

GROUP SIMEC SA DE CV
Form 20-F
September 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE
ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

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

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
Commission File Number 1-11176

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

(Exact name of registrant as specified in its charter)

GROUP SIMEC

(Translation of registrant's name into English)

UNITED MEXICAN STATES

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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

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

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

* Not for trading, but only in connection with the registration of American depositary shares.
Securities registered or to be registered pursuant to Section 12(g) of the Act: None

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

Indicate the number of outstanding shares of each of the issuer's classes of common stock as of December 31, 2015 was:

Series B Common Stock — 486,242,769 shares

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

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

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CERTAIN TERMS

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

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

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

This annual report contains translations of certain peso amounts to U.S. dollars at specified rates solely for your convenience. These translations do not mean that the peso amounts actually represent such dollar amounts or could be converted into U.S. dollars at the rate indicated. Unless otherwise indicated, we have translated these U.S. dollar amounts from pesos at the exchange rate of Ps. 17.3398 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2015. On September 15, 2016, the interbank transactions rate for the peso was Ps. 19.1520 per U.S.\$1.00.

FORWARD LOOKING STATEMENTS

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

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

- our inability to operate at high capacity levels;
- the costs of compliance with Mexican and U.S. environmental laws;
- future capital expenditures and acquisitions;
- future devaluations of the peso;
- the imposition by Mexico of foreign exchange controls and price controls;
- the influence of economic and market conditions in other countries on Mexican securities; and

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

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

PART I

Item 1. Identity of Directors, Senior Management and Advisers
Not applicable.

Item 2. Offer Statistics and Expected Timetable
Not applicable.

Item 3. Key Information
A. Selected Financial Data

This annual report includes our consolidated financial statements as of December 31, 2014 and 2015 and for each of the three years ended December 31, 2013, 2014 and 2015. Beginning January 1, 2011, we adopted International Financial Reporting Standards (IFRS), and its amendments and interpretations, issued by the International Accounting Standard Board (IASB); consequently, it applied IFRS 1, *Initial Adoption of International Financial Reporting Standards*. We have adjusted the financial statements of our subsidiaries to conform to IFRS, and we have translated them to Mexican pesos. See Note 4 to our consolidated financial statements included elsewhere herein.

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

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

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

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

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

The translation effect in the results of operations for the years ended December 31, 2015, 2014 and 2013 resulted from applying the following exchange rates (peso/dollar) to the active or passive monetary position in foreign currency:

Year ended	Exchange Rate (pesos)	Change
December 31, 2015	17.3398	2.6050
December 31, 2014	14.7348	1.6696
December 31, 2013	13.0652	0.0772

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

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

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

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

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

- Other mandatory exceptions were not applicable to us.

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

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

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

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

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

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

The following tables present the selected consolidated financial information as of and for each of the periods indicated. The selected financial and operating information set forth below as of December 31, 2014 and 2015 and for each of the three years ended December 31, 2013, 2014 and 2015 has been derived in part from our consolidated financial statements included elsewhere in this annual report, which have been reported on by Castillo Miranda y Compañía, S.C., a member practice of BDO International Limited (“BDO”), and BDO have relied on the audited consolidated financial statements of Corporación Aceros DM., S.A. de C.V. (“Aceros DM”) subsidiaries and affiliates, reported on by Marcelo de los Santos y Cía., S. C. a practice member of Moore Stephens International (“Moore Stephens”). The selected financial information should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements included elsewhere herein.

	As of and for Year Ended December 31,					
	2011 ⁽¹⁾	2012 ⁽¹⁾	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽²⁾	2015 ⁽²⁾
	(Millions of pesos, except per share and ADS data and operational data)					(Millions of U.S. dollars)
Income Statement						
Data:						
IFRS:						
Net sales	29,270	29,524	24,369	26,829	24,476	1,412
Cost of sales	25,563	25,960	22,410	25,492	23,097	1,332
Impairment of property, plant and equipment	-	-	-	-	2,072	120
Gross profit (loss)	3,707	3,564	1,959	1,337	(693)	(40)
Administrative expenses	595	753	732	801	1,163	67
Depreciation and amortization	455	475	385	393	419	24
Other (expense) income, net	(113)	181	(59)	61	173	10
Interest income	26	23	20	25	34	2
Interest expense	24	23	28	23	40	2
Foreign exchange gain (loss)	582	(509)	(67)	474	(382)	(22)
Income (loss) before taxes	3,128	2,008	708	680	(2,490)	(144)
Income tax expense	149	54	(281)	162	771	44
Net income (loss)	2,979	1,954	989	518	(3,261)	(188)
Non-controlling interest income (loss)	87	(116)	(527)	(686)	(2,047)	(118)
Controlling interest income (loss)	2,892	2,070	1,516	1,204	(1,214)	(70)
Net income (loss) per share	5.81	4.16	3.06	2.44	(2.47)	(0.14)
Net income (loss) per ADS ⁽³⁾	17.43	12.48	9.18	7.33	(7.40)	(0.43)
Weighted average shares outstanding (thousands) ⁽³⁾	497,709	497,709	495,732	492,781	492,421	492,421
Weighted average ADSs outstanding (thousands) ⁽³⁾	165,903	165,903	165,244	164,260	164,140	164,140
Balance Sheet Data:						
IFRS:						
Total assets	31,119	32,456	33,280	35,896	32,244	1,859
Total short-term liabilities	3,823	3,737	4,705	5,821	5,588	322
Total long-term liabilities ⁽⁴⁾	3,165	3,052	2,300	2,295	1,535	89
Total stockholders' equity	24,131	25,667	26,275	27,780	25,121	1,448
Cash Flow Data:						
IFRS:						
Cash provided by operating activities	2,954	3,655	2,051	1,370	(382)	(22)
Cash provided by (used in) financing activities	-	(23)	(259)	(48)	(285)	(16)
Cash (used in) provided by investing activities	(440)	(1,507)	(2,948)	(2,060)	(655)	(38)
Other Data:						
IFRS:						
Capital expenditures	432	1,304	3,178	1,858	648	37
Adjusted EBITDA ⁽⁵⁾	3,607	3,348	1,895	1,261	1,058	61
Working capital ⁽⁶⁾	12,376	13,583	11,497	11,852	11,392	657

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Depreciation and Amortization	950	1,012	1,053	1,118	1,261	73
Dividends declared	0	0	0	0	0	0

Operational Data:

(capacity and production in thousands of tons):

Annual installed capacity ⁽⁷⁾	3,758	3,791	3,818	3,830	4,330	N/A
Mexico	1,275	1,357	1,288	1,419	1,452	N/A
United States, Canada and elsewhere outside Mexico	1,014	905	776	778	574	N/A
Total tons shipped	2,289	2,262	2,064	2,197	2,026	N/A
SBQ steel	1,178	1,111	989	1,131	929	N/A
Structural and other steel products	1,111	1,151	1,075	1,066	1,097	N/A
Number of employees	4,686	5,086	5,117	4,861	4,420	N/A
Per ton data						
IFRS:						
Net sales per ton ⁽⁸⁾	12,787	13,052	11,807	12,212	12,081	697
Cost of sales per ton ⁽⁸⁾	11,168	11,477	10,858	11,603	11,400	657
Adjusted EBITDA ⁽⁵⁾ per ton ⁽⁸⁾	1,576	1,480	918	574	522	30

(1) Consolidated income statements in accordance with IFRS for the years 2011, 2012, 2013, 2014 and 2015.

(2) Peso amounts have been translated into U.S. dollars solely for the convenience of the reader, at the exchange rate of Ps. 17.3398 per U.S.\$1.00, the interbank transactions rate in effect on December 31, 2015.

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

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

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

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

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

- taxes, which are a necessary and recurring part of our operations;
- depreciation, amortization and impairment loss which, because we must utilize property, equipment and other assets in order to generate revenues in our operations, is a necessary and recurring part of our costs;
- comprehensive cost of financing, which reflects our cost of capital structure and assisted us in generating revenues;
- and
- other income and expenses that are part of our net income.

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

	Year Ended December 31,					
	2011⁽¹⁾	2012⁽¹⁾	2013⁽¹⁾	2014⁽¹⁾	2015⁽²⁾	2015⁽²⁾
	(millions of pesos)					(millions of U.S. dollars)
IFRS:						
Net income (loss)	2,979	1,954	989	518	(3,261)	(188)
Impairment of property, plant and equipment					2,072	120
Depreciation and amortization	950	1,012	1,053	1,118	1,261	73
Other (expense) income	(113)	181	(59)	61	173	10
Interest income	26	23	20	25	34	2
Interest Expense	24	23	28	23	40	2
Foreign exchange gain (loss)	582	(509)	(67)	474	(382)	(22)
Income tax expense	149	54	(281)	162	771	44
Adjusted EBITDA	3,607	3,348	1,895	1,261	1,058	61

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

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

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

Exchange Rates

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

Year Ended December 31	High	Low	Average⁽¹⁾	Period End
2011	14.25	11.51	12.44	13.95
2012	14.37	12.63	13.15	