Total depreciation and amortization	167	177	187	202	214	19.00

(1) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the rate of Ps. 11.2648 per $1.00, the interbank transactions rate in effect on December 31, 2004.

(2) Reflects different treatment of direct cost of sales, start-up costs, employee profit sharing and accrued vacation costs (until 2002) under Mexican GAAP and U.S. GAAP. See Note 18 to the Consolidated Financial Statements.

(3) Reflects different treatment of gain from monetary position and exchange loss capitalized under Mexican GAAP and U.S. GAAP. See Note 18 to the Consolidated Financial Statements.

(4) Includes gains on sales of assets and sales not related to production, provisions for doubtful accounts derived from changes in estimates made in prior years, expenses related to the disposal of dust at the Guadalajara facility and financial restructuring fees.

(5) Reflects different treatment of deferred income taxes and employee profit sharing under Mexican GAAP and U.S. GAAP. See Note 18 to the Consolidated Financial Statements.

(6) For U.S. GAAP and Mexican GAAP purposes, the weighted average shares outstanding were calculated to give effect to the reverse stock split described in Note 12(a) to the Consolidated Financial Statements.

(7) Long-term debt includes amounts relating to deferred taxes.

Exchange Rates

Since November 1991, Mexico has had a free market for foreign exchange. Prior to December 21, 1994, the Mexican Central Bank, Banco de México, had kept the peso/U.S. dollar exchange rate within a range prescribed by the Mexican government through intervention in the foreign exchange markets. On December 21, 1994, the Mexican government announced its decision to suspend intervention in the foreign exchange market by the Mexican Central Bank and to allow the peso to float freely against the U.S. dollar. The peso/U.S. dollar exchange rate has experienced periods of significant volatility since the peso was allowed to float freely against the U.S. dollar. There can be no assurance that the Mexican government will maintain its current policies with regard to the peso or that the peso will not fluctuate significantly in the future.

The following table sets forth, for the periods indicated, the high and low rate for the purchase of dollars as well as average and period end rates for each full year period indicated, expressed in nominal pesos per dollar based upon the noon buying rate. The average figures represent the average of month-end rates.

Periods	High	Low	Average	Period End
2000	9.64	9.18	9.44	9.51
2001	9.97	8.95	9.33	9.16
2002	10.43	9.00	9.66	10.43
2003	11.41	10.11	10.79	11.24
2004	11.64	10.81	11.29	11.15

Periods	High	Low
2004		
December	11.33	11.11
2005		
January	11.41	11.17
February	11.21	11.04
March	11.33	11.00
April	11.23	11.04
May	11.03	10.89
June	10.88	10.76

On June 30, 2005, the noon buying rate was Ps. 10.77 to $1.00.

Fluctuations in the exchange rate between the peso and the U.S. dollar will affect the dollar equivalent of the peso price of shares of series B common stock on the Mexican Stock Exchange and the price of American Depositary Shares on the American Stock Exchange. Cash dividends, if any, will be paid by the Company in pesos, and exchange rate fluctuations will affect the dollar amounts received by holders of ADSs on conversion by the Depositary of cash dividends on the shares of series B common stock underlying ADSs.

Risk Factors

The following are risk factors relating to Simec and an investment in shares of its series B common stock or ADSs. The risks described below are not the only ones facing the Company. Additional risks, including those described elsewhere in this Annual Report, may impair Simec’s business operations. The Company’s business, results of operations or financial condition could be harmed if any of these risks materialize and, as a result, the price of ADSs representing its series B common stock could decline and investors could lose a substantial portion of their investment.

Information in these risk factors concerning Mexico has been included to the extent that such information is publicly available to the Company. The Company believes this information is reliable, but cannot guarantee that it is accurate.

The Company’s results of operations are significantly influenced by the cyclical nature of steel industry.

The steel industry is cyclical in nature and sensitive to general national and international macroeconomic conditions. Prices for Simec’s products are significantly influenced by global demand for steel as well as overall supply levels. Changes in these two factors will likely impact Simec’s operating results. Although global steel prices increased significantly during 2003 and 2004 (global steel prices have fallen significantly in the first half of 2005 over 2004 levels), decreases during 2002 and over the preceding several years have led to a decrease in the prices of Simec's products and adversely affected its profits over those years.

The cost of ferrous scrap, the principal raw material used in Simec's steel operations, is subject to price fluctuations. Although Simec's wholly-owned scrap collection and processing operations furnish a material portion of its scrap requirements, Simec must acquire the remainder of its scrap from other sources. Because increases in the prices Simec is able to charge for its finished steel products may lag increases in ferrous scrap prices, such increases in scrap prices can adversely affect the operating results of Simec. In 2002, the price of scrap decreased from 2001, continuing the decrease observed in recent years. However, the price of scrap increased significantly during 2003 and 2004 (scrap prices have decreased significantly in the first half of 2005 over 2004 levels) and there can be no assurance that scrap prices will not increase further and, if so, there can be no assurance that Simec will be able to pass all or a portion of these increases on through higher finished product prices.

Significant increases in energy costs may adversely impact Simec's profitability.

Energy costs constitute a significant component of Simec's costs of operations. The Mexican government is currently the only domestic supplier of energy and has, in some cases, increased prices above international levels. Simec, like all other high volume users of electricity, pays special rates to the Comisión Federal de Electricidad for electricity. Simec also pays special rates to 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 Simec or that these rates may not increase significantly in the future. Simec has not always been able to pass the effect of these increases on to its customers and there is no assurance that Simec will be able to pass the effect of these increases on to its customers in the future.

The Company may not be able to successfully integrate its recently acquired steel facilities into its operations.

In 2004, Simec acquired the property, plant and equipment and inventories of the Mexican steel manufacturing facilities of Industrias Ferricas del Norte, S.A. located in Apizaco, Tlaxcala and Cholula, Puebla. Simec has been operating these facilities since August 1, 2004. These facilities manufacture a significant amount of Simec's total production. Simec's future results will be subject to its ability to fully integrate the operations of its newly acquired facilities into its historic operations. Furthermore, while Simec has not yet encountered any material problems related to the assets acquired, there can be no assurance that problems will not arise in the future and that the costs associated with those problems, should they arise, will not be significant and, if so, that Simec will not ultimately have adequate recourse to the seller of those assets.

Unanticipated problems with Simec's manufacturing equipment and facilities could have an adverse impact on Simec's business.

The capacity of Simec to manufacture steel products depends on the suitable operation of its manufacturing equipment, including electric arc furnaces, strand continuous banana casters, reheating furnaces and rolling mills. Although Simec performs maintenance to its equipment on a continuous basis, 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 temporary production interruptions which could adversely affect its results of operations.

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

Mexican governmental, political and economic factors may adversely impact Simec's 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 the Company in particular, and on market conditions, prices and returns on Mexican securities, including those of the Company. The Company's financial condition, results of operations and prospects may also be 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 the Company has no control, will not have a material adverse effect on the Company's business, results of operations, financial condition or prospects or adversely affect the market price of the ADSs and the series B common stock.

Increases in interest rates, high levels of inflation, peso devaluation and other economic factors may adversely impact the Mexican economy. These events could adversely affect the business, financial condition, results of operations and prospects of the Company.

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.

Simec's controlling shareholder Industrias CH is able to exert significant influence on the business and policies of Simec and its interests may differ from those of other shareholders.

In 2001 Industrias CH acquired a 62% interest in Simec from Simec's predecessor parent, Group Sidek, and Industrias CH has since increased its ownership interest in Simec to approximately 85.4% at May 31, 2005. All of the current members of the board of directors of Simec were nominated and elected by Industrias CH, and Industrias CH continues to be in the position to elect directors in the future and to exercise substantial influence and control over the business and policies of the Company. It is possible that the interests of Industrias CH could differ from those of other shareholders. Furthermore, as a result of the significant equity position of Industrias CH, there is limited liquidity in Simec's series B common stock and its ADSs.

Simec’s financial statements are prepared in accordance with Mexican GAAP, and therefore may not be directly comparable to financial statements of other companies prepared under US GAAP or other accounting principles.

All Mexican companies must prepare their financial statements in accordance with Mexican GAAP, which differs in certain significant respects from U.S. GAAP. Among other differences, Mexican companies are required to incorporate the effects of inflation directly in their accounting records and in their published financial statements. Accordingly, Mexican financial statements and reported earnings may differ from those of companies in other countries in this and other respects. See Note 18 to the Consolidated Financial Statements for a description of the principal differences between Mexican GAAP and U.S. GAAP.

Tariffs, anti-dumping and countervailing duty claims imposed in the future could harm Simec’s ability to export its products.

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 the Company or the Company’s 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 the Company or that the U.S. government will not impose tariffs on steel imports from Mexico or that existing tariffs on U.S. steel imports from other countries, will not be lifted in the future.

In September 2001, the Mexican government imposed tariffs of 25% against imports for all products that Simec produces from all countries with the exception of the 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 9%. There can be no assurances that these tariffs will not be further reduced or that countries seeking to export steel products to Mexico will not impose similar tariffs on Mexican exports to their countries.

Item 4. Information on the Company

History and Development of the Company

General

Simec is a mini-mill steel producer in Mexico and manufactures a broad range of small and medium-sized structural steel products. Simec’s products are used primarily in the residential, commercial and industrial construction markets. Simec believes that most of its products are used by the small and mid-market end-users that represent a substantial portion of the Mexican non-flat steel market. Simec currently owns and operates (i) Mexico’s largest non-flat structural steel mini-mill, located in Guadalajara, Jalisco, (ii) a mini-mill in Mexicali, Baja California Norte, (iii) a recently acquired mini-mill in Apizaco, Tlaxcala, and (iv) a recently acquired melt shop in Cholula, Puebla; all of these facilities are owned through Simec’s indirect wholly-owned subsidiary, Compaíia Siderúrgica de California, S.A. de C.V. (“CSC”). Simec is domiciled in the city of Guadalajara, Jalisco and its principal administrative office is located at Calzada Lázaro Cárdenas 601, Guadalajara, Jalisco, Mexico 44440. Its telephone number is 52-33-1057-5757.

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

In December 1997, Simec completed a corporate reorganization and restructuring of its liabilities. As part of the restructuring, CSG borrowed funds under a bank credit facility established as part of the restructuring with a

bank syndicate composed of Simec’s then existing bank lenders, most of which were Mexican banks. In addition, CSG issued notes offered in connection with a debt exchange offer consummated concurrently with the restructuring for the purpose of refinancing all of the then outstanding debt of Simec. Pursuant to the restructuring and subsequent transactions, approximately 99% of Simec’s consolidated debt was replaced with an equal aggregate principal amount of notes of CSG. CSG has subsequently repaid its bank debt in full and has redeemed the entire principal amount of the notes. See Item 5.

In March 2001, Sidek consummated the sale of its entire approximate 62% controlling interest in Simec to Industrias CH. In June 2001, Industrias CH acquired additional common shares held by certain of Simec’s bank creditors that, in connection with the transaction, converted approximately $95.4 million of bank debt ($90.2 million of principal and $5.2 million of interest) into common shares of Simec increasing its interest in Simec to approximately 82.5%. Industrias CH has subsequently increased its equity position through various conversions of debt to equity and capital contributions and at May 31, 2005, held a 85.4% interest in Simec.

In 2004 Simec completed the acquisition of the property, plant and equipment and the inventories, and assumed liabilities associated with seniority premiums of employees of the Mexican steel-making facilities of Industriás Ferricas del Norte, S.A. (Corporación Sidenor of Spain) located in Apizaco, Tlaxcala and Cholula, Puebla. Simec’s total net investment in this transaction was approximately U.S. $122 million (which amount excludes value added tax of approximately $16 million which was paid in 2004 and recouped from the Mexican government in 2005), funded with internally generated resources of Simec and capital contributions from Industrias CH of U.S. $19 million for capital stock to be issued in the second quarter of 2005. Simec began to operate the plants in Apizaco, Tlaxcala and Cholula, Puebla on August 1, 2004, and, as a result, the operations of both plants are reflected in Simec’s financial results as of such date.

Principal Capital Expenditures and Divestitures

Simec seeks to improve its operating efficiency and increase sales of its products through capital investments in new equipment and technological improvements. In 2004, Simec spent $109.7 in capital investments ($107.5 million of which was allocable to the property, plant and equipment of the Apizaco and Cholula facilities). Projects at the Guadalajara facilities in 2004 included the addition of a reheating furnace and a new stand for the rolling mill. Projects at the Mexicali facility in 2004 included the addition of a special site for dust.

In 2003, Simec spent $5.4 million in capital investments. Projects at the Guadalajara facility included the addition of a slitting system in order to increase production at the rolling mill. Projects at the Mexicali facility in 2003 included