Exchange Rates

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

Exchange Rates

Year Ended December 31	High	Low	Average (1)	Period End
2005	11.41	10.41	10.89	10.63
2006	11.46	10.43	10.91	10.80
2007	11.27	10.67	10.93	10.92
2008	13.94	9.92	11.14	13.83
2009	13.94	13.17	13.51	13.06
Month	**High**	**Low**	**Average (1)**	**Period End**
March 2010	12.74	12.30	12.57	12.30
April 2010	12.41	12.16	12.24	12.23
May 2010	13.14	12.27	12.73	12.86
June 2010	12.92	12.46	12.71	12.84
July 2010	13.08	12.64	12.80	12.64
August 2010	13.17	12.54	12.77	13.17

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

Except for the period from September through December 1982, during a liquidity crisis, the Mexican Central Bank has consistently made foreign currency available to Mexican private-sector entities (such as us) to meet their foreign currency obligations. Nevertheless, in the event of renewed shortages of foreign currency, there can be no assurance that foreign currency would continue to be available to private-sector companies or that foreign currency needed by us to service foreign currency obligations or to import goods could be purchased in the open market without substantial additional cost.

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business

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

Prices for raw materials necessary for production have fluctuated significantly in the past and significant increases could adversely affect our margins. During periods when prices for scrap metal, iron ore, alloys, coke and other important raw materials have increased, our industry historically has sought to maintain profit margins and pass along increased raw materials costs to customers by means of price increases. In 2008 prices of scrap metal increased approximately 57% and decreased 24% in 2009, prices of ferroalloys increased approximately 19% in 2008 and decreased 43% in 2009, electricity prices increased approximately 36% in 2008 and 17% in 2009 and gas prices increased in real terms approximately 28% in 2008 and 10% in 2009.

We may not be able to pass along these and other possible cost increases in the future and, therefore, our margins and profitability may be materially and adversely affected. Even when we can successfully apply surcharges, interim reductions in profit margins frequently occur due to a time lag between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that any of our future customers will agree to pay increased prices based on surcharges or that any of our current customers will continue to pay such surcharges.

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

As part of our growth strategy, we may need to expand our existing facilities, build additional plants, acquire other steel assets, enter into joint ventures or form strategic alliances that we expect will expand or complement our existing business. If any of these transactions occur, 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.

Our operations are capital intensive. We require capital for, among other purposes, acquiring new equipment, maintaining existing equipment and complying with environmental laws and regulations. We may not be able to fund our capital expenditures from operating cash flow or from borrowings. If we are unable to fund our capital requirements we may not be able to implement our business plan.

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. Acquisitions involve a number of special risks that could adversely affect our business, financial condition and results of operations, including the diversion of management's attention, the assimilation of the operations and personnel of the acquired facilities, 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. If we determine to make any significant acquisition, we may be required to sell additional equity or debt securities or obtain additional credit facilities, which could result in additional dilution to our stockholders. There can be no assurance that adequate equity or debt financing would be available to us for any such acquisitions.

We may not be able to integrate successfully our recently acquired steel facilities into our operations.

In May 2008, we acquired 100% of the shares of Corporación Aceros DM, S.A. de C.V. and certain of its affiliates ("Grupo San"). Grupo San is a long products steel mini-mill and the second-largest corrugated rebar producer in Mexico in terms of production volume. Grupo San's plants and 1,450 employees produce 700,000 tons of finished products annually. Our future success will depend in part on our ability to integrate the operations of Grupo San successfully into our historic operations. Furthermore, we cannot assure you that we will not encounter unexpected problems related to these acquired businesses, and if we do, the unbudgeted costs of addressing any such problems could be significant.

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

In connection with the preparation of our financial statements as of and for the year ended December 31, 2009, we and our auditors identified material weaknesses (as defined under standards established by the Public Company Accounting Oversight Board) in our internal controls over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Specifically, due to the growth of our operations in Mexico during 2008 primarily as a result of our acquisition in May 2008 of Corporación Aceros D.M. S.A. de C.V., the structure of our finance department proved to be insufficient insofar as it did not allow for adequate segregation of duties with respect to the supervision and review procedures for the assessment of deferred taxes and for the closing of our financial statements. The personnel of our finance department also lacked the requisite level of knowledge and specialization to calculate asset impairments and conversion between MFRS and U.S. GAAP and the conversion of the financial statements of our foreign subsidiaries to MFRS. Our continuing growth also had an adverse impact on our ability to maintain adequate control over our preparation of consolidated financial information which had become more complex. The preparation of consolidated financial information was carried out through the use of electronic Excel sheets and a partially integrated system which relied on the use of different software by various subsidiaries, rather than through a company-wide, integrated consolidation system. The situation did not allow a proper supervision of the consolidation process during 2009.

We invoiced in Mexico certain materials that were paid for in 2009 but shipped in 2010. This occurred due to a failure of a manual key control regarding our revenue recognition process. See Item 15.B “Controls and Procedures—Management’s Annual Report on Internal Control Over Financial Reporting” below.

On April 29, 2010, our external auditor notified our Audit and Corporate Practices Committee (“Audit Committee”) and certain members of the management of Republic Engineered Products, Inc. that it had identified, during its audit of the financial statements of SimRep and its subsidiaries for the year ended December 31, 2009, what it considered, under standards established by the Public Company Accounting Oversight Board, to be material weaknesses in internal control over financial reporting at the SimRep evaluation level. Specifically, our external auditor noted material weaknesses with regard to what it characterized as “management override of internal controls.” See Item 15.B “Controls and Procedures—Management’s Annual Report on Internal Control Over Financial Reporting” below.

On April 29, 2010, our external auditor also noted material weaknesses in internal control over financial reporting with regard to SimRep’s adherence to its written policies with regard to accounting for working capital and fixed asset accounts. See Item 15.B “Controls and Procedures—Management’s Annual Report on Internal Control Over Financial Reporting” below.

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

On September 3, 2010, our Audit Committee adopted the following remedial measures to address these material weaknesses, which measures are reasonably likely to materially affect our internal controls over financial reporting:

- Republic’s senior management will now report directly to our CFO on all general accounting and financial reporting matters.
- Republic’s CFO will continue to report to and collaborate with Republic’s CEO on other matters.
- Republic’s CEO and the Director General of Industrias C.H. S.A.B. de C.V. will certify annually that they understand that Republic’s accounting staff is obligated to adhere to U.S. GAAP and that they are not permitted to instruct Republic’s accounting personnel about the accounting treatment of any matter.
- Republic will hire a professional to oversee testing of internal controls for purposes of the Sarbanes-Oxley Act of 2002, including testing related to information technologies, and a member of our audit team will perform an on-site review of Republic’s internal controls at least twice a year.
- We will retain a third party consultant to evaluate what additional resources are needed by Republic’s accounting department.
- Republic will revamp its current

whistleblower procedures to enable members of Republic's accounting staff to anonymously report problems directly to our internal audit department.

For further information, see Item 15.D "Controls and Procedures—Changes in Internal Control Over Financial Reporting" below.

Furthermore, also as a result of our evaluation of the effectiveness of our internal controls in Mexico for the year ended December 31, 2009 and the material weakness and deficiencies identified during that period, we have conducted an analysis of functions and workloads in our finance department and we are implementing additional changes that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. For further information, see Item 15.D "Controls and Procedures—Changes in Internal Control Over Financial Reporting" below.

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

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

Competition in the steel industry is significant. Continuous advances in materials sciences and resulting technologies have given rise to products such as plastics, aluminum, ceramics and glass, all of which compete with steel products. Competition in the steel industry exerts a downward pressure on prices, and, due to high start-up costs, the economics of operating a steel mill on a continuous basis may encourage mill operators to establish and maintain high levels of output even in times of low demand, which further decreases prices and profit margins. The recent trend of consolidation in the global steel industry may increase competitive pressures on independent producers of our size if large steel producers formed through consolidations adopt predatory pricing strategies that decrease prices and profit margins even further. If we are unable to remain competitive with these producers, our market share and financial performance would likely be materially and adversely affected.

Until 2008, most of our sales were in the United States and Canada. However, in 2009 approximately 63% of our sales were in Mexico (which include 6% of exports) where we face strong competition from other Mexican steel producers. A number of our competitors in the United States, Canada and Mexico have undertaken modernization and expansion plans, including the installation of production facilities and manufacturing capacity for certain products that will 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 the United States, Canada and Mexico 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 gross margins and net income.

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

A substantial part of our operations are outside the United States, and we export products from those facilities to the United States. In recent years, the U.S. government has imposed anti-dumping and countervailing duties against Mexican and other foreign steel producers, but has not imposed any such penalties against us or our products. In the first quarter of 2002, the U.S. government imposed tariffs of 15% on rebar and 30% on hot rolled bar and cold finish bar against imports of steel from all the countries with the exception of Mexico, Canada, Argentina, Thailand and Turkey; in the first quarter of 2003, the tariffs were reduced to 12% on rebar and 24% on hot rolled bar and cold finish bar, and these tariffs were eliminated in late 2003, prior to their originally scheduled termination date. There can be no assurance that anti-dumping or countervailing duties suits will not be initiated against us, or that the U.S. government will not impose tariffs on steel imports from Mexico, and if this were to occur it could materially and adversely affect our results of operations.

In September 2001, the Mexican government imposed tariffs of 25% against imports for all products that we produce from all countries with the exception of those which have a free trade agreement with Mexico, which includes the United States. In April 2002, the Mexican government increased these tariffs to 35%. These tariffs have subsequently been reduced over time and are currently 7% for steel products. There can be no assurances that these tariffs will not be further reduced or eliminated or that countries seeking to export steel products to Mexico will not impose similar tariffs on Mexican exports to those countries, and in either case such developments could have a material adverse effect on our financial condition and results of operations.

We depend on distributions from our Mexican operating subsidiaries to finance our operations.

We need to receive sufficient funds from our Mexican subsidiaries for a substantial portion of our internal cash flow, including cash flow to fund any future investment plans and to service our future financial obligations. As a result, our cash flow will be materially and adversely affected if we do not receive dividends and other income from our subsidiaries. The ability of most of our subsidiaries to pay dividends and make other transfers to us may be restricted by any indebtedness that we may incur or by Mexican law. Any such reduction in cash flow could materially adversely affect us.

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

At December 31, 2009, approximately 82% of our non-Mexican and 52% of our Mexican employees were members of unions. Collective bargaining agreements are typically negotiated on a facility by facility basis for our Mexican facilities. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material and adverse effect on our results of operations and financial condition. Labor disruptions, strikes or significant negotiated wage increases could reduce our sales or increase our cost, and accordingly could have a material adverse effect on our business.

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

The operations of our Lackawanna facility depend on certain easements and other recorded agreements relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. These service and utility arrangements, initially entered into with the Mittal Steel Company N.V. (“Mittal Steel”), were effective through April 30, 2009. In 2009, however, Mittal Steel transferred its Lackawanna Plant to Tecumseh Redevelopment, Inc. (“Tecumseh”), and as a result we are currently negotiating with Tecumseh to extend these services and utility arrangements. These services and utility arrangements are currently scheduled on a month-to-month basis. If Tecumseh completely ceases to supply a particular utility service prior to the end of the current term, Tecumseh shall notify Republic sixty days prior to their intent to send a discontinuation notice and must deliver such written notice at least ninety days prior to such cessation. Within thirty days of the receipt of any such discontinuation notice, Republic can exercise its right to purchase the Tecumseh water system, in which event Republic agrees to pay Tecumseh the fair market value of the water system as determined by the average fair market value established by three independent appraisers. These rights are essential to the use and operation of our Lackawanna facility. In the event of a termination of any of these rights, due to a failure to negotiate a satisfactory outcome with Tecumseh or an inability to pay the value assigned by the independent appraisers, or for any other reason, we could be required to cease all or substantially all of our operations at the Lackawanna facility. Because we produce certain types of products in our Lackawanna facility that we do not produce in our other facilities, an interruption of production at our Lackawanna facility would result in a substantial loss of revenue and could damage our relationships with customers.

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

Our sales in the U.S. are concentrated among a relatively small number of customers. Any of our major customers can stop purchasing our products or significantly reduce their purchases at any time. For the year ended December 31, 2008, direct sales of our products to one of our customers, United States Steel Corporation (“U.S. Steel”), accounted for approximately 20% of our revenues in the U.S., while in 2009 the sales to this customer represented less than 1% of our U.S. revenues. Sales to U.S. Steel represented approximately 11% of our consolidated revenues for 2008. In 2009, sales to U.S. Steel were immaterial to our consolidated revenues. During the years ended December 31, 2008 and 2009, sales to our ten largest customers in the U.S. accounted for approximately 54% and 39% of our consolidated revenues in the U.S., respectively, and approximately 16% and 31% of our total consolidated revenues, respectively. A disruption in sales to one or more of our largest customers would adversely affect our cash flow and results of operations. Starting in the fourth quarter of 2008, due to the U.S. financial crisis and the ensuing worldwide economic recession, all of our top ten customers have suffered reduced demand for their products. This reduction in demand has in turn adversely affected our cash flow and results of operations. During 2009 the sales to the automotive industry dropped by 37%, and the collapse of the energy market had the largest impact on our business as the energy market accounted for 22% of our business in 2008 and less than 1% in 2009 as sales dropped by over $350 million to U.S. Steel alone.

There can be no assurance that we will be able to maintain our current level of sales to our largest customers or that we will be able to sell our products to other customers on terms that will be favorable. The loss of, or substantial decrease in the amount of purchases by, or a write-off of any significant receivables from, any of our major customers would materially and adversely affect our business, results of operations, liquidity and financial condition.

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

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

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

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

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

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

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

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

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

We may be required to remediate contamination at certain of our facilities and have established a reserve to deal with such liabilities. However, we cannot assure you that our environmental reserves will be adequate to cover such liabilities or that our environmental expenditures will not differ significantly from our estimates or materially increase in the future. Failure to comply with any legal obligations requiring remediation of contamination could result in liabilities, imposition of cleanup liens and fines, and we could incur large expenditures to bring our facilities into compliance.

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

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

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

As of December 31, 2009, Industrias CH, which the chairman of our board of directors, Rufino Vigil González, controls, owned approximately 84% of our shares. Industrias CH nominated and elected all of the current members of our board of directors, and Industrias CH continues and, will continue to be in a position to elect our future directors and to exercise substantial influence and control over our business and policies, including the timing and payment of dividends. The interests of Industrias CH may differ significantly from those of other shareholders. Furthermore, as a result of the significant equity position of Industrias CH, there is currently limited liquidity in our series B shares and ADSs.

We have had a number of transactions with our affiliates.

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

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

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

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

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

Risk Factors Concerning the Current Global Recession

The global recession has significantly impacted our business.

The economic downturn that began in the United States in late 2007 led to a worldwide economic recession following the financial crisis precipitated by the collapse of Lehman Brothers Holdings Inc. in September of 2008. Since this time period overall economic activity has decreased across the world generally and in North America in particular. The corresponding reduction in demand across the economy in general and in the automotive, manufacturing and construction sectors in particular has reduced demand for steel products in North America and globally. The volatile global economic climate is having significant negative effects on our business and our forward view is limited because of low order backlogs and short lead times. All parts of our business have been impacted and such impacts have created certain new risks and have also affected the other risks set forth below.

In 2009, the decreased demand in the construction sector had an negative impact in the San Luis facilities, since these facilities produce mostly rebar and mesh. When assessing the recoverability of the goodwill and other intangibles, we must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. As of December 31, 2009, this reporting unit did not exceed its respective carrying value; therefore, we determined there was an impairment of goodwill in the amount of Ps. 2,368 million in the Grupo San unit. We believe that this was generally caused by the general economic environment. Assumptions used in the analysis considered the current market conditions in developing short and long-term growth expectations. A key assumption made is that, in general, business activity was lower in 2009 and 2008 and will recover somewhat in 2010.

Our end product markets have been severely affected.

We sell our products to the automotive and construction-related industries, both of which have reported substantially lower customer demand due to the ongoing global recession. As a result, our operating levels have fallen and will remain at depressed levels until our customers’ demand increases. In addition to slackening demand by end customers, we believe that some of our customers are experiencing difficulty in obtaining credit or maintaining their ability to qualify for trade credit insurance, resulting in a further reduction in purchases and an increase in our credit risk exposure. The duration of the recession and the trajectory of the recovery for these industries may have a significant impact on our operations.

We may face increased risks of customer and supplier defaults.

There is an increased risk of insolvency and other credit related issues of our customers, particularly those in hard hit industries such as automotive, construction and appliance. Also, there is the possibility that our suppliers may face similar risks. This decrease in available credit may increase the risk of our customers defaulting on their payment obligations to us and may cause some of our suppliers to be delayed in filling or to be unable to fill our needs.

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

Direct sales of products to automotive assemblers and manufacturers accounted for approximately 37% of our net sales of SBQ in 2009. Demand for our products is affected by, among other things, the relative strength or weakness of the U.S. automotive industry. U.S. automotive manufacturers have experienced significant reductions in market share to mostly Asian companies and have announced planned reduction in working capacity. Many large original equipment manufacturers such as Dana Corporation, Delphi Corporation (“Delphi”) and others, have sought bankruptcy protection. In addition, two of the largest U.S. automobile manufacturers have recently filed for bankruptcy. Chrysler LLC filed for Chapter 11 bankruptcy protection on April 30, 2009 and emerged from Chapter 11 protection on June 10, 2009. General Motors Corporation filed for Chapter 11 bankruptcy protection on June 1, 2009 and emerged from Chapter 11 protection on July 10, 2009. While both companies have emerged from bankruptcy protection, they have significantly reduced their manufacturing and sales capacities. A reduction in vehicles manufactured in North America, the principal market for Republic’s SBQ steel products, would have an adverse effect on our results of operations. We also sell to independent forgers, components suppliers and steel service centers, all of which sell to the automotive market as well as other markets. Developments affecting the U.S. automotive industry may adversely affect us.

Our customers in the automotive industry continually seek to obtain price reductions from us. These price reductions may adversely affect our results of operations and financial condition.

A challenge that we and other suppliers of intermediary products used in the manufacture of automobiles currently 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 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 and financial condition could be adversely affected.

Risks Related to the Steel Industry

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

The steel industry is cyclical in nature and sensitive to national and international macroeconomic conditions. Global demand for steel as well as overall supply levels significantly influence prices for our products. Changes in these two factors likely will impact our operating results. Although global steel prices increased significantly during 2004, they fell in 2005 over 2004 levels, increasing again in first three quarters of 2006, but weakening in the last quarter of 2006. In 2007, steel prices remained similar to prices in 2006. In 2008, global steel prices increased during the first three quarters of 2008, but weakened in the last quarter of 2008 and 2009. In 2010, global steel prices increased again. In the first quarter of 2010, these prices increase by 5% compared to the first quarter of 2009 and 11% compared to the fourth quarter of 2009. We cannot predict or give any assurance as to prices of steel in the future.

The costs of ferrous scrap and iron ore, the principal raw materials used in our steel operations, are subject to price fluctuations. Although our wholly-owned scrap collection and processing operations furnish a material portion of our scrap requirements, we must acquire the remainder of our scrap from other sources. Because increases in the prices we are able to charge for our finished steel products may lag increases in ferrous scrap prices, such increases in scrap prices can adversely affect our operating results. In 2004, the price of scrap increased significantly. However, scrap prices decreased significantly in 2005 over 2004 levels. In 2006, scrap prices remained similar to 2005 levels. Scrap prices increased in 2007 and 2008. In 2009, scrap prices decreased significantly. There can be no assurance that scrap prices will not increase and, if so, there can be no assurance that we will be able to pass all or a portion of these increases on through higher finished product prices.

We purchased 50% of our iron ore pellet and 100% of our coke requirement on the open market. In 2004, U.S. Steel supplied essentially all of Republic's iron ore and coke requirements under terms of a supply agreement that was beneficial to us. In 2005, the prices of these materials increased when we negotiated new contracts with U.S. Steel, and purchased more of the material in the open market. In 2006, iron ore and coke prices decreased from 2005 levels. Iron ore and pellet prices increased in 2007. Iron ore and coke prices increased significantly in 2008. We cannot give you any assurance that we will be able to continue to find suppliers of these raw materials in the open market, that the prices of these materials will not increase or that the quality will remain the same. Moreover, we cannot give you any assurance that we will be able to pass all or a portion of higher raw material prices on through finished product prices. In 2009 we did not purchase any coke or pellets, since our Lorain, Ohio blast furnace facility was idle during 2009.

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

Energy costs constitute a significant and increasing component of our costs of operations. Energy cost as a percentage of direct cost was 9.40% for the year ended December 31, 2009 and 9% for the first quarter of 2010. Our manufacturing processes are dependent on adequate supplies of electricity and natural gas. A substantial increase in the cost of natural gas or electricity could have a material adverse effect on our margins. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales levels.

The Mexican government is currently the only supplier of energy in Mexico and has, in some cases, increased prices above international levels. We, like all other high volume users of electricity in Mexico, pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or "CFE") for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, ("PEMEX"), the national oil company, for gas used at the Guadalajara facility. There can be no assurance these special rates will continue to be available to us or that these rates may not increase significantly in the future. We enter into futures contracts to fix and reduce volatility of natural gas prices. We have not always been able to pass the effect of these increases on to our customers and there is no assurance that we will be able to pass the effect of these increases on to our customers in the future or to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of natural gas would materially and adversely affect our business and results of operations. As of December 31, 2009, the Company has contracted derivative financial instruments in Mexico for hedging purposes to cover the risk of fluctuations in the price of natural gas (swaps) with PEMEX Gas and Basic Petrochemicals (PGBP), Gas Natural TETCO (TETCO) Natgasmex, SA of C.V. (Natgasmex) Ecogas Mexico, S of the R. L C. V. (ECOGAS).

Competition from other materials could significantly reduce market prices and demand for steel products and thereby reduce our cash flow and profitability.

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

Risks Related to Mexico

Mexican governmental, political and economic factors may adversely impact our business.

The Mexican government has exercised, and continues to exercise, significant influence over the Mexican economy. Accordingly, Mexican governmental actions concerning the economy and state-owned enterprises could have a significant impact on Mexican private sector entities in general and us, in particular, and on market conditions, prices and returns on Mexican securities, including ours.

Our financial condition, results of operations and prospects may also be adversely affected by currency fluctuations, inflation, interest rates, regulation, taxation, social instability and other political, social and economic developments in or affecting Mexico. There can be no assurance that future developments in the Mexican political, economic or social environment, over which we have no control, will not have a material adverse effect on our business, results of operations, financial condition or prospects or adversely affect the market price of the ADSs and the series B shares.

The Mexican economy has in the past experienced balance of payment deficits and shortages in foreign exchange reserves. While the Mexican government does not currently restrict the ability of Mexican or foreign persons or entities to convert pesos to foreign currencies generally, and to U.S. dollars in particular, it has done so in the past and no assurance can be given that the Mexican government will not institute a restrictive exchange control policy in the future. The effect of any exchange control measures adopted by the Mexican government on the Mexican economy cannot be predicted.

In the Mexican national elections held on July 2, 2000, Vicente Fox of the *Partido Accion Nacional* (the National Action Party) or PAN, won the presidency. His victory ended more than 70 years of presidential rule by the *Partido Revolucionario Institucional* (the Institutional Revolutionary Party) or PRI. Neither the PRI nor the PAN succeeded in securing a majority in either house of the Mexican Congress. Further, elections held in 2003 and 2004, resulted in a reduction in the number of seats held by the PAN in the Mexican Congress and state governorships. The resulting gridlock impeded the progress of structural reforms in Mexico.

On July 2, 2006, Mexico held presidential and federal congressional elections, and Felipe Calderón Hinojosa, the PAN candidate, won by a very narrow margin. However, the *Partido de la Revolución Democrática* (the Revolutionary Democratic Party or PRD), the leading opposition party, has contested the results of the election. On September 6, 2006, the Tribunal *Electoral del Poder Judicial de la Federación* (the Federal Electoral Chamber) unanimously declared Mr. Calderón to be the president-elect whose term as president will run from December 1, 2006 until November 30, 2012.

High incidences of crime in Mexico, and drug trafficking in particular, could adversely affect our business.

Beginning in early 2007, following the election of Felipe Calderón Hinojosa, there has been a national government policy which has involved a concentrated effort on the part of the Mexican Federal Police and military to combat narco-trafficking cartels within Mexico. This increase in government pressure in turn led to a response in violence from well armed narco-traffickers, and the result has been an overall increase in narcotics related violence during 2008 and 2009. A recent travel alert issued by the

U.S. Department of State (Bureau of Consular Affairs) on May 6, 2010 (the “Travel Alert”), provides information for U.S. citizens on security issues in Mexico. According to the Travel Alert, violent criminal activity fueled by an increasingly violent conflict (both among Mexican drug cartels and between such cartels and Mexican security services) for control of narcotics trafficking routes continues along the U.S.-Mexico border and throughout other parts of Mexico. The Travel Alert reports that large firefights, involving the Mexican army, police and the drug cartels, have taken place in many towns and cities across Mexico and most recently in northern Mexico, including Tijuana, Chihuahua, Ciudad Juarez, Monterrey, Reynosa and other cities. Although attacks are aimed primarily at members of drug trafficking organizations and Mexican police forces, Mexican and foreign bystanders, including U.S. citizens, have been among the victims of violent attacks, homicides and kidnappings across Mexico. According to the Travel Alert, moreover, a number of areas along the border are experiencing rapid growth in the rates of many types of crime such as robberies, homicides, petty thefts, and carjackings.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of swine flu or another epidemic or outbreak. In April 2009, an outbreak of swine flu occurred in Mexico and the United States and there have also been cases reported in China and elsewhere in Asia. Any prolonged occurrence or recurrence of swine flu or other adverse public health developments in Mexico may have a material adverse effect on our business operations. Our operations may be impacted by a number of health-related factors, including, among other things, quarantines or closures of our facilities, which could severely disrupt our operations, the sickness or death of our key officers and employees, and a general slowdown in the Mexican economy. Any of the foregoing events or other unforeseen consequences of public health problems could adversely affect our business and results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of swine flu or any other epidemic.

High levels of inflation and interest rates in Mexico, and weakness in the Mexican economy, could adversely impact our financial condition and results of operation.

In the past, Mexico has experienced high levels of inflation and high domestic interest rates. If the Mexican economy falls into a recession, or if inflation and interest rates increase, consumer purchasing power may decrease, and as a result, demand for steel products may decrease. In addition, a recession could affect our operations to the extent we are unable to reduce our costs and expenses in response to falling demand. Furthermore, our growth strategy of acquiring other companies and assets may be impaired in the future if interest rates increase, and we are not able to obtain acquisition financing on favorable terms. These events could materially and adversely affect our business, results of operations, financial condition or prospects.

Devaluation or depreciation of the peso against the U.S. dollar may adversely affect the dollar value of an investment in the ADSs and the series B shares, as well as the dollar value of any dividend or other distributions that we may make.

Fluctuations in the exchange rate between the peso and the U.S. dollar, particularly peso depreciations, may adversely affect the U.S. dollar equivalent of the peso price of the Series B shares on the Mexican Stock Exchange. As a result, such peso depreciations will likely affect our revenues and earnings in U.S. dollar terms and the market price of the ADSs. Exchange rate fluctuations could also affect the depositary’s ability to convert into U.S. dollars, and make timely payment of, any peso cash dividends and other distributions paid in respect of the Series B shares.