulnerability testing with our antivirus solution to enhance overall system security. Furthermore, we have deployed both software and hardware backup solutions to safeguard data. In addition, we utilize identity and brand protection services, which include continuous web monitoring to detect and prevent fraudulent activities, such as fake websites aimed at impersonation.
- Involving a six person team responsible for day-to-day cybersecurity related matters, including local IT Managers who are granted access to cybersecurity devices and consoles, ensuring hands-on management and control. Additionally, we maintain agreements with hardware and software providers to support our IT infrastructure. We have implemented a comprehensive Business Continuity Management Plan, which includes an Incident Management Plan, a Business Continuity Plan, and a Disaster Recovery Plan. As part of our documentation process, we utilize Business Impact Analysis questionnaires that outline critical activities, involved teams, and necessary resources. Furthermore, we maintain a Risk Matrix specifically designed to support business continuity efforts.
- Conducting annual cybersecurity awareness training for employees involved in our systems. Each year, we hold a meeting with critical departments within the organization to conduct tests of our Disaster Recovery Plan and Business Continuity Plan. During these sessions, we review and update our Risk Matrix to ensure it reflects any changes or new risks. We also emphasize the importance of email security, particularly in identifying and preventing phishing attacks. Teams receive training on their specific roles, participate in the tests, collect all relevant information related to the exercise, and conclude with a debrief meeting to discuss results and formulate action plans for improvement.
- Maintaining a robust incident response plan, which is activated when a critical event occurs, is essential to ensuring business continuity and minimizing disruption. Based on our Disaster Recovery Plan, our Incident Management Committee convenes to execute the action plan. The team gathers in the Crisis Room, where all members are briefed on the situation and the necessary steps for responding and communicating with the broader organization. Our IT team conducts a thorough analysis and implements the required actions to resolve or mitigate the issue, while a communication coordinator ensures timely updates are delivered as per the agreed schedule. The escalation process follows the established resolution matrix, ensuring that issues are addressed according to their severity. This Committee remains in charge of managing all steps until the incident is fully resolved and closed.
- Regularly reviewing, testing, updating, and approving cybersecurity processes by conducting penetration testing, vulnerability scanning, and attack simulations is a key part of our security strategy. Our IT team has access to firewall and endpoint security systems to review logs and ensure all applications remain up-to-date. In accordance with our support policy, third-party partners are also authorized to perform these tasks. They assist in reviewing incidents and coordinating the scheduling of updates or new releases to ensure our systems are continuously protected and optimized.

We also engage third-party experts to evaluate the structure and test the effectiveness of our processes, as well as to provide ongoing training. Our cybersecurity risk management processes extend to the oversight and identification of cybersecurity risks associated with our use of third-party service providers. Our risk management program includes continuous monitoring, assessments, and compliance with industry best practices to mitigate potential vulnerabilities.

We maintain technical support agreements with service providers that cover essential aspects such as software licensing, configuration, upgrades, and necessary changes, supplementing any internal training initiatives. In addition, we have implemented a comprehensive Business Continuity Management Plan, developed in collaboration with a third-party service provider, and supported by both internal and external audits, in coordination with our legal team.

Both our purchasing and IT departments regularly evaluate the competency and qualifications of third-party partners. These providers are required to demonstrate high levels of expertise and hold relevant technical certifications.

Our business strategy, results of operations, and financial condition have not been materially affected by cybersecurity threats, including previous cybersecurity incidents. However, we cannot provide assurance that such risks, or any future material cybersecurity incidents, will not have a significant impact in the future.

For instance, in 2021, one of our branch offices experienced a ransomware attack that targeted Microsoft Windows servers. Although this incident did not materially affect our operations, as the servers were quickly restored from backups and our ERP system remained functional throughout, it underscores the potential risks. The action plan involved isolating each affected server for a comprehensive inspection and cleanup, followed by the full replacement of our perimeter and endpoint security solutions before the servers were brought back online. While we successfully mitigated the immediate risk, this event illustrates the importance of continued vigilance, as future incidents may not be as contained or without impact.

Governance

Board of Directors and Management

The Board of Directors holds primary responsibility for overseeing risks related to cybersecurity threats. To fulfill this responsibility, the board is regularly advised by outside counsel on best practices for cybersecurity oversight and improvement, as well as on material legal and legislative developments in this area. Additionally, the Audit Committee is specifically charged with overseeing data privacy and cybersecurity risks. Management keeps the board informed through updates on strategic key indicators, ongoing cybersecurity initiatives, and significant incidents, including their potential impact on the organization. Members of the board remain actively engaged and stay informed of the rapidly evolving cyber threat landscape to ensure the company is prepared to address emerging risks.

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
1.1	<u>Amended and Restated by-laws (estatutos sociales) of the registrant, translated into English (incorporated herein by reference to Exhibit 1.1 to the annual report for the fiscal year ended December 31, 2021 filed with the SEC on May 18, 2022).</u>
2.1	<u>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 Shares.**</u>
2.2	<u>Form of American Depositary Receipt.**</u>
2.3	<u>Description of American Depositary Shares.</u>
4.1	<u>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.*</u>
4.2	<u>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.***</u>
8.1	<u>List of significant subsidiaries, their jurisdiction of incorporation and names under which they do business.</u>
12.1	<u>Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
12.2	<u>Certification of chief executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
13.1	<u>Certifications of chief executive officer and principal financial officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
97.1	<u>Policy Relating to Recovery of Erroneously Awarded Compensation</u>
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation LinkbaseDocument.
101.DEF	Inline XBRL Taxonomy Extension Definition LinkbaseDocument.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation LinkbaseDocument.

- * 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.

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/ Sergio Vigil González

Sergio Vigil González

Chief Executive Officer

By: /s/ Mario Moreno Cortez

Mario Moreno Cortez

Finance Coordinator

Dated: November 15, 2024

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, 2023, 2022 and 2021

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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, 2023, and 2022, 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, 2023, 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, 2023 and 2022 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, 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, 2023, 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 October 25, 2024 expressed an unqualified opinion.

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

Critical audit matters are matters arising from the current period audit of the 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 financial statements and (2) involved our especially challenging, subjective, or complex judgments. For each critical issue in our audit, we describe how the issue was addressed in the context of our audit.

Possible impairment of the value of the assets of the plants located in the United States, derived from the cessation of their operations.

Description of key audit matter

As disclosed in Note 2 to the consolidated financial statements, the plants located in the United States ceased operations in September 2023, this cessation of the plants required professional judgment to determine the value of the assets these plants had and whether there was a possible impairment that had to be recorded.

How our audit approached the matter

The Company hired experts to perform appraisals of the plants and inventories held by the Company at the end of the year, and also performed an analysis of the portfolio held at the end of the year, on which an allowance for expected credit losses was additionally created. Our audit procedures included the evaluation of the criteria related to the determination of the appraised values, as well as the criteria used for the creation of the allowance for expected credit losses; our audit procedures consisted, among others, of the following:

We obtained knowledge, evaluated the design and tested the operating effectiveness of controls related to the assessment of possible impairment, including the increase to the estimate of expected credit losses, reviewed that all assets were included, as well as the reasonableness of the criteria used for the valuation of plant, inventories and the portfolio. The fair values determined by the experts were higher than the recorded values; therefore, no impairment adjustment was necessary.

Impairment of goodwill and intangible assets with indefinite lives

Description of key audit matter

As disclosed in note 12 to the consolidated financial statements, the net value of goodwill amounts to \$1,814,160 thousand pesos and additionally, as disclosed in the same note, the rights to use the SAN42 trademark (the Trademark) has been identified as an intangible asset with an indefinite useful life with a value of \$329,600 thousand pesos. This goodwill and intangible asset come from the acquisition in 2008 of Corporación Aceros, D.M., S.A. de C.V. and subsidiaries (Grupo San). These assets are reviewed annually for possible impairment at the level of Grupo San, the cash generating unit to which they belong. For the annual impairment assessment, it is necessary to estimate the value of Grupo San; the estimated value is calculated by determining the present value of the expected future cash flows of Grupo San.

How our audit approached the matter

The Company performed the technical estimate of value in use. Our audit procedures included evaluating the criteria related to the determination of the value in use of the cash-generating unit and that these were consistent with those used in prior periods; our audit procedures consisted of, among others, the following:

We obtained knowledge, evaluated the design and tested the operating effectiveness of controls related to the impairment assessment, including testing the process used to develop the estimate of the cash-generating unit's value in use; evaluating the appropriateness of the discounted cash flow model; testing the completeness, accuracy and relevance of the underlying data used in the model; and evaluating the significant assumptions used, including sales volumes and prices, production costs and the growth rate for the year; involved assessing whether the assumptions used were reasonable considering (i) the current and past performance of the cash-generating unit (ii) consistency with business and industry data, and (iii) whether the 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 October 25, 2024

/s/ Carlos de los Santos Anaya, C.P.A.

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, 2023 and 2022
(In thousands of Mexican pesos)

	Note	2023	2022
Assets			
Current assets:			
Cash and cash equivalents	6	\$ 23,584,335	\$ 21,546,386
Trade receivables, net	7	5,679,574	6,633,415
Related parties' receivables	20	108,183	104,803
Recoverable taxes	8	858,924	404,922
Other receivables		469,155	563,590
Prepaid expenses		831,688	1,479,560
Inventory	9	<u>10,203,810</u>	<u>12,791,311</u>
Total current assets		41,735,669	43,523,987
Non-current related parties' receivables	20	648,281	648,281
Non-current loans to related parties	20	1,169,930	1,105,063
Non-current inventory, net	9	1,519,929	1,488,819
Property, plant and equipment, net	10	17,953,857	16,782,893
Investments in financial instruments	11	1,461,865	1,758,605
Intangible assets and other non-current assets, net	12	<u>2,298,081</u>	<u>2,325,255</u>
Total of active not circulating		<u>25,051,943</u>	<u>24,108,916</u>
Total assets		<u>\$ 66,787,612</u>	<u>\$ 67,632,903</u>
Liabilities and stockholders' equity			
Current liabilities:			
Short-term debt	13	\$ 5,102	\$ 5,847
Accounts payable trade	14	7,443,227	9,410,419
Related parties payable	20	2,755,255	2,692,456
Other accounts payable and accrued liabilities	14	438,664	697,631
Payable tax		1,578,000	941,294
Income tax		<u>750,639</u>	<u>1,405,994</u>
Total current liabilities		<u>12,970,887</u>	<u>15,153,641</u>
Non-current liabilities:			
Employee benefits	15	185,174	169,375
Deferred income tax	16	3,823,686	4,223,149
Other liabilities		<u>2,400</u>	<u>92,362</u>
Total Non-current liabilities		<u>4,011,260</u>	<u>4,484,886</u>
Total liabilities		<u>16,982,147</u>	<u>19,638,527</u>
Contingencies and Commitments	25 and 26	<u>-</u>	<u>-</u>
Stockholders' equity:	17		
Capital stock		2,832,268	2,832,268
Additional paid-in capital		4,575,233	4,575,233
Retained earnings		42,384,854	38,101,948
Reserve for repurchase and recoloration of shares		2,644,680	2,733,722
Accumulated Other comprehensive income (loss), net	19	<u>(2,656,411)</u>	<u>(286,442)</u>

Total controlling interest		<u>49,780,624</u>	<u>47,956,729</u>
Non-controlling interest	18	<u>24,841</u>	<u>37,647</u>
Total stockholders' equity		<u>49,805,465</u>	<u>47,994,376</u>
Total liabilities and stockholders' equity		<u><u>\$ 66,787,612</u></u>	<u><u>\$ 67,632,903</u></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 Comprehensive Income
For the years ended December 31, 2023, 2022 and 2021
(In thousands of Mexican pesos, except income per share figures)

	<u>Note</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net sales		\$ 41,139,248	\$ 54,159,247	\$ 55,620,356
Cost of sales	21	<u>(31,100,106)</u>	<u>(39,683,861)</u>	<u>(39,968,186)</u>
Gross profit		10,039,142	14,475,386	15,652,170
Administrative expenses	21	(2,317,058)	(2,456,700)	(2,042,642)
Other income (expense), net	22	(119,546)	71,845	(77,406)
Interest income and dividends		931,866	445,879	65,948
Interest expense		(153,729)	(56,352)	(87,445)
Gain (Loss) on financial instruments		64,436	(778,649)	0
Foreign exchange loss, net		<u>(2,431,000)</u>	<u>(540,828)</u>	<u>325,011</u>
Income before income taxes		6,014,111	11,160,581	13,835,636
Income taxes	16	<u>(1,739,998)</u>	<u>(3,299,522)</u>	<u>(4,389,769)</u>
Net income for the year		<u>4,274,113</u>	<u>7,861,059</u>	<u>9,445,867</u>
Other comprehensive income:				
Translation effects of foreign subsidiaries		(2,663,542)	(1,259,355)	(589,961)
Other stock instruments	19	<u>289,560</u>	<u>(317,267)</u>	<u>0</u>
Total other comprehensive income for the year.		<u>(2,373,982)</u>	<u>(1,576,622)</u>	<u>(589,961)</u>
Comprehensive income for the year, net of tax		<u>\$ 1,900,131</u>	<u>\$ 6,284,437</u>	<u>\$ 8,855,906</u>
Net income attributable to:				
Controlling interest		\$ 4,282,906	\$ 7,862,671	\$ 9,444,208
Non-controlling interest		<u>(8,793)</u>	<u>(1,612)</u>	<u>1,659</u>
Net income for the year		<u>\$ 4,274,113</u>	<u>\$ 7,861,059</u>	<u>\$ 9,445,867</u>
Comprehensive income for the year attributable to:				
Controlling interest		\$ 1,912,937	\$ 6,287,951	\$ 8,850,755
Non-controlling interest		<u>(12,806)</u>	<u>(3,514)</u>	<u>5,151</u>
Comprehensive income for the year		<u>\$ 1,900,131</u>	<u>\$ 6,284,437</u>	<u>\$ 8,855,906</u>
Earnings per share:				
Weighted average shares outstanding (in thousands of shares)		<u>461,741</u>	<u>462,375</u>	<u>462,810</u>
Earnings per share for net income for the year attributable to controlling interest (expressed in pesos)	4-n	<u>\$ 9.28</u>	<u>\$ 17.00</u>	<u>\$ 20.41</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, 2023, 2022 and 2021
(In thousands of Mexican pesos)

	Capital Stock	Additional paid-in capital	Retained earnings	Reserve repurchase and recoloration of shares	Accumulated Other comprehensive income (loss), net (Note 19)	Total controlling Interest	Non- controlling Interest	Total stockholders' equity
Balance at January 1, 2021	<u>\$2,832,268</u>	<u>\$4,575,233</u>	<u>\$20,795,069</u>	<u>\$ 2,898,348</u>	<u>\$ 1,881,731</u>	<u>\$32,982,649</u>	<u>\$ 36,010</u>	<u>\$ 33,018,659</u>
Repurchase of own capital stock, net				(74,497)		(74,497)		(74,497)
Comprehensive income (loss)			9,444,208		(593,453)	8,850,755	5,151	8,855,906
Balance at December 31, 2021	<u>\$2,832,268</u>	<u>\$4,575,233</u>	<u>\$30,239,277</u>	<u>\$ 2,823,851</u>	<u>\$ 1,288,278</u>	<u>\$41,758,907</u>	<u>\$ 41,161</u>	<u>\$ 41,800,068</u>
Repurchase of own capital stock, net				(90,129)		(90,129)		(90,129)
Comprehensive income (loss)			7,862,671		(1,574,720)	6,287,951	(3,514)	6,284,437
Balance at December 31, 2022	<u>\$2,832,268</u>	<u>\$4,575,233</u>	<u>\$38,101,948</u>	<u>\$ 2,733,722</u>	<u>\$ (286,442)</u>	<u>\$47,956,729</u>	<u>\$ 37,647</u>	<u>\$ 47,994,376</u>
Repurchase of own capital stock, net				(89,042)		(89,042)		(89,042)
Comprehensive income (loss)			4,282,906		(2,369,969)	1,912,937	(12,806)	1,900,131
Balance as of December 31, 2023	<u>\$2,832,268</u>	<u>\$4,575,233</u>	<u>\$42,384,854</u>	<u>\$ 2,644,680</u>	<u>\$ (2,656,411)</u>	<u>\$49,780,624</u>	<u>\$ 24,841</u>	<u>\$ 49,805,465</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 Cash Flows
For the years ended December 31, 2023, 2022 and 2021
(In thousands of Mexican pesos)

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Operating activities:			
Net income for the year	\$ 4,274,113	\$ 7,861,059	\$ 9,445,867
Adjustments for:			
Depreciation and amortization	1,035,244	1,116,872	1,175,108
Employee benefits	16,116	6,532	979
Interest income from investing activities	(931,866)	(445,879)	(65,948)
(Gain) Loss in financial instruments	(64,436)	778,649	0
Interest expense from financing activities	153,729	56,352	87,445
Income tax	<u>1,739,998</u>	<u>3,299,522</u>	<u>4,389,769</u>
	6,222,898	12,673,107	15,033,220
Changes in operating assets and liabilities:			
Decrease (Increase) in Trade receivables	653,286	(440,424)	(1,807,289)
Decrease (Increase) in Related parties' receivables	(68,247)	(69,476)	(78,941)
Decrease (Increase) in Inventory	1,608,776	(1,541,781)	(2,715,001)
(Increase) in other receivables, recoverable taxes and prepaid expenses	(74,814)	(204,519)	(31,192)
(Decrease) Increase in Accounts payable trade	(2,187,193)	2,375,610	836,406
Increase (Decrease) in Related parties' payables	62,799	(8,453)	(38,598)
Increase (Decrease) in Accounts payable other and accrued liabilities and taxes other than income taxes	<u>(1,954,210)</u>	<u>(3,834,758)</u>	<u>(2,811,273)</u>
Net cash flows provided by operating activities	<u>4,263,295</u>	<u>8,949,306</u>	<u>8,387,332</u>
Investing activities:			
Acquisition of property, plant and equipment	(2,492,673)	(1,696,485)	(1,066,422)
Decrease (increase) in other non-current assets	301,913	(32,758)	(9,199)
Acquisition of other equity instruments	(88,642)	(2,075,872)	0
Gain (Loss) on financial instruments	64,436	(778,649)	0
Interest income collected	<u>931,866</u>	<u>445,879</u>	<u>65,948</u>
Net cash flows (used) by investing activities	<u>(1,283,100)</u>	<u>(4,137,885)</u>	<u>(1,009,673)</u>
Financing activities:			
Loan from related parties	0	2,381,464	0
Repurchase and placement of own capital stocks, net	(89,041)	(90,129)	(74,497)
Interest expense	<u>(153,729)</u>	<u>(56,352)</u>	<u>(87,445)</u>
Net cash flows used (provided) in financing activities	<u>(242,770)</u>	<u>2,234,983</u>	<u>(161,942)</u>
Increase in cash and cash equivalents	2,737,425	7,046,404	7,215,717
Cash and cash equivalents at beginning of year	21,546,386	15,130,192	7,727,698
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	<u>(699,476)</u>	<u>(630,210)</u>	<u>186,777</u>
Cash and cash equivalents at end of year	<u>\$ 23,584,335</u>	<u>\$ 21,546,386</u>	<u>\$ 15,130,192</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.)
Notes to the Consolidated Financial Statements
For years ended December 31, 2023, 2022 and 2021
(In thousands of Mexican pesos, except foreign currency and where indicated)

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 (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 June 11, 2021, a contract was signed for the purchase of fixed assets from Kobelco, for USD \$10.0 million, for wire production, located in Silao Guanajuato. (CHQ Wire Mexico, S.A. de C.V.)
- b. In August 2023, Republic Steel announced the closure of its steelmaking operations in Canton, Solon, Massillon Ohio and Lackawanna, New York effective September 2023, indefinitely due to various economic factors, including deteriorating market conditions and operational costs. Republic Steel will continue servicing its customers from its plant in Tlaxcala, Mexico. For this reason, management has determined that its long-lived assets at such facilities may not be fully recoverable. Management performed an analysis of the fair value of the four facilities 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.

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, 2023.

International Financial Reporting Standards, interpretations and amendments, not yet in force.

There are a number of IFRS, interpretations and amendments that have been issued by the IASB and are effective for future accounting periods that the Company has elected not to early adopt.

The following amendments are effective as of January 01, 2024:

- Modification to IFRS 16 - Liability on a sale and leaseback.
- Modification to IAS 1 - Classification of liabilities as current or non-current.
- Modifications to IAS 1 - Non-current liabilities with agreements.
- Modifications to IAS 7 - Cash flow statements and IFRS 7 Financial instruments - Disclosures of supplier financing agreements.

The following amendments are effective as of January 01, 2025:

Modifications to IAS 21 - Effect of variations in exchange rates - Lack of interchangeability.

Simec is evaluating the impact that these changes 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 statements of comprehensive income 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.

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, 2023, and 2022, the subsidiaries of Grupo Simec, S.A.B. de C.V. included in the consolidation are the following:

	Percentage of equity owned	
	2023	2022
Subsidiaries established in Mexico:		
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. (7)	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. (7)	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. (7)	100.00%	100.00%
Operadora de Metales, S.A. de C.V. (7)	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. (7)	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. (7)	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.	99.99%	95.10%
Grupo Chant, S.A.P.I. de C.V.	99.99%	97.61%
Aceros Especiales Simec Tlaxcala, S.A. de C.V. (7)	100.00%	100.00%
Gases Industriales de America, 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.	100.00%	100.00%
Simec Siderúrgico, S.A. de C.V.	100.00%	100.00%
Subsidiaries established in foreign countries:		
SimRep Corporation and Subsidiaries (3) (4) (5) (7)	99.41%	99.41%
Pacific Steel, Inc. (4)	100.00%	100.00%
Pacific Steel Projects, Inc. (4) (7)	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 (2)	100.00%	100.00%
Companhia Siderurgica do Espiritu Santo S.A. (2)	100.00%	100.00%

(1) Companies located in San Luis Potosi. For purposes of this report constitute the “Grupo San”.

(2) Companies located in Brazil.

(3) ICH owns 0.59% of the shares in this company at December 31, 2023.

(4) Companies established in the United States, 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 that have lost the entire capital stock, except Procesadora Mexicali, S.A. de C.V. and Aceros Especiales Simec Tlaxcala, S.A. de C.V. which only have lost 2/3 of their capital stock.

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, 2023	16.89
Current exchange rate as of December 31, 2022	19.36
Average exchange rate for the year ended December 31, 2023 (*)	17.77
Average exchange rate for the year ended December 31, 2022 (*)	20.12
Current exchange rate as of October 25, 2024	19.93

(*) 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 is 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 consist 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. ***Estimates for expected credit losses*** - 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. Which is recorded in the statement of financial position and it's counterpart account in administration expenses.

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 130,662 metric tons (MT) of coke inventory valued at 1,249 million Mexican pesos (average of USD\$ 566.0/MT) on hand at December 31, 2023 and 136,246 MT of coke inventory valued at 1,237 million Mexican pesos (average of USD\$ 469/MT) on hand at December 31, 2022 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:

	Years
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". 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, its carrying amount is the present value of those cash flows.

- m. ***Retirement benefit cost*** - Contributions to termination benefit plans and defined contribution plans are recognized as expenses at the time employees have provided the services that entitle them to the contributions.

The retirement benefit liability is determined considering the present value of the defined benefit obligation at the date of the statement of financial position. The remunerations included in the determination of this liability correspond to seniority premiums for retirement. Actuarial gains and losses are charged or credited to the results of the year. Both the retirement benefit liability and the corresponding net costs of the period are determined according to the projected unit credit method based on projected salaries, using for this purpose certain assumptions and hypotheses determined by independent actuaries.

The employee benefit obligations recognized in the consolidated statement of financial position represent the present value of the defined benefit obligation.

Prior to the cessation of operations of the Republic plants, Republic operated a number of employee benefit plans. Contributions to these benefit plans were either contractually determined by the terms of a collective bargaining agreement with the United Steelworkers union or were under the terms of a defined contribution plan. Accordingly, the company paid fixed contributions to separate entities and included them in the expense of the period in which employees performed services that entitled them to 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 represent 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 transactions** - 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 in accordance with IFRS 9 Financial Instruments ("IFRS 9") into financial assets that are subsequently measured at amortized cost, at fair value through Other Comprehensive Income (OCI) or at fair value through profit or loss based on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets at amortized cost

Financial assets are measured at amortized cost when the objective of holding the financial assets is to obtain contractual cash flows, and the contractual terms of the financial asset give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount. Financial assets are initially recognized at fair value plus transaction costs and subsequently recorded at amortized cost using the effective interest rate method, with changes in carrying value recognized in the statement of income. They are included in current assets except for maturities greater than 12 months from the closing date, which are included in non-current assets. The Group's financial assets, measured at amortized cost, are mainly presented as "Trade accounts and notes receivable", "Other accounts and notes receivable", and "Accounts receivable from related parties" in the consolidated statement of financial position.

Financial assets at fair value through OCI

These are financial assets held for the purpose of obtaining contractual cash flows and the sale of the financial assets, and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount.

The Company's investments in certain equity instruments have been designated to be measured at fair value through OCI in accordance with MFRS 9. In connection with this designation, any amount presented in OCI will not be transferred to the consolidated statement of income. Dividends on these equity instruments are recognized in the consolidated statement of income when the right to pay the dividend is established, and it is probable that such dividend will be paid to the Company.

Financial assets at fair value through profit or loss

These are financial assets held for trading. A financial asset is classified in this category if it is acquired for the purpose of selling in the near term. Derivative financial instruments are also included in this category unless they are designated as hedging instruments. Assets in this category are classified as current assets if they are expected to be settled within 12 months, otherwise they are classified as non-current assets.

Derecognition

The Group assesses the expected credit losses associated with its financial assets recorded at fair value through OCI. The applicable impairment method depends on whether there has been a significant increase in credit risk.

For notes and trade receivables, the Company applies a simplified approach permitted by MFRS 9, which requires that expected losses over the life of the asset be recognized upon initial recognition of the notes and trade receivables

- 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
- 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** - Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer in an amount that reflects the consideration to which the company expect to be entitled in exchange for those goods and services.

Sale of goods

Revenue from products sales manufactured by the Company (“the products”) is recognized at the point in time when control of the asset is transferred to the customer, normally generally on delivery of the parts. The normal credit term is 30 to 90 days upon delivery.

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

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs an obligation by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

Accounts receivable

A receivable represents the Company’s right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

Contract liabilities and advances from customers

A contract liability is the obligation to transfer the control over goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is due, and an advance from customers when the payment is made. Contract liabilities (or advance from customer) are recognized as revenue when the Company performs its performance obligations under the contract.

- 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 expected credit losses** - The practice of creating an allowance for expected credit losses at the balance sheet date is followed to show the possible losses resulting from the inability of customers to pay their corresponding debts. The Company calculates the estimate taking into account the historical experience of credit losses on its accounts receivable, current conditions and reasonable and supportable forecasts of the different quantifiable future events that could affect the amount of future cash flows to be recovered from accounts receivable.
 - **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 sometimes contracts 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, 2023 and 2022 the Company has no derivative financial instruments.

6. Cash and cash equivalents and other investments

Cash and cash equivalents are as follows:

	December 31,	
	2023	2022
Cash	\$ 1,334,415	\$ 4,040,351
Cash equivalents (1)	22,249,920	17,506,035
	<u>\$ 23,584,335</u>	<u>\$ 21,546,386</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 customers are reviewed twice a year. On December 31, 2023 and 2022 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:

	At December 31,	
	2023	2022
30 - 60 days	\$ 423,500	\$ 149,250
61 - 90 days	192,525	709,781
91 + days	<u>592,854</u>	<u>1,000,937</u>

Total	<u>\$ 1,208,879</u>	<u>\$ 1,859,968</u>
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During the years ended December 31, 2023 and 2022, the movement in the allowance for doubtful accounts was as follows:

	2023	2022
Balance at beginning of year	\$ 226,432	\$ 224,569
Provisions	96,343	25,163
Cancellation	-	(834)
Account recoveries	(20,236)	-
Translations effects	(18,982)	(22,466)
Balance at end of year	<u>\$ 283,557</u>	<u>\$ 226,432</u>

The Company 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. 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.

As noted in note 2, the plants located in the United States ceased operations in September 2023. The customer portfolio as of December 31 amounted to \$320,571, on which there is an estimate of expected credit losses of \$147,041. which gives a net amount of \$173,530.

8. Recoverable taxes

	December 31,	
	2023	2022
Value Added Tax	\$ 479,354	\$ 353,506
Income Tax	360,840	32,686
Other	18,730	18,730
	<u>\$ 858,924</u>	<u>\$ 404,922</u>

9. Inventories

Current inventory:

	December 31,	
	2023	2022
Finished goods	\$ 2,332,207	\$ 3,656,990
Work-in-process	92,439	125,259
Billets	1,929,808	2,282,093
Raw materials and supplies	4,661,167	5,446,489
Materials, spare parts and rollers	1,186,889	1,264,727
Materials in-transit	1,300	15,753
	<u>\$ 10,203,810</u>	<u>\$ 12,791,311</u>

Non-current inventory:

	December 31,	
	2023	2022
Coke	\$ 1,249,353	\$ 1,237,188
Spare parts	73,268	74,361
Rollers	197,308	177,270
Finished goods	<u>353,095</u>	<u>353,095</u>

	<u>1,873,024</u>	<u>1,841,914</u>
Less, valuation allowance at the lower of cost or net realizable value.	<u>(353,095)</u>	<u>(353,095)</u>
	<u><u>\$ 1,519,929</u></u>	<u><u>\$ 1,488,819</u></u>

The Company has \$ 1,249,353 and \$ 1,237,188 of coke inventory on hand as of December 31, 2023 and 2022, 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 noted in note 2, the plants located in the United States ceased operations in September 2023. The existing inventories in these plants amounted to \$3,924,172 in the short term and \$1,249,353 in the long term as of December 31, 2023. At the end of the year, the coke inventories and an important part of the other inventories were evaluated by an expert in the field.

10. Property, plant and equipment

Cost of property, plant and equipment is as follows (in millions of Mexican pesos):

	<u>Land</u>	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Furniture, mixtures and computer equipment</u>	<u>Constructions and machinery in-progress</u>	<u>Total</u>
Balance to January 1, 2022	\$ 1,431	\$ 5,410	\$ 30,194	\$ 162	\$ 149	\$ 1,676	\$ 39,022
Additions	2	3	286	1	4	1,400	1,696
Conversion adjustments	(18)	(9)	(339)		(1)	(40)	(407)
Balance as of December 31, 2022	<u>\$ 1,415</u>	<u>\$ 5,404</u>	<u>\$ 30,141</u>	<u>\$ 163</u>	<u>\$ 152</u>	<u>\$ 3,036</u>	<u>\$ 40,311</u>
Additions	2	-	1,017	1	7	1,465	2,492
Conversion adjustments	(19)	(153)	(1,457)	1	(4)	(108)	(1,740)
Balance as of December 31, 2023	<u>\$ 1,398</u>	<u>\$ 5,251</u>	<u>\$ 29,701</u>	<u>\$ 165</u>	<u>\$ 155</u>	<u>\$ 4,393</u>	<u>\$ 41,063</u>

Accumulated depreciation of property, plant and equipment is as follows (in millions of Mexican pesos):

	<u>Buildings</u>	<u>Machinery and equipment</u>	<u>Transportation equipment</u>	<u>Furniture, mixtures and computer equipment</u>	<u>Total</u>
Balance as of January 1, 2022	1,250	\$ 21,591	\$ 86	\$ 82	\$ 23,009
Depreciation expense	46	1,058	2		1,106
Conversion effects	(10)	(575)	(2)		(587)
Balance as of December 31, 2022	<u>1,286</u>	<u>\$ 22,074</u>	<u>\$ 86</u>	<u>\$ 82</u>	<u>\$ 23,528</u>
Depreciation expense	63	957	2	5	1,027
Conversion effects	(31)	(1,412)	(1)	(2)	(1,446)
Balance as of December 31, 2023	<u>\$ 1,318</u>	<u>\$ 21,619</u>	<u>\$ 87</u>	<u>\$ 85</u>	<u>\$ 23,109</u>

The depreciation expense for the years ended December 31, 2023, and 2022 amounted to \$ 1,035,244 and \$ 1,106,263, respectively.

The net book value of property, plant and equipment is as follows (in millions of Mexican pesos):

<u>Net Book Value:</u>	<u>Land</u>	<u>Buildings</u>	<u>Machinery and Equipment</u>	<u>Transportation equipment</u>	<u>Furniture, mixtures and computer equipment</u>	<u>Constructions and machinery in-progress</u>	<u>Total</u>
Balance as of January 1, 2022	<u>\$ 1,431</u>	<u>\$ 4,160</u>	<u>\$ 8,603</u>	<u>\$ 76</u>	<u>\$ 67</u>	<u>\$ 1,676</u>	<u>\$ 16,013</u>
Balance as of December 31, 2022	<u>\$ 1,415</u>	<u>\$ 4,118</u>	<u>\$ 8,067</u>	<u>\$ 77</u>	<u>\$ 70</u>	<u>\$ 3,036</u>	<u>\$ 16,783</u>

Balance as of December

31, 2023

\$ 1,398

\$ 3,933

\$ 8,082

\$ 78

\$ 70

\$ 4,393

\$ 17,954

As noted in note 2, the plants located in the United States ceased operations in September 2023. The amount as of December 31, 2023 of property, plant and equipment amounted to \$2,105,393 net. A valuation of the plants was carried out by an expert in the field, in order to review whether a possible deterioration would have to be recorded.

11. Investments in financial instruments

The balances as of December 31, 2023 and 2022 are as follows:

	<u>2023</u>	<u>2022</u>
Other stock instruments	<u>\$ 1,461,865</u>	<u>\$ 1,758,605</u>

Corresponds to instruments listed on the Stock Exchange and its fair value is determined using the market prices quoted on the valuation date.

12. Intangible and other long-term assets

The balances as of December 31, 2023 and 2022 are as follows:

Assets	2023			Amortization period (years)
	Original Value	Accumulated amortization	Net	
Republic trade mark	\$ 90,995	\$ 0	\$ 90,995	*
Customers list	55,549	55,549	0	20
Total from Republic (1)	<u>146,544</u>	<u>55,549</u>	<u>90,995</u>	
Customers list	2,205,700	2,205,700	0	9
San 42 trademark (2)	329,600	0	329,600	*
Goodwill (2)	1,814,160	0	1,814,160	*
Total from Grupo San (3)	<u>4,349,460</u>	<u>2,205,700</u>	<u>2,143,760</u>	
	4,496,004	2,261,249	2,234,755	
Other assets	63,326	0	63,326	
	<u>\$ 4,559,330</u>	<u>\$ 2,261,249</u>	<u>\$ 2,298,081</u>	
Assets	2022			Amortization period (years)
	Original Value	Accumulated Amortization	Net	
Republic trade mark	\$ 104,289	\$ 0	\$ 104,289	*
Customers list	63,664	63,664	0	20
Total from Republic (1)	<u>167,953</u>	<u>63,664</u>	<u>104,289</u>	
Customers list	2,205,700	2,205,700	0	9
San 42 trademark (2)	329,600	0	329,600	*
Goodwill (2)	1,814,160	0	1,814,160	*
Total from Grupo San (3)	<u>4,349,460</u>	<u>2,205,700</u>	<u>2,143,760</u>	
	4,517,413	2,269,364	2,248,049	
Other assets	77,206	0	77,206	
	<u>\$ 4,594,619</u>	<u>\$ 2,269,364</u>	<u>\$ 2,325,255</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 for the years ended December 31, 2023 and 2022, amounted to \$ 7,344 and \$ 10,609, 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, 2021	\$ 4,585,728	\$ (2,273,159)	\$ 2,312,569
Additions	10,609	(10,609)	0
Cancellations	(2,505)	2,505	0
Adjustment effect of the year	787	11,899	12,686
Balance as of December 31, 2022	\$ 4,594,619	\$ (2,269,364)	\$ 2,325,255
Additions	7,344	(7,344)	0
Cancellations	(27,174)	0	(27,174)
Adjustment effect of the year	(15,459)	15,459	0
Balance as of December 31, 2023	\$ 4,559,330	\$ (2,261,249)	\$ 2,298,081

13. 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 in third place. 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, 2023 and 2022, the amount of the bonds not exchanged totaled USD\$ 0.3 million, plus accrued interest. At December 31, 2022 and 2021, liabilities in pesos for the bonds not exchanged amounted \$ 5,102 and \$ 5,847, respectively.

14. Accounts payable trade and other accrued liabilities

	December 31,	
	2023	2022
Trade accounts payable	\$ 7,443,227	\$ 9,410,419
Other accounts payable and accrued liabilities	438,664	697,631
	<u>\$ 7,881,891</u>	<u>\$ 10,108,050</u>

15. Employee benefits

Mexican entities

- Collective bargaining agreements** - During 2023, approximately 42% (42% on 2022) 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.
- 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.
- 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 2023 and 2022, EPS amounted to \$ 680 and \$ 7,200, 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 2023, 2022 and 2021 was \$27,919, and \$24,118 and \$17,110, respectively.

Employee benefits liability as of December 31, 2023, 2022 and 2021 are comprised as follows:

	Retirement benefits	Termination benefits	2023	2022	2021
Vested benefits Obligation	\$ -	\$ 4,431	\$ 4,431	\$ -	\$ 3,390
Plus, Non-Vested Benefits Obligation	82,267	98,476	180,743	169,375	159,453
Defined Benefits Obligation	<u>82,267</u>	<u>102,907</u>	<u>185,174</u>	<u>169,375</u>	<u>162,843</u>
Projected Net Liability	<u>\$ 82,267</u>	<u>\$ 102,907</u>	<u>\$ 185,174</u>	<u>\$ 169,375</u>	<u>\$ 162,843</u>

Net cost for the period booked in profit and loss is comprised as follows:

	Retirement benefits	Termination benefits	2023	2022	2021
Service cost	6,161	\$ 9,045	\$ 15,206	\$ 10,998	\$ 9,299
Net interest	8,547	10,085	18,632	12,101	11,121
Labor cost of past services	(5,019)	2,491	(2,528)	(11,244)	1,806
Net Cost for the period	<u>\$ 9,689</u>	<u>\$ 21,621</u>	<u>\$ 31,310</u>	<u>\$ 11,855</u>	<u>\$ 22,226</u>

Main actuarial hypothesis used in the actuarial computations are:

	2023	2022	2021
Discount rate	9.05%	9.10%	7.55%
Wage increase rate	5.00%	5.00%	5.00%
Rate of salary increase	4.50%	4.50%	4.50%

The DBO amount recorded in the balance sheet as of December 31, 2023 and 2022 are \$ 185,174, and \$ 169,375, respectively.

	2023	2022
Defined benefit obligations (DBO) changes in present	<u>\$ 169,375</u>	<u>\$ 162,843</u>
DBO present value at January 1 st	169,375	162,843
Past services labor cost	(2,528)	(11,244)
Current service labor cost	15,206	10,998
Interest expense	18,632	12,101
Paid benefits	(22,044)	(9,229)
Actuarial gains and losses in obligations	<u>6,533</u>	<u>3,906</u>
DBO present value at December 31 st	<u>\$ 185,174</u>	<u>\$ 169,375</u>
Changes in projected net liabilities		
Initial PNL	\$ 169,375	\$ 162,843
Net cost for the period	31,310	11,855
Paid benefits	(22,044)	(9,229)

Previous years effect on profit and loss	<u>6,533</u>	<u>3,906</u>
Final PNL	<u>\$ 185,174</u>	<u>\$ 169,375</u>
Defined benefits obligations (DBO)	<u>\$ 185,174</u>	<u>\$ 169,375</u>

Foreign entities (Republic)

Republic is the only subsidiary of the Company that offered other benefits and pension plans to their employees. Such benefit plans are described below:

a. Negotiation of collective agreements.

In 2023 at the plant shutdown, 18% of Republic's workers were insured (70% in 2022), through collective bargaining agreements with the United Steelworkers (USW).

Due to the cessation of operations, on October 23, 2023, Republic Steel executed a Closing Agreement with the USW that terminated the collective bargaining agreement. Under the terms of the agreement, all benefits ceased on December 31, 2023. Approximately \$5.4 million in severance pay, time off pay, and vacation pay was paid during the year ended December 31, 2023.

b. Defined Contribution Plans

Employee Pension Plan – Republic participated in the Steel Workers Pension Trust (SPT), a subsidized pension plan multi-employer pension. The Company's obligations under the plan were based on defined contribution requirements. The Company contributed a fixed amount equivalent to \$1.68 per hour for each employee covered by this plan, as defined in 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.

c. VEBA Benefit Trust

The Company was obliged 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, 2023, 2022 and 2021, the Company recorded expenses of USD \$ 0.3, USD \$ 0.3 million and USD \$ 0.5 million, respectively, related to this benefits plan.

For the years ended December 31, 2023, 2022 and 2021, Republic recorded combined expenses of USD\$ 2.7 million, USD\$ 1.9 and USD\$ 2.5 million, respectively, related to the funding obligations of the retirement healthcare and pension benefits.

d. 401(k) Plans

The Company had a defined contribution 401(k) retirement plan that covers nearly all salaried and nonunion employees. This plan is designed to provide retirement benefits through Company contributions and voluntary employee contributions. The Company made contributions to this plan each pay period based on age and length of service as of January of each year. The amount of the Company's contribution is equal to the monthly base salary multiplied by a percentage based on age and years of service. The contribution becomes 100% vested upon completion of three years of service. Additionally, employees are permitted to make contributions to this 401(k) retirement plan through payroll deductions. In these cases, the Company grants a 25% contribution to the fund on the first 5% contributed by the employee, to which the employee is 100% entitled from the moment said contribution is made. For the years ended December 31, 2023 and 2022, the Company recognized an expense for this plan of USD\$ 0.8 million and USD\$ 1.1 million, respectively.

Workers governed by the labor contract with the USW are eligible to participate in the 401(k) retirement plan, through voluntary contributions. There are no Company contributions for these workers.

e. Profit Sharing and Incentive Compensation Plans

The labor agreement included a profit sharing plan, to which the company was required to contribute 3% of EBITDA between USD \$0 and USD \$25 million per quarter; 4% of EBITDA between USD \$25 and USD \$75 million per quarter; and 5% of EBITDA greater than USD \$75 million per quarter. No expenses were recorded during the year ended December 31, 2023, because targets were not met. USD \$0.3 million of expenses were recorded during the year ended December 31, 2022.

16. Income taxes

The Company is subject to Income Tax (ISR).

The analysis of the income tax charged to the results of 2023, 2022 and 2021 is as follows:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Income tax of the year for Mexican companies	\$ 1,291,378	\$ 2,549,851	\$ 2,564,312
Income tax year for foreign companies	403,436	599,940	1,253,895
Deferred tax for Mexican companies	(40,943)	(119,999)	(96,453)
Deferred tax for foreign companies	86,127	269,730	668,015
	<u>\$ 1,739,998</u>	<u>\$ 3,299,522</u>	<u>\$ 4,389,769</u>

During 2023, 2022 and 2021, 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>2023</u>	<u>2022</u>	<u>2021</u>
Expected benefit, expense	\$ 1,804,233	\$ 3,348,174	\$ 4,150,690
Increase (decrease) as a result of:			
Inflation effect, net	(581,549)	(524,640)	(577,234)
Impact of the nominal rate differences between the USA and Mexico	112,377	29,996	66,343
Benefit from utilization of tax loss carry-forwards and others (1)	342,202	80,166	(12,086)
Others, net (includes permanent items) Income tax expense	62,735	365,826	762,056
Income tax expense	<u>\$ 1,739,998</u>	<u>\$ 3,299,522</u>	<u>\$ 4,389,769</u>
Effective tax rate	<u>28.93%</u>	<u>29.56%</u>	<u>31.73%</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 2023, 2022 and 2021, less the effect of tax losses incurred by some subsidiaries for which no deferred tax asset was recorded.

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, 2023, Grupo Simec, S.A.B. de C.V. and certain of its Mexican subsidiaries have updated tax losses pending of amortize as follows:

Origin Date	Expiration Date	Tax losses available
2014	2024	4,307
2015	2025	7,755
2016	2026	428,832
2017	2027	252,162
2018	2028	15,464
2019	2029	1,044,870
2020	2030	521,031
2021	2031	854,241
2022	2032	1,059,003
2023	2033	708,322
		<u>\$ 4,895,987</u>

As of December 31, 2023, Republic has USD\$ 316.1 million of tax loss carryforwards for federal tax purposes, of which USD\$ 196.7 million expires between 2033 and 2038; USD\$ 119.4 million of tax loss carryforwards expire indefinitely. USD\$ 280.1 million of losses for state and municipal purposes that expire between 2022 and 2040 approximately. USD\$ 6.6 million of tax losses in the company located in Canada, which expire between 2032 and 2040.

Below is a summary of the effects of the main temporary items that make up the deferred income tax liability included in the consolidated statement of financial position:

	December 31,	
	2023	2022
Deferred tax assets:		
Allowance for doubtful accounts	\$ (68,211)	\$ (67,930)
Advances from customers	208,805	464,268
Total deferred tax assets	<u>140,594</u>	<u>396,338</u>
Deferred tax liabilities:		
Property, plant and equipment	3,442,332	4,209,513
Intangible assets from Grupo San	399,050	381,282
Provisions	77,604	17,199
Prepaid expenses	45,294	11,493
Total deferred tax liabilities	<u>3,964,280</u>	<u>4,619,487</u>
Deferred tax liabilities, net	<u>\$ 3,823,686</u>	<u>\$ 4,223,149</u>

17. Stockholders' equity

a. Common stock as of December 31, 2023 and 2022, 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, 2023, and 2022, the legal reserve of the Company amounted to \$ 484,046 (nominal pesos), representing 20% of nominal stockholder's equity.
- c. As of December 31, 2023, and 2022, a reserve was approved for \$ 7,000,000 for the repurchase and placement of own shares (\$5,000,000 at December 31, 2021), 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, 2023, and 2022, the Company held 36,023,685 and 35,573,326 shares in treasury, respectively, which amounted to \$ 4,355,320 and \$ 4,266,278, respectively. The resulting loss in 2023 for the purchase and sale of treasury shares amounted to \$ 0 (the 0 in \$ 2022).
- d. A reconciliation of the number of shares outstanding shows below:

	Thousands of shares 2023	2022
Shares outstanding at beginning of year	462,136	462,581
Repurchase of capital shares, net	(450)	(445)
Shares outstanding at yearend	<u>461,686</u>	<u>462,136</u>

18. Non-controlling interest

As mentioned in Note 4, Grupo Simec, S.A.B. de C.V. owns substantially all of the capital stock of its subsidiaries, except for SimRep Corporation and subsidiaries, where it owns 99.41%. The non-controlling equity represents the participation in this subsidiary held by minority stockholders and is presented in the consolidated statement of financial position after controlling interest. The consolidated statement of comprehensive income presents net income or loss for the full year, as well as comprehensive income or loss for the full year. The distribution in controlling and non-controlling participation is presented after the consolidated comprehensive income for the year.

The table below shows the changes for the years ended December 31, 2023 and 2022:

	2023	2022
Balance at beginning of year	\$ 37,647	\$ 41,161
Share of profits and losses for the year	(8,793)	(1,612)

Share of translation effects of foreign subsidiaries	(4,013)	(1,902)
Balance at the end of the year	<u>\$ 24,841</u>	<u>\$ 37,647</u>

19. Other comprehensive income (loss)

	Conversion translation adjustment on foreign subsidiaries	Other equity instruments	Total
Balances as of January 1, 2022	1,288,278		1,288,278
Items that will not be recycled to profit and loss:			
Other equity instruments		(317,267)	(317,267)
Items that can be recycled to profit and loss:			
Conversion translation adjustment on foreign subsidiaries	(1,257,453)		(1,257,453)
Balances as of December 31, 2022	<u>\$ 30,825</u>	<u>\$ (317,267)</u>	<u>\$ (286,442)</u>
Items that will not be recycled to profit and loss:			
Other equity instruments		289,070	289,070
Items that can be recycled to profit and loss:			
Conversion translation adjustment on foreign subsidiaries	(2,659,039)		(2,659,039)
Balances as of December 31, 2023	<u>\$ (2,628,214)</u>	<u>\$ (28,197)</u>	<u>\$ (2,656,411)</u>

20. Transactions and balances with related parties

a. Transactions with related parties, carried out in the ordinary course of business, were as follows:

	2023	2022	2021
Holding company			
Interest income	79,473	55,848	34,447
Management staff			
Administrative services expenditures	133,970	275,063	113,018
Other related parties			
Sales	631,770	392,531	391,664
Purchases	220,884	253,931	40,081
Direct short-term benefits (*)	113,773	120,151	78,321

(*) 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:

		December 31,	
		2023	2022
Short-term			
Accounts receivable:			
Industrias CH, S.A.B. de C.V.	\$	62,055	\$ 62,055
Cía. Laminadora Vista Hermosa, S.A. de C.V.		628	974
Operadora Compañía Mexicana de Tubos, S.A. de C.V.		719	824
Compañía Manufacturera de Tubos, S.A. de C.V.		4	2,799
Cía. Tubos y Perfiles Monterrey, S.A. de C.V.		3,318	3,371
Operadora Perfiles Sigosa, S.A. de C.V.		4,108	3,999
Operadora Construalco, S.A. de C.V.		518	606
Aceros y Laminados Sigosa, S.A. de C.V.		1,638	16,473
Arrendadora Norte de Matamoros, S.A. de C.V.		1,294	1,294
Comercializadora Sigosa, S.A. de C.V.		2,080	0
Joist del Golfo, S.A. de C.V.		2,582	2,582
Holding Protel, S.A. de C.V.		30	304
Aceros CH, S.A. de C.V.		172	130
Sigosa Aceros, S.A. de C.V.		0	14
Siderúrgicos del Golfo, S.A. de C.V.		332	832
Perfiles Comerciales Sigosa, S.A. de C.V.		4,125	4,125
Pytsa Industrial de México. S.A. de C.V.		438	438
Ferrovisa, S.A. de C.V.		19,225	0
Acertam, S.A. de C.V.		785	785
Servicios Estructurales, S.A. de C.V.		3,241	3,047
Industrial Mexicana de Herramientas, S.A. de C.V.		739	0
Others		152	151
	\$	<u>108,183</u>	<u>\$ 104,803</u>
		December 31,	
		2023	2022
Long-term			
Accounts receivable:			
Industrias CH, S.A.B. de C.V.	\$	648,281	\$ 648,281
	\$	<u>648,281</u>	<u>\$ 648,281</u>
Loans to related parties:			
Industrias CH, S.A.B de C.V.	\$	1,044,318	\$ 959,153
Perfiles Comerciales Sigosa, S.A. de C.V.		125,612	145,910
	\$	<u>1,169,930</u>	<u>\$ 1,105,063</u>
Total, long-term	\$	<u>1,818,211</u>	<u>\$ 1,753,344</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.

Loans:

As of December 31, 2022, including the loan in USD converted to pesos, they were as follows, \$707,851 plus interest of \$217,357, plus IVA of \$33,945, resulting in a total of \$959,153. As of December 31, 2023, the balance increased due to interest plus VAT corresponding to fiscal year 2023.

As of December 31, 2023 and 2022, there is a balance pending collection derived from loan interest with Perfiles Comerciales Sigosa, S.A. de C.V. for \$125,612 and \$145,910 respectively, equivalent in dollars to (USD \$7,536,068). As of December 31, 2023, the balance decreased due to a payment that was made during the year.

	December 31,	
	2023	2022
Accounts payable:		
Aceros y Laminados Sigosa, S.A. de C.V.	\$ 4,143,	\$ 24,455
Industrias CH, S.A.B. de C.V.	214,671	245,388
Perfiles Comerciales Sigosa, S.A. de C.V.	3,802	3,802
Holding Protel, S.A. de C.V.	399	251
Compañía Laminadora Vista Hermosa, S.A. de C.V.	520	518
Operadora Perfiles Sigosa, S.A. de C.V.	2,800	2,800
Operadora Pytsa Industrial, S.A. de C.V.	7,933	8,353
Compañía Industrial Mexicana, S.A. de C.V.	570	0
Compañía Manufacturera de Tubos, S.A. de C.V.	13,345	9,837
Operadora Compañía Mexicana de Tubos, S.A. de C.V.	6,924	7,583
Sigosa Aceros, S.A. de C.V.	0	7
Cía. Mexicana de Perfiles y Tubos, S.A. de C.V.	595	595
Industrias Procarsa, S.A. de C.V.	139	139
Ferrovisa, S.A. de C.V.	577	7,069
Other	123	195
	<u>\$ 256,541</u>	<u>\$ 310,992</u>

These balances correspond to accounts payable for services and/or purchases of finished products specific to your activity.

Loans from related parties:

Operadora de Perfiles Sigosa, S.A. de C.V.	\$ 2,498,714	\$ 2,381,464
	<u>\$ 2,498,714</u>	<u>\$ 2,381,464</u>
	<u>\$ 2,755,255</u>	<u>\$ 2,692,456</u>

This balance corresponds to a current account loan granted by Operadora de Perfiles Sigosa, S.A. de C.V. (Sigosa), to be invested in Treasury Bonds; the interest derived from said investment upon expiration thereof, will be delivered to Sigosa.

21. Cost of sales and expenses by their nature

At the years ended at December 31, 2023, 2022 and 2021, the cost of sales and administration expenses consist of the following:

	2023	2022	2021
Raw materials and consumables	\$ 20,377,456	\$ 27,080,462	\$ 26,298,681
Electrical energy	2,326,649	2,586,918	3,530,134
Ferroalloys	1,883,923	2,232,759	2,396,516
Refractories	859,034	767,691	810,315
Oxygen	348,200	297,302	293,217
Electrodes	402,513	542,117	444,201
Gas and fuels	793,649	1,541,817	1,161,994
Labor	1,822,827	2,272,304	2,024,419
Operation materials	1,038,873	1,366,947	1,339,692
Depreciation and amortization	1,035,244	1,116,872	1,175,108
Maintenance	1,867,656	1,250,897	1,561,716
Other expenses	661,140	1,084,475	974,835
	<u>\$ 33,417,164</u>	<u>\$ 42,140,561</u>	<u>\$ 42,010,828</u>
	2023	2022	2021
Cost of sales	\$ 31,100,106	\$ 39,683,861	\$ 39,968,186
Administrative expenses	2,317,058	2,456,700	2,042,642
	<u>\$ 33,417,164</u>	<u>\$ 42,140,561</u>	<u>\$ 42,010,828</u>

22. Other income (expenses), net

The components of other income (expenses) net, in the years ended December 31, 2023, 2022 and 2021, are the following:

	2023	2022	2021
Cancellation of balances			\$ (157,834)
Land treatments in Pacific Steel, Inc.	\$ (5,045)	\$ (3,327)	(2,088)
Republic employee benefits provision	(140,989)	0	0
Bad debt estimate	(20,322)	(21,983)	(19,398)
Other expenses	(2,922)	0	0
Other expenses	<u>(169,278)</u>	<u>(25,310)</u>	<u>(179,320)</u>
Sale of scrap	2,601	2,450	9,993
Recovery of losses	9,892	327	9,623
Profits from inventory sales	28,959	85,597	64,915
Other income	8,280	8,781	17,383
Other income	<u>49,732</u>	<u>97,155</u>	<u>101,914</u>
Other income and other (expenses), net	<u>\$ (119,546)</u>	<u>\$ 71,845</u>	<u>\$ (77,406)</u>

23. 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,	
	2023	2022
Short - term assets	\$ 29,629,712	\$ 28,953,307
Short - term liabilities	11,472,797	10,367,193
Net monetary asset position in foreign currency	\$ 18,156,915	\$ 18,586,114
Equivalent in U.S. Dollars (thousands)	USD\$ 1,074,787	USD\$ 959,952

- d. **Credit risk management** - Credit risk refers to the risk that a counterpart 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,	
	2023	2022
Bank loans credit lines	\$ 200,000	\$ 200,000
Draw balances	166,408	169,035
Undrawn balances	\$ 33,592	\$ 30,965

24. 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 in Mexico, the United States and Brazil. The Mexican segment includes the plants in Mexicali, Guadalajara, Tlaxcala and San Luis Potosi. The USA segment includes seven Republic plants six 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 Brazilian segment includes the plants in Pindamonhangaba, Cariacica and Itauna. 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, 2023				
	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 24,777,369	\$ 2,417,219	\$ 13,944,660	\$	\$ 41,139,248
Cost of sales	(17,937,267)	(3,398,928)	(9,763,911)		(31,100,106)
Gross profit (loss)	6,840,102	(981,709)	4,180,749		10,039,142
Administrative expenses	(970,482)	(291,552)	(1,055,024)		(2,317,058)
Other income (expenses), net	16,319	(309,117)	173,252		(119,546)
Interest income and dividends	931,866	82,224	-	(82,224)	931,866
Interest expense Loss on financial instruments	(89,293)	(146,592)	(122,921)	269,513	(89,293)
Exchange rate gain (loss), net	(2,430,781)	(219)	(181,424)	181,424	(2,431,000)
Income (loss) before income taxes	4,297,731	(1,646,965)	2,994,632	368,713	6,014,111
Income taxes	(1,234,278)	144,630	(650,350)		(1,739,998)
Net income (loss) for the year	\$ 3,063,453	\$ (1,502,335)	\$ 2,344,282	\$ 368,713	\$ 4,274,113
Depreciation and Amortization	\$ 618,445	\$ 155,794	\$ 261,005		\$ 1,035,244
Total assets	43,890,081	9,069,596	18,203,408	\$ (4,375,473)	66,787,612
Total liabilities	6,912,766	4,602,653	9,842,201	(4,375,473)	16,982,147
Acquisitions of property, plant and equipment	210,422	(350,360)	2,632,611		2,492,673

Year ended December 31, 2022

	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 30,914,890	\$ 5,867,193	\$ 17,377,164	\$	\$ 54,159,247
Cost of sales	<u>(21,575,758)</u>	<u>(5,764,239)</u>	<u>(12,343,864)</u>		<u>(39,683,861)</u>
Gross profit (loss)	9,339,132	102,954	5,033,300		14,475,386
Administrative expenses	(1,096,330)	(286,611)	(1,618,151)	544,392	(2,456,700)
Other income (expenses), net	(71,202)	1,015,586	140,205	(1,012,744)	71,845
Interest income and dividends	415,704	30,175			445,879
Interest expense	(485)	(55,867)	(383,646)	383,646	(56,352)
Loss on financial instruments	(778,649)				(778,649)
Exchange rate gain (loss), net	<u>(540,770)</u>	<u>(58)</u>	<u>(60,625)</u>	<u>60,625</u>	<u>(540,828)</u>
Income (loss) before income taxes	7,267,400	806,179	3,111,083	(24,081)	11,160,581
Income taxes	<u>(2,565,834)</u>	<u>(88,679)</u>	<u>(645,009)</u>		<u>(3,299,522)</u>
Net income (loss) for the year	<u>\$ 4,701,566</u>	<u>\$ 717,500</u>	<u>\$ 2,466,074</u>	<u>\$ (24,081)</u>	<u>\$ 7,861,059</u>
Depreciation and Amortization	\$ 627,078	\$ 236,601	\$ 253,193		\$ 1,116,872
Total assets	44,025,917	12,930,111	14,149,332	\$ (3,472,457)	67,632,903
Total liabilities	8,375,028	7,243,113	7,492,843	(3,472,457)	19,638,527
Acquisitions of property, plant and equipment	151,783	252,116	1,292,586		1,696,485

Year ended December 31, 2021

	Mexico	USA	Brazil	Eliminations between segments	Total
Net sales	\$ 29,678,133	\$ 8,216,595	\$ 17,725,628	\$	\$ 55,620,356
Cost of sales	<u>(21,337,462)</u>	<u>(7,159,354)</u>	<u>(11,471,370)</u>		<u>(39,968,186)</u>
Gross profit (loss)	8,340,671	1,057,241	6,254,258		15,652,170
Administrative expenses	(907,798)	(256,875)	(877,969)		(2,042,642)
Other income (expenses), net	(77,530)	454,303	1,793	(455,972)	(77,406)
Interest income	65,631	317			65,948
Interest expense	(28,904)	(61,494)	(96,486)	99,439	(87,445)
Exchange rate gain (loss), net	<u>325,389</u>	<u>(378)</u>	<u>(120,300)</u>	<u>120,300</u>	<u>325,011</u>
Income (loss) before income taxes	7,717,459	1,193,114	5,161,296	(236,233)	13,835,636
Income taxes	<u>(2,472,751)</u>	<u>(477,380)</u>	<u>(1,439,638)</u>		<u>(4,389,769)</u>
Net income (loss) for the year	<u>\$ 5,244,708</u>	<u>\$ 715,734</u>	<u>\$ 3,721,658</u>	<u>\$ (236,233)</u>	<u>\$ 9,445,867</u>
Depreciation and amortization	\$ 667,167	\$ 270,119	\$ 237,822		\$ 1,175,108
Total assets	47,917,643	10,836,083	8,815,051	\$ (10,226,205)	57,342,572
Total liabilities	7,828,384	5,544,135	12,396,190	(10,226,205)	15,542,504
Acquisitions of property, plant and equipment	367,496	288,487	410,439		1,066,422

25. Contingencies

As of December 31, 2023, the Company has the following contingencies:

- a. Pacific Steel, Inc. (PS), a subsidiary located in National City in San Diego County, California, United States, 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. And has not been renewed.
- 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 submitted a proposal with a new work plan (IM Work Plan) to DTSC to conduct soil remediation on the BNSF Railway lease. On October 21, 2021, The Company submitted the final draft of the IM work plan which DTSC has agreed to that proposal or work plan, on May 31, 2022. No litigation was filed against the DTSC approval which is now final.

On December 6, 2022, the DTSC sent a letter requesting a preliminary study and a work plan implementation schedule, both documents were delivered on February 3, 2023. DTSC has not responded to either document.

On January 13, 2023, BNSF Railway issued a contract termination notice to PS, notifying BNSF’s unilateral termination of two lease contracts with PS which ended on February 12 and 22, 2023, through its legal counsel informed PS that no longer has access to BNSF Railway property. DTSC is entering into a voluntary agreement with BNSF to implement a work plan.

March 7, 2023, PS became aware that DTSC entered into a voluntary agreement with BNSF to implement the IM workplan on BNSF property.

We are informed that BNSF performed the IM workplan under DTSC’s supervision.

On June 29, 2023, BNSF filed suit against PS in the Southern District of California. (See *BNSF Railway Company v. Pacific Steel, Inc.*, 23CV1202 BEN KSC, United States District Court, Southern District of California.) BNSF’s complaint alleges causes of action for specific performance, breach of contract, breach of implied covenant of good faith and fair dealing, express contractual indemnity, nuisance, trespass, negligence, waste, equitable and implied indemnity, contribution under the Hazardous Substances Account Act, contribution under federal common law, and declaratory relief.

As of the date of these consolidated financial statements, we cannot estimate the costs of implementing the work plan of the provisional measures due to the uncertainty of whether BNSF or PS will implement the work and the DTSC authorizations to whom they designate and their approval date.

- b. As with most steel producers in United States, 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, USD\$ 2.5 million and USD\$ 2.5 million were recorded as of December 31, 2023, 2022 and 2021, 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, 2023, 2022 and 2021, the current and non-current portions of the reserve amounted to USD\$ 1.0 million, USD\$ 1.0 million and USD\$ 1.5 million, respectively, are included payable and accumulated liabilities in the short and long term, respectively, in the Consolidated Statements of Financial Position.

On February 6, 2023, The US EPA and the Company entered into a Consent Decree whereby the company is required to install certain emission controls at the Canton facility, conduct compliance testing and implement related monitoring and record keeping. Civil penalties of \$990.00

In December 2023, the U.S. EPA assessed a \$700,000 civil penalty on the Company related to violations of the U.S. Clean Water Act. Such penalty has been accrued in the other accrued expenses in the accompanying consolidated balance sheet as of December 31, 2023.

These penalties have been recorded as of December 31, 2023.

- 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 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 August 19, 2022, the Steelworkers Pension Trust filed suit against the Company in Pennsylvania Federal Court alleging the Company failed to pay the amount of certain monthly pension contributions to the Steelworkers Pension Trust. On January 4, 2023, the Pennsylvania Federal Court issued a decision in favor of the Steelworkers Pension Trust in the amount of \$1,274,075, as well as permitted the Steelworkers Pension Trust to seek additional amounts for unpaid contributions in November 2022.

Derived from the above, the Company, as of December 31, 2023, recognized a provision for USD \$8,345,769.

- j. 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 company was notified of the judgment. In March 2021, it was agreed with the actor to conclude the matter by paying USD \$ 450 thousand dollars, after several changes of dates, the payment was made on July 8, 2021.

- 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. This matter was settled during the year ended December 31, 2021.
- l. In connection with a sale 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.

Republic also received an appraisal notice dated December 11, 2020 for \$1,631,827 (including interest of \$339,885) covering the period January 1, 2014 to September 30, 2018.

The Company does not agree with the evaluations in their entirety and has filed a Petitions for Reassessment on January 30, 2017, February 9, 2022 and in September 2022 appealing the assessments to 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 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 2023, 2022 or 2021 that recognizes the evaluation or any estimated amount of liquidation.

26. Commitments

- a. 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. In January 2021, the company entered into a similar agreement with NRG Curtailment Solutions, Inc. with a term of five years. The Company recognized an income for both contracts in 2022, 2021 and 2020 for USD \$ 0.6 million, USD\$ 1.2 million and USD \$ 1.1 million, respectively.
- b. On February 22, 2018, a contract was signed with Primal Technologies of Italy, United States 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. By August 2023 there is an optimal production mix of corrugated rebar and light structures. Naturally, the COVID pandemic delayed significantly the process. USD \$25.5 million from budget has already been spent.
- c. On December 20, 2020, we purchased the Itauna plant by Cia. Siderúrgica de Espírito Santo, S.A. to Companhia Itaunense Energia y Participacoes Imueble y Equipo Imueble, located on Rua Clara Chaves at villa Santa Maria, Itauna city, committing to pay R\$ 4.0 million reais per month, up to a total value of R\$ 105.0 million reais, such payments have to be made until June 2022.
- d. In Brazil, contracts have been made for the purchase of electric energy in a general way and are distributed among the plants in Brazil, these contracts have different terms as of June 30, 2023 the supplier NEWCOM with an amount of R\$ 9.48 million, the supplier ENEL with an amount of R\$ 17.05 million, with a termination date of December 31, 2023 the following suppliers NEWCOM with an amount of R\$ 33.9 million, and AMERICA with an amount of R\$ 16.5 million.

With CESP/AUREN we have three purchase agreement for R\$ 4.336 million, 4.021 million, 3.981 million with a termination date on December 31, 2024, 2025 and 2026 respectively. With EN EL TRADING BRASIL S.A. six contracts, two per year with a value of R\$ 101.4 million, 90.0 million, 90.9 million with a termination date on December 31, 2024, 2025 and 2026 respectively. With AES three contracts, one per year with a value of R\$ 60.1 million, 56.3 million, 59.9 million with a termination date on December 31, 2024, 2025 and 2026 respectively.

For our facilities in Brazil, the following suppliers are: continues to hold power purchase agreements with different termination dates as of December 31, 2024 with the supplier Newcom for R\$ 24.9 million, with AMÉRICA for R\$ 16.5 million, with SQUADRA for R\$ 12.66 million and R\$ 7.68 million with a termination date of December 2025.

27. 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. 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, The dumping rate that was established was 4.93% published in September 2021 for which the company made a payment of USD \$ 189 thousand dollars on March 30, 2022.

The Department of Commerce reported that there was an error in the 4.93 rate, so the case was taken to court and antidumping evidence will be presented again. This will be done in July 2024.

On January 6, 2021, the dumping review process began for the period from November 1, 2019 to October 31, 2020. On November 30, 2021, the DOC published a preliminary dumping rate for the Company of 66.70% arguing and/or justifying deficiencies in the information, the Company decided to appeal this result. The appeal is in process.

On December 7, 2022, the US Department of Commerce (USDOC) published in the Federal Register the rate of 6.35% as a preliminary result of the antidumping process for rebar producers and exporters, in the period from November 1, 2020 to October 31, 2021, the final result must be published by the USDOC no later than June 2023, so the company will be subject to the payment of this countervailing fee for rebar exports for one year.

28. Consolidated financial statements issuance

These consolidated financial statements have been issued on October 25, 2023 by C.P. Sergio Vigil González 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.