B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

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

Risks Related to Our Business

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

The steel industry is highly cyclical and sensitive to regional and global macroeconomic conditions. Global demand for steel as well as global production capacity levels significantly influence prices for our products, and changes in global demand or supply for steel in the future will likely impact our results of operations. Steel prices are sensitive to macroeconomic fluctuations in the global economy, and substantial price decreases during periods of economic weakness have not always been offset by price increases during periods of economic strength. The steel industry has suffered in the past, especially during downturn cycles, from substantial over-capacity relative to local demand. Currently, as a result of the increase in steel production capacity in recent years, there are signs of excess capacity in steel markets, which is impacting the profitability of the steel industry. Global steel prices decreased in 2013, 2014 and 2015, and global steel prices recovered in 2016, 2017 and 2018. During 2019, global steel prices decreased, a trend which accelerated due to the global COVID-19 pandemic in the first quarter of 2020, although pricing levels have started to recover. We cannot give you any assurance as to prices of steel in the future.

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

Prices for raw materials necessary for production of our steel products have fluctuated significantly in the past and may do so in the future. Significant increases in raw material prices could adversely affect our gross profit. During periods when prices for scrap metal, iron ore, ferroalloys, coking coal and other raw materials have increased, our industry has historically sought to maintain profit margins by passing along increased raw material costs to customers by means of price increases. For example, prices of scrap metal in 2015 decreased approximately 16%, in 2016 increased approximately 2%, in 2017 increased approximately 31%, in 2018 increased approximately 19% and in 2019 decreased approximately 20%; while prices of ferroalloys in 2015 decreased approximately 9%, in 2016 decreased approximately 13%, in 2017 increased approximately 22%, in 2018 increased approximately 10% and in 2019 increased approximately 1%. We may not be able to pass along these and other cost increases in the future and, therefore, our profitability may be materially and adversely affected. Even when we can successfully increase our prices, interim reductions in profit margins frequently occur due to a time lag between the increase in raw material prices and the market acceptance of higher selling prices for finished steel products. We cannot assure you that our customers will agree to pay increased prices for our steel products that compensate us for increases in our raw material costs.

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

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

As of December 31, 2019, we had 136,541 metric tons of coking coal inventory, which is one of the principal raw materials used in blast furnaces. We have not used this raw material in recent years because our Lorain, Ohio blast furnace facility has been idle since 2008. We intend to start using coking coal as a substitute for coal in our productive process in our other plants in Mexico and the United States. However, we cannot assure you that we will be able to effectively utilize such inventory.

We have assigned a fair market value of Ps. 747 million (U.S.$39.6 million) to our coking coal inventory as of December 31, 2019. However, prices for coking coal have fluctuated significantly in the past and could continue to do so in the future and significant fluctuations in coking coal prices could adversely affect the value of our existing inventory.

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

Energy costs constitute a significant and increasing component of our costs of operations. Our energy cost was 14.3% of our manufacturing costs for 2019 compared to 12.4% for 2018, 13.1% for 2017, 13.5% for 2016 and 13% for 2015. Our energy costs are driven by the dependence of our production processes on adequate supplies of electricity and natural gas. A substantial increase in the cost of electricity or natural gas could have a material adverse effect on our gross profit. In addition, a disruption or curtailment in supply could have a material adverse effect on our production and sales. Prices for electricity decreased approximately 12% in 2015, in 2016 increased approximately 1.5%, in 2017 increased approximately 22%, in 2018 increased approximately 14% and in 2019 increased approximately 1%; and prices for natural gas decreased approximately 23% in 2015, increased approximately 8% in 2016, increased approximately 22% in 2017, increased approximately 28% in 2018 and increased approximately 1.8% in 2019.

We pay special rates to the Mexican federal electricity commission (*Comisión Federal de Electricidad* or “CFE”) for electricity. We also pay special rates to Pemex, Gas y Petroquímica Básica, (“PEMEX”), the national oil company of Mexico, for natural gas used at our facilities in Mexico. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future, particularly in light of recent energy reforms in Mexico. In the United States, we have contracts in place with special rates from the electric utilities. We cannot assure you that these special rates will continue to be available to us or that these rates may not increase significantly in the future. In certain deregulated electric markets in the United States, we have third party electric generation contracts under a fixed price arrangement. These contracts mitigate our price risk for electric generation from the volatility in the electric markets. In addition, we purchase natural gas from various suppliers in the United States. These purchase prices are generally established as a function of monthly New York Mercantile Exchange settlement prices. We also contract with different natural gas transportation and storage companies to deliver the natural gas to our facilities. In addition, we enter into futures contracts to fix and reduce volatility of natural gas prices both in Mexico and the United States, as appropriate. As of December 31, 2019, we have not entered into derivative financial instruments in Mexico, the United States or Brazil. We have not always been able to pass the effect of increases in our energy costs on to our customers and we cannot assure you that we will be able to pass the effect of these increases on to our customers in the future. We also cannot assure you that we will be able to maintain futures contracts to reduce volatility in natural gas prices. Changes in the price or supply of electricity or natural gas would materially and adversely affect our business and results of operations.

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

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

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

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

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

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

As demand for steel has surged in China, steel production capacity in that market has also increased, and China is now the largest worldwide steel producing country, accounting for approximately half of the worldwide steel production. Due to the size of the Chinese steel market, a slowdown in steel consumption in that market, including as a result of the COVID-19 pandemic, could cause a sizable increase in the volume of Chinese steel offered in the international steel markets, exerting a downward pressure on sales and margins of steel companies operating in other markets and regions, including us.

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

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

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

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

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

We and our auditors identified material weaknesses in our internal controls over financial reporting from 2011 through 2018, which resulted in our conducting a thorough review and implementing remedial measures in 2019; if the remedial measures we implemented during 2019 are not effective to restore and maintain an effective system of internal controls, we may not be able to report our financial results accurately, and current and potential shareholders could lose confidence in our reporting, which would harm our business and the trading price of our Series B shares or the ADSs.

In connection with the preparation of our financial statements as of and for each of the years ended December 31, 2011, 2012, 2013, 2014, 2015, 2017 and 2018, we and our auditors identified material weaknesses (as defined under standards established by the U.S. Public Company Accounting Oversight Board) in our internal controls over financial reporting (our management did not assess the effectiveness of our internal controls over financial reporting as of and for the year ended December 31, 2016). A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

By letter dated February 13, 2017, the Securities and Exchange Commission (the "SEC") notified us that the SEC was conducting an informal, and non-public, inquiry into the Company in connection with our internal controls. After cooperating with the SEC and engaging in a thorough review of our internal controls, we implemented remedial measures during 2019, and we settled internal controls charges with the SEC on January 29, 2019. We also agreed to retain an independent consultant and to pay a civil monetary penalty in the amount of U.S.$200,000.Any failure to maintain the needed improvements in the controls over our financial reporting, or difficulties encountered in the implementation of these improvements in our controls, could result in a material misstatement in our annual or interim financial statements that would not be prevented or detected, or could cause us to fail to meet our reporting obligations under applicable securities laws. Any failure to implement improvements in our internal controls to address the identified weaknesses could result in our incurring substantial liability for not having met our legal obligation and could also cause investors to lose confidence in our reported financial information, which could have a material adverse impact on the trading price of our Series B shares or the ADSs.

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

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

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

One significant source of trade restrictions results from the imposition of "antidumping" and "countervailing" duties, as well as "safeguard measures." These duties can severely limit or altogether prevent exports to relevant markets. For example, in October 2014, the United States International Trade Commission (USITC) determined that the U.S. steel industry was materially injured by imports of steel concrete reinforcing bars from Mexico that are sold in the United States at less than fair value, and from Turkey, that are subsidized by the government of Turkey. As a result of the USITC's affirmative determinations, the U.S. Department of Commerce issued an antidumping duty order on imports of this product from Mexico and a countervailing duty order on imports of this product from Turkey. The U.S. government imposed tariffs of 66.7% against imports for rebar from Deacero, S.A.P.I de C.V. and us and tariffs of 20.58% for rebar imports from all other producers in Mexico, which tariffs were rescinded in June 2017. On January 16, 2020, a preliminary dumping rate of 6.75% was imposed on our exports of rebar to the United States of America; however, we expect this dumping rate to decrease following the U.S. Department of Commerce's physical review carried out at our San Luis Potosí plant in February 2020, during which they did not find the necessary elements to apply the increased dumping rate tariff.

Recent events, including the upcoming 2020 U.S. presidential election, the Covid-19 corona virus pandemic and the continued lack of progress in the U.K.'s Brexit negotiations have resulted in substantial regulatory uncertainty regarding international trade and trade policy. On March 1, 2018, U.S. President Trump announced a 25% tariff on all steel products and a 10% tariff on all aluminum products imported into the United States for an indefinite amount of time under Section 232 of the Trade Expansion Act. On May 17, 2019, the Trump administration announced an agreement with Canada and Mexico to remove the Section 232 tariffs for steel and aluminum imports from those countries and for the removal of all retaliatory tariffs imposed on American goods by those countries. On January 24, 2020, the Trump administration issued a proclamation expanding the remaining Section 232 tariffs on steel and aluminum to include downstream products, effective as of February 8, 2020. It is unclear what impact these protectionist measures will have in 2020, whether they will be effective in increasing or maintaining steel prices and whether they will have an overall negative impact on global macroeconomic conditions.

On November 30, 2018, the U.S., Mexico and Canada agreed a replacement for the North American Free Trade Agreement (NAFTA), the United States Mexico Canada Agreement (USMCA), which will come into effect on July 1, 2020. Under the USMCA, automobiles must have 75% of their components manufactured in Mexico, the U.S., or Canada to qualify for zero tariffs (up from 62.5% under NAFTA), and 40-45% of automobile parts must be made by workers who earn at least $16 an hour by 2023. Mexico agreed to pass new labor laws to give greater protections to workers. These new regulations may increase the costs of producing steel in Mexico and may negatively affect the Company's steel exports into the U.S. In addition, the Trump administration and the U.S. Congress may make further changes in legislation, regulation and government policy directly affecting our business or indirectly affecting the Company because of impacts on its customers and suppliers. More generally, actions further to President Trump's suggestions that he may seek to renegotiate other free trade agreements or withdraw the United States from the World Trade Organization could have an adverse effect on the Company's operations. All of the above, including escalating tariffs on steel imports or a more general trade war, pose a degree of uncertainty which could have a significant adverse effect on steel demand, our results of operations and global macroeconomic conditions generally.

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

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

As of December 31, 2019, approximately 85% of our non-Mexican and 44% of our Mexican employees were members of unions. The compensation terms of our labor contracts are adjusted on an annual basis, and all other terms of the labor contracts are renegotiated every two years. In addition, collective bargaining agreements are typically negotiated on a facility-by-facility basis for our Mexican facilities. Any failure to reach an agreement on new labor contracts or to negotiate these labor contracts could result in strikes, boycotts or other labor disruptions. These potential labor disruptions could have a material and adverse effect on our business. Labor disruptions or significant negotiated wage increases could reduce our sales or increase our costs, which could in turn have a material adverse effect on our results of operations.

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

The operations of our Lackawanna facility depend upon certain service and utility arrangements and understandings with third parties relating to, among other things, our use of industrial water, compressed air, sanitary sewer and electrical power. We have entered into a written agreement, subject to automatic one-year renewals and terminable by either party, for the provision of compressed air to our Lackawanna facility and an option to purchase the equipment at various times and at stated prices. The water pump that services our plant is located on property owned and maintained by another third party, which also continues to furnish industrial water to us on a month-to-month basis. The electric system which services the compressed air equipment, as well as the electric system which services the property on which the compressed air equipment is located, is routed through our electric meter located at a substation on adjacent property owned by the third party providing the compressed air to our facility. In the event of a termination of any of our rights, either due to a failure to negotiate a satisfactory outcome with the third parties providing these services or for any other reason, we could be required to cease all or substantially all of our operations at the Lackawanna facility. Because we produce certain types of products in our Lackawanna facility that we do not produce in our other facilities, an interruption of production at our Lackawanna facility would result in a substantial loss of revenue and could damage our relationships with customers.

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

Our sales in the United States are concentrated among a relatively small number of customers. Any of our major customers can stop purchasing our products or significantly reduce their purchases at any time. During 2019, 2018, 2017, 2016 and 2015, sales to our ten largest customers in the United States accounted for approximately 65%, 68.4%, 68.7%, 62.1% and 56.8% of our consolidated revenues in the United States, respectively, and approximately 13.8%, 17.7%, 20%, 18.1% and 21.5% of our total consolidated revenues, respectively. A disruption in sales to one or more of our largest customers would adversely affect our cash flow and results of operations.

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

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

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

We have not obtained insurance against all risks, and do not maintain insurance covering losses resulting from catastrophes or business interruptions (such as interruptions attributable to the COVID-19 pandemic). In the event we are not able to quickly and cost-effectively remedy problems creating any significant interruption of our manufacturing capabilities, our operations could be adversely affected. In addition, in the event any of our plants were destroyed or significantly damaged or its production capabilities otherwise significantly decreased, we would likely suffer significant losses, and capital investments necessary to repair any destroyed or damaged facilities or machinery would adversely affect our profitability, liquidity and financial condition.

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

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

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

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

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

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

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

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

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

We could incur losses due to product liability claims.

We could experience losses from defects or alleged defects in our steel products that subject us to claims for monetary damages. For example, many of our products are used in automobiles and it is possible that a defect in a vehicle could result in product liability claims against us. In accordance with normal commercial sales, some of our products include warranties that they meet certain agreed upon manufacturing specifications. We cannot assure you that future product liability claims will not be brought against us.

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Global Economic Conditions

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

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

On March 31, 2020, the Mexican Ministry of Health published an Administrative Ruling setting out certain “Essential Activities” that may continue to operate during the national state of sanitary emergency. In accordance with the Administrative Ruling and the Ministry of Health’s Technical Guidelines issued on April 6, 2020, we have determined that our business qualifies within the defined “Essential Activity” list. Similarly, the U.S. Department of Homeland Security guidance has identified our business as a critical infrastructure industry, essential to the economic prosperity, security and continuity of the United States. However, although we continue to operate, we have experienced, and are likely to continue to experience, significant reductions in demand and supply chain disruption. For example, the automotive industry, which is one of our significant end markets, has been experiencing a significant amount of disruption at a time of declining demand, resulting in a decline in profitability. We also may experience disruptions to our operations resulting from changes in government policy or guidance; quarantines of employees, customers and suppliers in areas affected by the COVID-19 outbreak; and closures of businesses or manufacturing facilities that are critical to our business or our supply chain.

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

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

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

In addition, the COVID-19 outbreak has significantly increased economic and demand uncertainty. The current outbreak and continued spread of COVID-19 could cause a global recession, which would have a further material adverse effect on our results of operations, financial condition and cash flows. The full extent to which the COVID-19 outbreak will affect our operations, and the steel industry generally, remains highly uncertain and will ultimately depend on future developments which cannot be predicted at this time, including, but not limited to, the duration, severity, speed and scope of the outbreak, the length of time required for demand to return and normal economic and operating conditions to resume. The effects of the COVID-19 pandemic may also have the effect of exacerbating many of the other risks described in this Item 3.D. “Risk Factors.”

Global economic conditions, such as the financial crisis and economic recession relating to the COVID-19 pandemic and the financial crisis of 2008 and 2009 have in the past, and may continue to, significantly impact our business.

The impact of global economic conditions on the steel industry may have a significant effect on our business, results of operations and financial condition. The COVID-19 outbreak has spread to the countries in which we operate and has significantly impacted our workforce and our operations, including as a result of government mandates in certain countries to work from home to minimize the spread of the virus. In some of the countries where we have operations and where COVID-19 has been widespread, including our locations in Mexico, United States and Brazil, our ability to conduct business in those geographies has affected our operational and financial performance. We have experienced and expect to continue to experience unpredictable production, supply chain or operations interruptions related to the COVID-19 pandemic that could disrupt supply or delivery of, or demand for, our products in our end-markets. The current outbreak and continued spread of COVID-19 has significantly increased economic and demand uncertainty, and could cause a global recession, which would have a further material adverse effect on our results of operations, financial condition and financial condition. Similarly, the financial crisis that began in the United States in 2008 led to a global recession in which overall economic activity decreased across the world generally and in North America in particular.

The corresponding reduction in demand across the economy in general and in the automotive, construction and manufacturing sectors in particular during these financial crises has reduced demand for steel products in North America and globally. These economic conditions significantly impacted, and will continue to significantly impact, our business and results of operations. Although demand, production levels and prices in certain segments and markets have recovered and stabilized to a certain degree since the 2008-2009 global recession, and are beginning to show signs of recovery from the COVID-19 pandemic, the extent, timing and duration of the recovery and potential return to pre-crisis levels remains uncertain. If global macroeconomic conditions deteriorate, however, the outlook for steel producers would be adversely affected. It is difficult to predict the duration or severity of a new global economic downturn, or to what extent it will affect us. An unsustainable recovery and persistently weak economic conditions in our key markets could depress demand for our products and adversely affect our business and results of operations. We sell our products to the automotive and construction-related industries, both of which reported substantially lower customer demand during and after the latest global recession and have recently exhibited reduced demand for steel products due to the COVID-19 pandemic. As a result, our operating levels in recent years declined compared to pre-recession levels. While some of our end-product markets, such as the automotive industry, experienced recoveries during 2015, in 2016, we experienced a reduction in our sales, in 2017 there was a slight increase in sales to the automotive industry compared to 2016, in 2018 we experienced a slight decrease in our sales to the automotive industry compared to 2017 and in 2019 we experienced a decrease in our sales to the automotive industry compared to 2018.

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

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

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

Direct sales of our products to automotive assemblers and manufacturers accounted for approximately 63% of our net sales of our SBQ steel products in 2019. Demand for our products is affected by, among other things, the relative strength or weakness of the North American automotive industry. Recently, the automotive industry in North America was negatively impacted by the COVID-19 outbreak, during which automobile production and the number of purchasers declined due to precautionary government-imposed closures of certain travel and business, governmental orders to delay resumption of services and manufacturing and the related quarantine measures. This reduction in vehicles manufactured in North America, the principal market for Republic’s SBQ steel products, has had and will continue to have an adverse effect on our results of operations. We also sell to independent forgers, components suppliers and steel service centers, all of which sell to the automotive market as well as other markets. Developments affecting the North American automotive industry, including as a result of the COVID-19 pandemic, may adversely affect us.

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

A challenge that we and other suppliers of intermediary products used in the manufacture of automobiles face is continued price reduction pressure from our customers in the automobile manufacturing business. Downward pricing pressure has been a characteristic of the automotive industry in recent years and it is migrating to all our vehicular markets. Virtually all automobile manufacturers have aggressive price reduction initiatives that they impose upon their suppliers, and such actions are expected to continue in the future, especially in light of the COVID-19 global economic recession. In the face of lower prices to customers, we must continue to reduce our operating costs in order to maintain profitability. We have taken and continue to take steps to reduce our operating costs to offset customer price reductions; however, price reductions are adversely affecting our profit margins and are expected to do so in the future. If we are unable to offset customer price reductions through improved operating efficiencies, new manufacturing processes, sourcing alternatives, technology enhancements and other cost reduction initiatives, or if we are unable to avoid price reductions from our customers, our results of operations could be adversely affected.

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

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

Risks Related to Mexico

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

A substantial portion of our operations are conducted in Mexico and our business is affected by the performance of the Mexican economy. The Mexican economy, as measured by gross domestic product, was growing until 2019: growing 2.5% in 2015, 2.9% in 2016, 2% in each of 2017 and in 2018, but contracted by0.1% in 2019. (according to preliminary figures of the *Instituto Nacional de Estadística y Geografía* (INEGI)). Mexico has historically experienced prolonged periods of economic crises, caused by internal and external factors over which we have no control. Those periods have been characterized by exchange rate instability, high inflation, high domestic interest rates, changes in oil prices, economic contraction, a reduction of international capital flows, balance of payment deficits, a reduction of liquidity in the banking sector and high unemployment rates. Decreases in the growth rate of the Mexican economy, or periods of negative growth, or increases in inflation may result in lower demand for our products. The Mexican government recently cut spending in response to a downward trend in international crude oil prices, and it may further cut spending in the future. These cuts could adversely affect the Mexican economy and, consequently, our business, financial condition, operating results and prospects. We cannot assure you that economic conditions in Mexico will not worsen, or that those conditions will not have an adverse effect on our financial performance.

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

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

Presidential and federal congressional elections in Mexico were held on July 1, 2018. Mr. Andrés Manuel López Obrador, a member of the *Movimiento Regeneración Nacional* (National Regeneration Movement (Morena)), was elected President of Mexico and took office on December 1, 2018, replacing Mr. Enrique Peña Nieto, a member of the *Partido Revolucionario Institucional* (Institutional Revolutionary Party, or PRI). The new President’s term will expire on September 30, 2024. The newly-elected members of the Mexican Congress took office on September 1, 2018. The uncertainty regarding the direction of policymaking with the new government could significantly change Mexico’s political and economic situation, which consequently could affect our operations. The National Regeneration Movement holds an absolute majority in the Chamber of Deputies and controls 19 of 32 Mexican state congresses, which facilitates the passing of legislation, including potential changes to the Mexican Constitution, which could increase political uncertainty. We cannot provide any assurances that political developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results from operations. We cannot assure you that the current political situation or future developments in Mexico, over which we have no control, will not have an adverse effect on our business, financial condition or results of operations. Further, we cannot assure you that any new government policies will not adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

On December 17, 2015, a day after the U.S. Federal Reserve increased the target range for the federal funds rate in the United States by 25 basis points, the Mexican Central Bank increased the reference rate from 3.00% to 3.25% in an effort to counteract a sharp depreciation of the Mexican peso that could affect Mexico’s expected rate of inflation. On February 17, 2016, the Mexican Central Bank further increased the reference rate from 3.25% to 3.75%, and has been increasing the reference rate regularly since then, up to 8.25% in March 2019, then back down to 5.5% as of May 14, 2020. We cannot assure you that, as a result of future increases by U.S. Federal Reserve of the target range for the federal funds rate in the United States, the Mexican economy or the value of securities issued by Mexican companies will not be affected, including as a result of any precipitous unwinding of investments in emerging markets, depreciations and increased volatility in the value of their currency and higher interest rates.

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

Mexico has historically experienced high annual rates of inflation. The annual rate of inflation, as measured by changes in the Mexican national consumer price index (*Índice Nacional de Precios al Consumidor*) published by the INEGI was 2.1% for 2015, 3.4% for 2016, 6.8% for 2017, 4.8% for 2018 and 2.8% for 2019. High inflation rates could adversely affect our business and results of operations by reducing consumer purchasing power, thereby adversely affecting demand for our products, increasing certain costs beyond levels that we could pass on to consumers, and by decreasing the benefit to us of revenues earned if the inflation rate exceeds the growth in our pricing levels.

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

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

In addition, in recent years economic conditions in Mexico have become increasingly correlated with economic conditions in the United States as a result of NAFTA, increased economic activity between the two countries, and the remittance of funds from Mexican immigrants working in the United States to Mexican residents. However, the Trump administration has created uncertainty regarding trade between the U.S. and Mexico, which has resulted in the ratification of the new USMCA. If the United States withdraws from the USMCA or the USMCA fails to become effective, as announced, or if the United States withdraws from or makes material changes to other international trade agreements to which it is a party, trade barriers and other costs associated with trade between the United States and Mexico may increase, which could have a material adverse effect on our business, financial condition and results of operations.

Moreover, the COVID-19 global economic recession, the debt crisis in the European Union, changes in Chinese exchange rate policy, continuing concerns regarding the slowdown of the Chinese economy, recent terrorist attacks and recent sharp declines in the price of crude oil, may also affect the global and Mexican economies. We cannot assure you that events in other emerging market countries, in the United States or elsewhere will not adversely affect our financial performance.

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

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

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

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

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

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

Risks Related to Brazil

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

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

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

- fluctuations in exchange rates;
- exchange control policies;
- interest rates;

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

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

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

On October 28, 2018, Jair Bolsonaro, a former member of the military and three-decade congressman, was elected the president of Brazil and took office on January 1, 2019, following a period of political instability marked by the impeachment of President Dilma Rousseff and conviction, and subsequent arrest, of President Luis Inácio Lula da Silva. During his presidential campaign, Bolsonaro was reported to favor the privatization of state-owned companies, economic liberalization, and social security and tax reforms. In addition, his current minister of the economy, Paulo Guedes, proposed during the presidential campaign the revocation of income tax exemption over payment of dividends, which, if enacted, would increase the tax expenses associated with any dividend or distribution by Brazilian companies, which could impact our capacity to receive, from our subsidiaries, future cash dividends or distributions net of taxes. However, there is no guarantee that Bolsonaro will be successful in executing his campaign promises or passing certain favored reforms fully or at all, particularly when confronting a fractured congress. Moreover, Bolsonaro was generally a polarizing figure during his campaign for presidency, particularly in relation to certain of his political views, and we cannot predict the ways in which a divided electorate may continue to impact his presidency and ability to implement policies and reforms and manage the COVID-19 crisis, all of which could have a negative impact on our business.

In November 2019, the Brazilian federal government approved a pension reform after almost nine months of negotiations. The negotiations and delay in the approval of the pension reform exposed the political crisis between the executive branch and Brazilian congress. In addition, the Brazilian federal government is expected to propose the general terms of a fiscal reform to stimulate the Brazilian economy and reduce the forecasted budget deficit for 2020 and subsequent years, but it is uncertain whether the federal government will be able to gather the required support in the Brazilian congress to pass any proposed reforms. If the Brazilian federal government fails to reduce public expenses and the expected reforms are not passed, Brazil will continue to run a budget deficit for 2020 and the years going forward. We cannot predict the effects of this budget deficit on the Brazilian economy. We cannot predict which policies the Brazilian federal government may adopt or change or the effect that any such policies might have on our business and on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse impact on our business, results of operations, financial condition and prospects.